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The making and remaking of Israeli citizenship via credit ranking regime: with special emphasis on minority and dis-privileged groups

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Executive Summary

The Israeli citizenship regime is a moving target. Some basic social, ethnic and political divisions which are captured by the categories of nationality, ethnicity, class, gender and religiosity are redefined by day-to-day administrative, regulatory and political processes. In these ways, Israeli citizenship is not so much a matter of constitutional debates on abstract rights of all or parts of the citizenry, it is also and more importantly, a manifestation of regulatory processes. The basic divisions are explored here with regard to a newly defined "credit ranking" regime which has been constructed by various state actors during the past two decades. This regime promotes the establishment of a new kind of citizenship, a financial citizenship. As part of its activity, each citizen is categorized according to his or her 'financial worth', and their personal financial profile is constructed as a device for identifying, locating and classifying targeted populations. Under these information markets citizens are no longer seen as individual customers, but as varying degrees of commercial risks and revenues. The new regime is expected to enhance competition in the highly centralized banking sector and encourage more competitions in this field. In this sense, these market-building initiatives are part of an extension of the credit based culture (or Financialization) of Israeli citizenship. The research, which is the first academic research on this issue in Israel, analyzes the policy process and extends the discussion around it by analyzing the economic, social and political aspects of Israeli citizenship in general and regarding minority and disadvantaged groups in particular.

1. Introduction

The rapid growth of financial markets throughout the world has been accompanied by a sharp increase in the supply and demand for credit and other financial products and services for households and individuals. Credit and specifically access to credit became a priori condition to citizenship and a basic civil right which determines one's ability to belong in society. In other words, with the growth of credit markets the perception of credit has also changed and it has become a classificatory tool which identifies the boundaries of citizenship and the meaning of being a citizen. This adds to the literature on citizenship in Israel and that so far examined the issue of citizenship from national, ethnic, gender & legal perspectives (Peled, 1992; Shachar, 1998; Weil, 2001; Ben-Poart &Turner, 2011). In this regard Israeli is no different from the members of the EU. Citizenship and the political dimensions of citizenship are understood as separate from the economic and the financial dimensions (Levi-Faur and Haber, 2016). A more balanced way at looking on citizenship, one that will include the financial and economic dimensions both as constraints and opportunities, is being called for.

"Consumption-led growth" via credit, borrowing, lending, payment by installments, and unsecured loans are all quite well known or at least have become more familiar, due to the North American housing markets or more generally, due to the rapid financialization and the development of credit-markets there. Yet this process is evident in other countries as well, and in this paper we will focus on the Israeli experience. In some cases, it is best to change the term "consumption-led growth" with the more accurate term, "consumer- debt-led growth". Finance is a high-returns business with tempting profits. Not only that, but finance is highly profitable; profits can be achieved via leverage techniques and therefore tend to be made in high volumes. Among the various sub-spheres of finance, consumer credit promises even better returns than most other financial spheres. This lucrative market, which nowadays is increasingly supported by digitalization and big-data techniques, is growing, and it is growing via the extension of credit to individuals. As part of this process the accesses to credit had extended among all segments of population, but in particular, the financial markets which used to serve mostly middle to upper classes, have been extended to the lower classes as well (Lunt & Livingstone, 1992). Credit providers have realized that lower class and low income populations were more profitable customers, due to their financial instability, therefore they became the targeted population for credit providers. The extension of credit to a new type of population is portayed by some as the “democratization” of credit, and a way to promote financial inclusion. Furthermore, with the growth of debt, the attitudes towards debt are changing; it is becoming culturally and socially more acceptable to live in debt. The idea that debt is bad and that one has to live on one's savings alone has become outdated, at least in some countries. Nonetheless, the dramatic rise of household debt over the past decades had threaten the financial security of many poor families, working households, and even some who ascended, perhaps only temporarily, into the middle class (Squires, 2009; Mertens, 2014). Indeed, more debt increases consumption on one hand, but on the other, it increases vulnerability to an unexpected decline in income. In accordance, the expansion of credit markets and the increase in the availability of credit, led to sharp increase in the rate of personal bankruptcy (Dick & Lehnert, 2009; Lott, 2005). Therefore, debt itself is not only the outcome of inequality but also now a causal factor behind it.

Vulnerability is the outcome of a debt-ridden lifestyle, it has become more familiar within the new spirit of capitalism, and within ideas, politics and interests that push cheap credit upon people and create the conditions for new types and sources of financial vulnerability. In general, financial vulnerability is a situation in which consumers are more susceptible towards financial volatility and thus have limited ability to maximize their utility and wellbeing (Siti & Mohamad, 2014). This is due to injury, death, loss, disruption of livelihoods or other hazards. Strategies to help prevent vulnerability tend to vary widely among different regulatory frameworks, as the changes to the government intervention policies, management practices, working relationships and technologies affects consumers’ capacity to cope with daily life (Tweedie, 2013). This allocation of risks and benefits varies across different political regimes and involve different degrees and modes of discipline and punishment. One important aspect of our research is how the combination of debt-tolerance on the one hand and the ranking regime on the other are connected using social welfare analysis.

As we see it, the establishment of a credit ranking regime in Israel emphasizes the financial and social boundaries between different groups of citizens in Israel. These strict and unjust boundaries were reflected within the unjust welfare system which operated in Israel during the states' early years of establishment. Israel's state welfare system has developed throughout the years, officially and unofficially, via practices of exclusion among subordinated social groups. To a great extent, the Israeli state played an essential role in preserving the hierarchical constructive design of the diversified Israeli society which include different religions, orientations, and nationalities (Rosenhek, 2007). This was expressed via the distribution of resources and budgets by the financial and social state institutions when the state was first established. These classificatory engines were the first activities to set and determine the meaning of citizenship, and specifically - financial citizenship.

The history of financialization in Israel can be told from different angles and with different emphasis of outcomes in mind. Ours is the story of the effort to promote competition in finance, via the construction of a market in consumer financial information. The implications of this effort – potentially and comparatively –are then mainly analyzed with particular attention to "financial citizenship", "financial vulnerability" and "financial exclusion". The collection of the cultural, institutional and behavior characteristics of financial citizenship is grounded in a regulatory framework. The Israeli case exemplifies how regulatory policies, used by polititians and beauracrats, restricts individual's rights, and creates an exclusive financial citizenship and financial identity. Financial citizenship is a form of "market citizenship", that is, the promotion, and thereafter governance of the inclusion, exclusion and proper participation of citizens within the financial market. This regulatory framework constitutes, prohibits and encourages certain type of practices and technologies of financial control which determine the allocation of risks and benefits between creditors, intermediaries and debtors. In other words, the regulatory framework of financial citizenship determines not only "financial citizenship" in the abstract, but also has a direct effect on the financial vulnerabilities at the level of individuals, households, small, medium and large corporate organizations at the systemic level.

Let us move now from the theoretical context to the case at hand. The basic divisions around the citizenship process in Israel are explored in this paper with regard to a newly defined "credit ranking" regime that aims to create a new type of financial citizenship. This ranking regime aims to enhance competition in the highly centralized banking sector and encourage the entry of more competitors to the field. In this sense it has both consumer and economic interest in mind. Still, the social externalities of this market-building initiative redefine what we understand as Israeli citizenship, and indeed reshape the distribution of power around categories of citizenship that are based on nationality, ethnicity, class, gender and religion.

Focusing our efforts on the financial dimensions of Israeli citizenship allow us to explore a dimension that has so far not been discussed at all in the literature on Israeli citizenship and society. It also allows us to develop and clarify aspects of citizenship that are rarely discussed elsewhere. Citizenship is often understood as a formal and political construct. Our analysis takes us to one aspect – finance – of the social and economic dimensions of citizenship. In Israel this means the examination of the implication of financialization on Israeli citizenship at large as well as its implications on class, ethnicity, gender and nationality. More specifically, we are looking at potential winners and losers from Financialization, focusing on general categories of citizenship and more specifically – the poor, the Arabs, the Ultra-Orthodox and working families.

At the center of these new regimes stands an "objective tool" of risk management and a new "industry" of different types of "data brokers". The tool itself is a program that assesses citizens' solvency and process this information into risk levels. The industry, the data brokers, of which credit rating agencies are dominant players, is in the business of collecting and selling data to a diverse set of customers who use the data in order to determine individuals' ability to receive loans, issue credit cards, secure employment, and rent an apartment. Thus, credit rating companies crucially impact all aspects of private citizen life and hold considerable power over them[1]. Their accountability and transparency is subject to a lot of controversies, citizens' complaints and regulatory enforcement. These issues are supposed to be dealt with by a proper regulatory regime that will determine the legitimate way for collecting, rating, and trade of personal credit information.

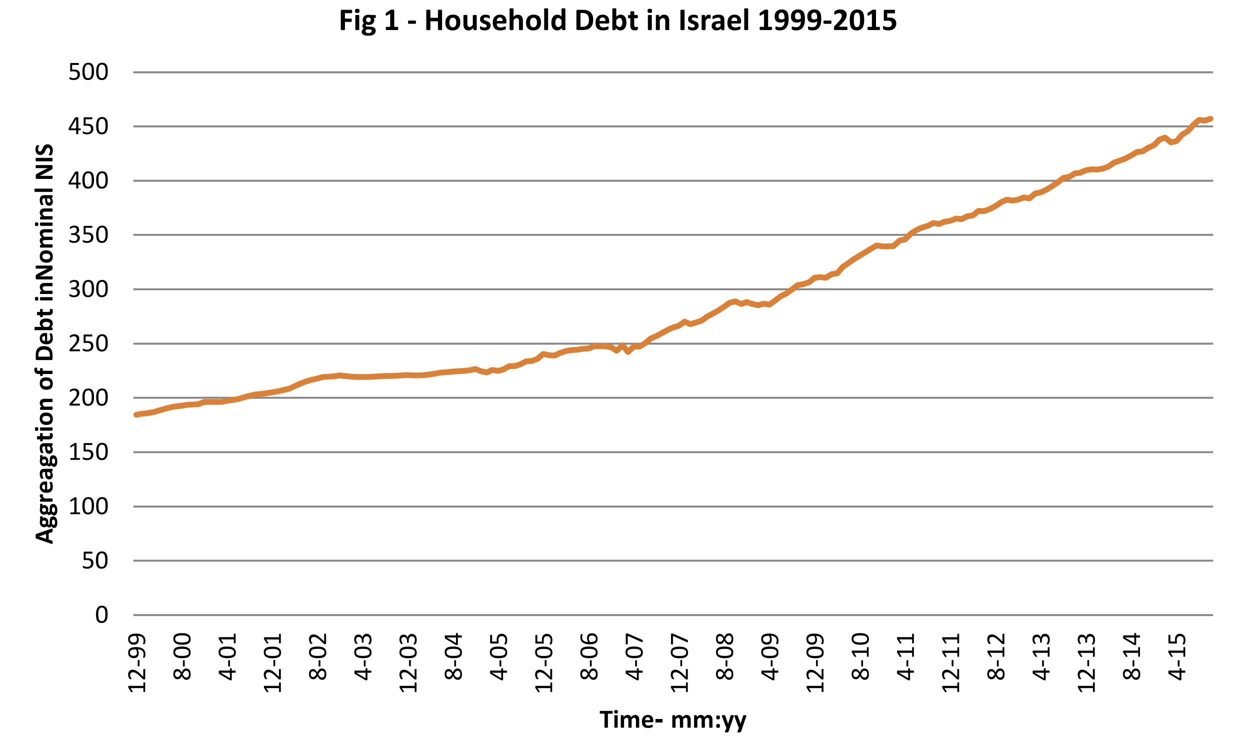
The importance of "financial citizenship" and the governance of credit are amplified by two factors. **First,** advances in digital technology has allowed the cheap and fast creation of computerized databases which cover all our financial transactions across all spheres of life and for long periods of time. Big data techniques had simplified the process of collecting, identifying and processing information. This means that the ability to exert power via the collection of information on individuals is larger and more readily available for various actors, to an extent unknown before. **Second,** policies that promote credit-based life-style are increasingly favored by capitalist democracies. Policy makers expand consumption via cheap credit and promote easy access to credit via market competition. The extra benefit is a consumption-based economic growth. Along with the expansion of credit markets, many countries have seen the advent and growth of financial information markets, as a means to increase competition between lenders and to correct market failures associated with moral hazards and asymmetrical information. Thus, in an attempt to maximize their profits and control over individuals in society, market actors have created mechanisms that collect, rate and trade financial information about private citizens. In this aggressive and, at times, oppressive regime, citizens are labeled and rated in the name of minimizing financial market risks. However, this often comes at the expense of the social inclusion and opportunities of certain populations.

The next part of this paper examines the development of the credit market in Israel and in particular the growing phenomenon of credit and debt among Israeli citizens and the social realties behind this dependency on credit. The third chapter is dedicated to the discussion of the poverty problem, which is both a common worldwide problem and one which afflicts Israel particularly. The fourth chapter examines the development of credit rating regimes as part of the process of the financialization of credit markets. The fifth chapter analyses the policy processes around the building of the credit rating regime in Israel during the past two decades. Specifically it focuses on the basic interests, ideas and institutions that define the policy process around the credit ranking regime, and their implications on the dynamics around the current understanding of what Israeli citizenship means formally and substantially. The sixth chapter discusses the implication credit ranking regime has on minorities according to statistical data and in relation to academic findings from the U.S. The last chapter concludes the main finding and emphasis the paper's main insights.

1 Lott, August 2005.

2. Financialization of credit markets in Israel

The 1960's were time of shift in consumer habits in Israel, a new era of consumerism which took hold of the country. Along with a rise in the overall quality of life, created new dangers and challenges for individuals. The continued rate and form of growth of the economic environment in Israel, led to the creation of serious gaps in household income and outcome. Consequently, many households began to rely on loans to maintain outcome, and a new culture of credit use and of "life in debt" began to develop. Over the years this culture was strengthened and spread throughout Israeli society. The last decade has seen a rise of several million NIS in the net value of household debt in Israel, leading to the total aggregate household debt being estimated today at some 439 billion NIS[2]. Furthermore, The annual growth rate rose by an average of 4.4% in 2006-2000 to an average of 7.2% in 2013-2007[3]. Fig. 1 presents the rise in aggregate household debt where data is available from December 1999 until March 2015.



Source: Bank of Israel, The Balances of Debt in the Market 2016

As of the end of 2014, the extent of household credit (not including mortgages) was estimated at 133 billion NIS. To grate extant this debt is consist of the overdraft debt. According to surveys conducted by The Israeli Central Bureau of Statistics in 2013, 54% of households who have a bank account were in a negative overdraft[4] for at least one month during the passing year. Out of those who were in a negative overdraft, 34% were found to have been in a consistent negative overdraft (for a duration of 10 months or more)[5].

Up until 2005 it was possible for individuals to not only be in a negative overdraft, but to exceed their credit limit in their checking account. Exceeding this limit incurred high penalties, generally in the form of very high interest rates. In 2005 the government sort to solve this vulnerability using a banking reform that was intended to ban the ability of banks to allow individuals to exceed their credit rating. While this reform seemingly solved

[2] The Balances of Debt in the Market, Bank of Israel, April 2016.
[3] The Oversight of the Extension of Credit Towards Households and Currency Service Providers, National Comptroller's Report, 2015.
[4] Negative Overdraft in its most basic sense refers to an individual having a negative balance in his checking account.
[5] The Central Bureau of Statistics, Announcement to the Press: Household Ownership of Financial Assets, 2013.

the immediate financial penalty of high interest rates for exceeding banking credit limits, it was less effective in curtailing exceeds spending. A 2006 survey of the Geocartography Knowledge Group found that 73% of Israelis did not curtail their spending but looked for other means to finance it, with 67% of those merely increasing their line of credit[6].

Those figures are in line with the fact that the supply of credit in Israel is mainly conducted by the banking systems that provide approximately 94% of credit to households. Generally, the sources of household debt can be divided into four categories:

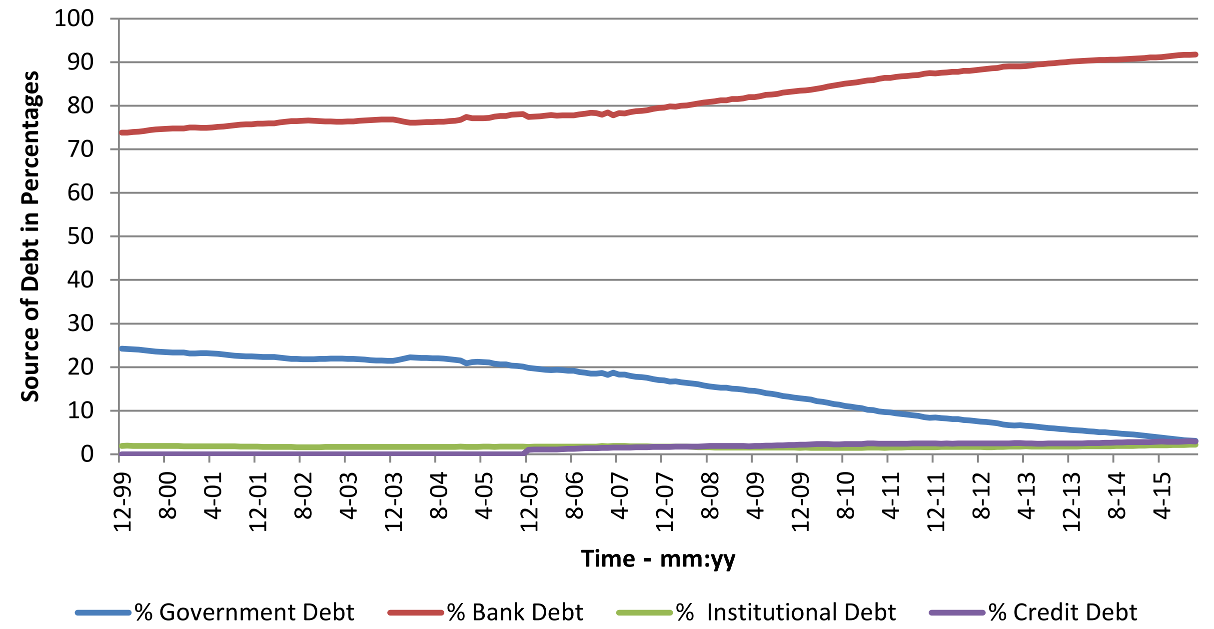
a. Government – Directed Credit[7]
b. Banks
c. Credit Companies
d. Institutional Investors – Including insurance companies and pension funds.

Fig 2 presents the extent of household debt held by each of these categories. The graph shows that the primary lender in both the household debt to the financial sector and in general household debt are the banks themselves, and not the credit companies or institutional lenders (insurance companies and pension funds). Meaning, the banking system in Israel constitutes the primary body from which households issue credit. Furthermore, the growth in the involvement of banks in the financial market expresses the change in the triangular relationship between the Government, banks and individuals. With the government's withdrawal from its' role as the main supplier of credit to individuals starting in the 1990's, and the strengthening of the banks as the major credit suppliers, the balance of power changed and banks now played a significant role in determining individual's rights and specifically in constructing their financial citizenship.

[6] Sinai, Nofar, "More Than a Quarter of Israelis Either Increased Their Line of Credit or Took a Loan Since the Disallowance on Exceeding Credit Limits", TheMarker. 01.08.2006

[7] "Government Debt" – This refers to "Directed Credit", which is a system of extending credit under the direction of the government and the central bank via the commercial banks, for special populations. Directed credit allows those populations to benefit from cheaper credit then the commonly accepted market alternative.

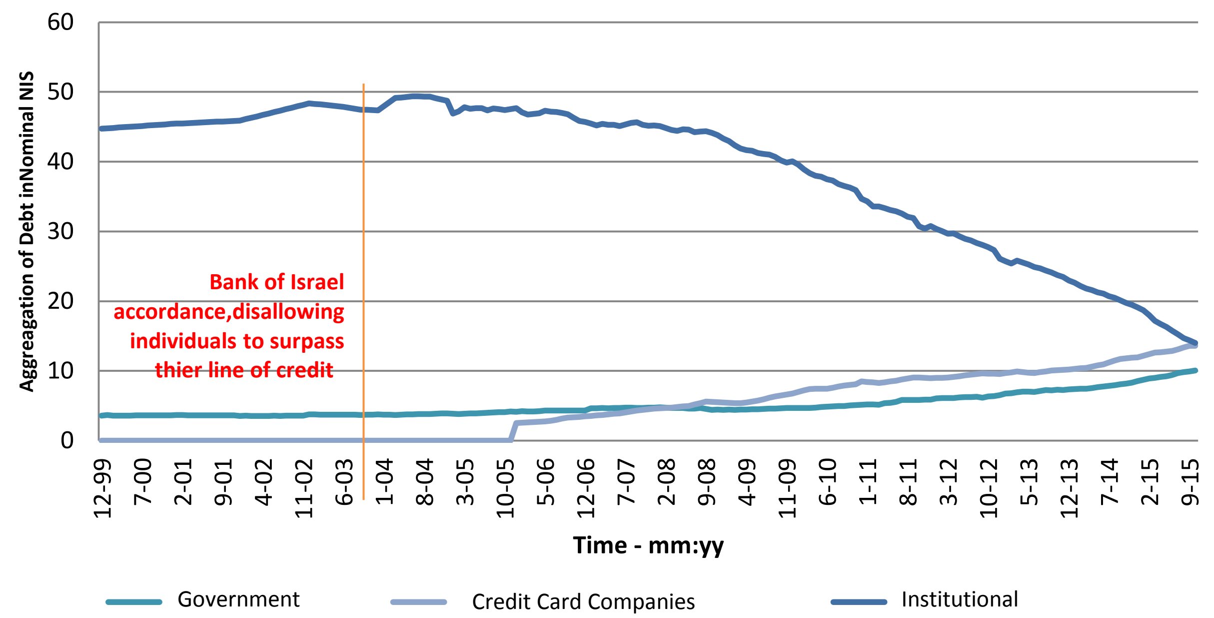
Fig 2 - Sources of Household Debt



Source: Bank of Israel, The Balances of Debt in the Market, 2015

Nonetheless, observing the sources of aggregate debt overtime shows that since the 2005 reforms, there has been a marked rise in the use of non-banking financial loans. As shown in Figure 3

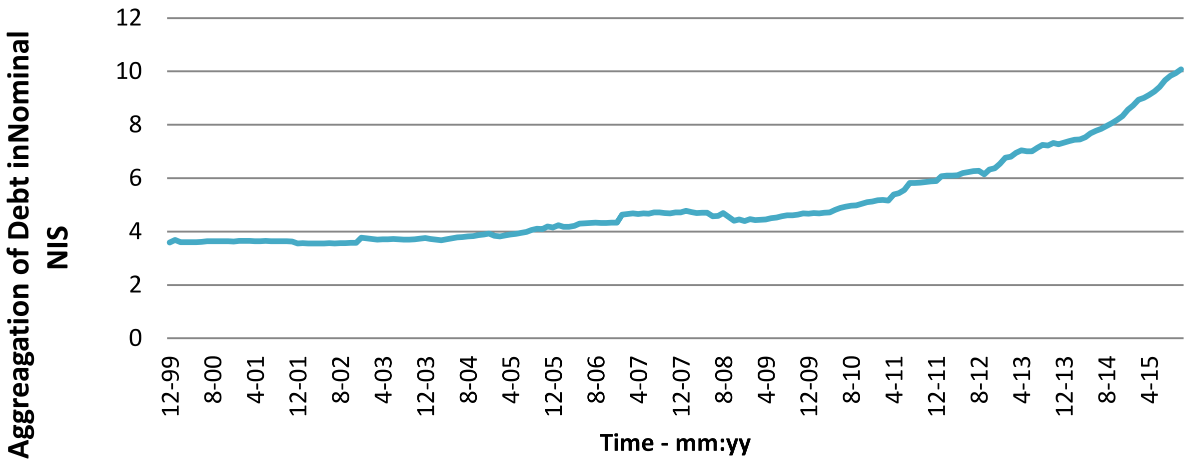
Fig 3 - Use of Non-Banking Financial Loans



Source: Bank of Israel, The Balances of Debt in the Market, 2015

Pension funds and insurance companies (referred to hence force as institutional bodies) are also central credit provident institutions in Israel's capital market (See Figure 4 below). This is due both because of their actions in this market and their relative weight in managing public assets. In recent years these institutional bodies have become particularly active in the domain of loans. The credit which is issued to households by these institutions is an alternative line of credit to the loans offered by the banking corporations. In the recent decade the scope of this market has constantly risen, evidently, in 2014 the estimated amount of credit issued by institutional bodies was approximately 8 billion NIS[8].

Fig 4 - Insitutional Bodies as Sources of Credit



Source: Bank of Israel. The Balances of Debt in the Market. 2015

However, among weakened sectors of society, who suffer from financial hardships and whose ability to repay debts is relatively low, access to credit mediation bodies who belong to the regulated banking system is restricted, therefore they are forced to rely mainly on non-institutionalized sources of credit, also known as "the grey market".

The use of non-banking financial loans began back in 1980. At that time, the lack of stability in the financial markets was the cause of many economic hardships and strengthened the dependence of citizens on credit. Banks, in many cases, refused to extend credit; therefore citizens were forced to take out loans from external sources. Generally, the terms of such loans were far less desirable for the debtor; this was exemplified partially in higher starting interest rates and arrears interest rates. Consequently, the number of legal complaints regarding cases of "gray market" loans increased, this in turn augmented the need to legislate regulation of non-Banking loans. As a result, the "Law Regulating Non-Banking Lending", was amended in 1993 and set as the regulatory framework on the non-Banking credit market[9]. Even though the law set a clear standard regarding loan contracts, restricted both regular and arrears interest, and included several directives regarding the judgment of loan-based suits, it did not define which actor was responsible to oversee the market and ensure compliance with the legal regulations, or set out how such compliance to the law was to be enforced. Therefore, the activity of the non-banking credit market is still woefully unregulated, and apart from certain financial institutions most credit lending bodies are completely unregulated.

Today, the non-banking credit market is made up of credit card companies, institutional bodies – insurance companies and pension funds, along with certain "grey market" bodies, also known as- currency service providers who are public and private bodies which deal in giving out loans[10]. This last group includes a wide variety of bodies, some perfectly legitimate and working in accordance to the Law against Money Laundering, 2000. However, other bodies include organized crime and criminal elements which use the currency service providers to further their criminal activity, launder money and evade taxation[11]. The yearly size of the loan

[8] National Comptroller's Report, 2015.

[9] Milard, 2015.

[10] Activities defined as providing currency services includes currency exchange, selling or turnover of travelers checks, discounting checks or bonds, discounting services, exchange of financial assets and factoring.

[11] Milard, 2015.

market which exists under the auspices of these bodies is between 20-30 billion NIS, and is larger than the credit extended by the credit card companies or institutional bodies. Furthermore, there are approximately 2,200 currency service providers which are registered in Israel, they employ around 4,000 workers, however apart from the registered providers, it is estimated that there are between tens to hundreds of unregistered providers. Likewise, this market is characterized by a high turnover rate; around 300 currency service providers are stricken from the registry each year, and are replaced by new providers. Since the activity in the currency service provider market is practically unregulated, there exist no accurate figures regarding the extent of its activity. However, the extent of the loans which are extended by the market is estimated at 150 billion NIS per year, which is 10% of the regulated banking market in Israel.

Clients of the “grey market” are generally those who have been rejected funds by the regulated financial markets, and who due to their poor financial state, are deemed too high of a risk, and likely to default on their loans. In that sense, the availability to receive credit in the grey market is the primary cause of turning to this channel to take out a loan[12]. The way in which this market has developed in Israel is full of pitfalls. The compenies which work within this market often use the fragile state of their clients to demand rates of interest between 5-20%, with the average monthly interest rate around 10%. These rates are substantially higher than the maximum rates allowed by the Law Regulating Non-Banking Lending[13]. Furthermore, there are evidane on selling them unfair financial services, and even incidents of use in problematic forms in order to ensure collection of payments[14].

Other common institutions active in this sector are the “Gemach” loaners, non-profit associations who provide credit. Gemach activity is built upon the religious and cultural basis of Ultra-Orthodox society, but is not unique to this population. With the growth of the Ultra-Orthodox society the activity of the Gemach bodies has greatly extended, according to estimations, the market of Gemach bodies now reaches hundreds of millions of shekels per year and possibly an even greater scope[15]. These bodies are also problematic in many ways, as the ability to rely on such sources of income overtime is limited, and therefore dangerous, as they cause a state in which a household lives overtime with an expenditure stream which is higher than their income stream. This situation can, eventually, lead to the household’s economic collapse.

[12] Recommendations of the examination of the regulation on currency services providers, Licht Committee, February 2015.
[13] Milard, 2015.
[14] The Economic Committee: Protocol Number 30 Non-Banking Loans (The Grey Market), July 2015.
[15] Recommendations of the examination of the regulation on currency services providers, February 2015

3. Vulnerability and inequality among minorities in Israel

Comparatively to the rest of the world, the inequality within Israel is one of the highest among the OECD ranked countries. The ranking of disposable income[16] inequality in Israel, places the country second among the OECD countries, behind only the United States(Ben-David and Bleikh, 2013) Furthermore, Israel's Gini coefficient[17] ranking is one of the highest of all OECD countries. In 2011, Israel, with a Gini coefficient index of 0.377, was ranked fifth out of 34 countries[18].

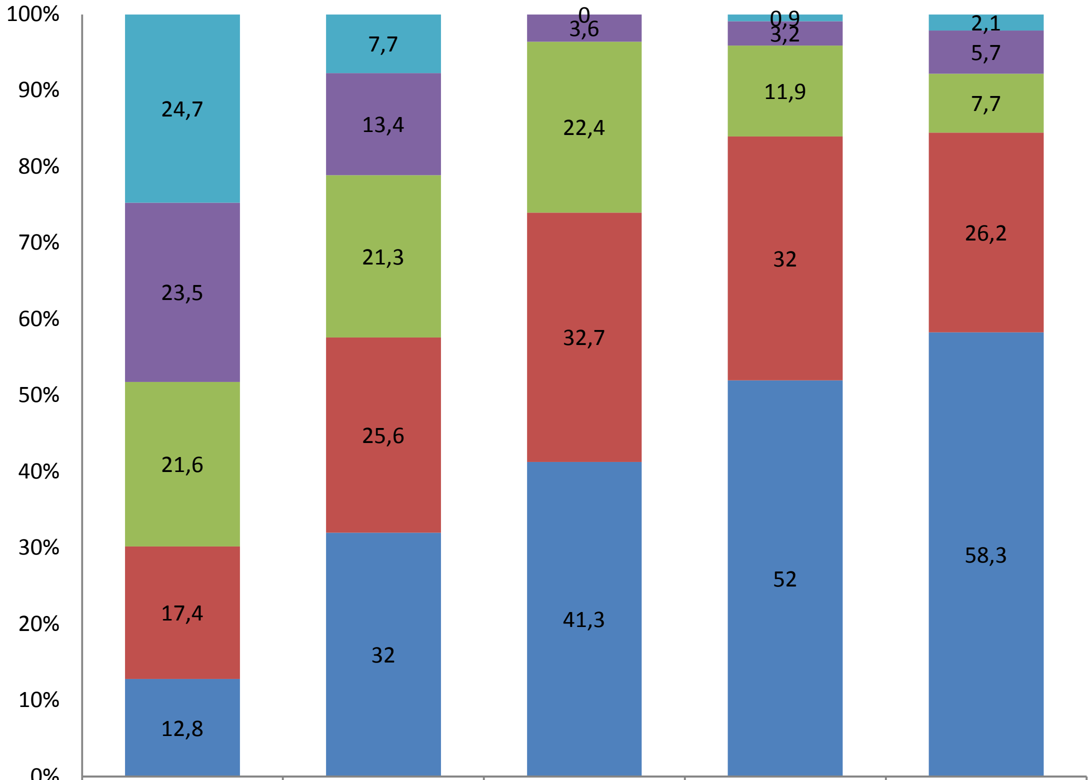
Proof of Israel's inequality can be seen in the large variances in household income in different sectors of Israeli society. This difference can be seen in Fig. 5, which presents the distribution of income quantiles by societal sectors, in each sector of society the income distribution varies greatly. 58.3 percent of Ultra-Orthodox households belong to the bottom income quantile, as opposed to only 12.8 percent of non-Ultra-Orthodox Jews. Among non-Ultra-Orthodox Jews, roughly a quarter of all households belong to the top quantile, however among Ultra-Orthodox Jews, Muslims and Druze, only a tiny percent of households belong to this quantile.

[16] Income from all sources, including transfer payments and after taxes.

[17] A ranking of a country between two ends: one, whose value is set at zero, indicates a state in which income is equally distributed among the entire population; the other end, whose value is one, indicates a state in which all income is held by a single individual.

[18] A Social Situation report-2014, Konnor-Atias, Rappoprt, Swirski, Adva center, January 2015.

Fig 5 - Distribution of Income by Population



	Non-Ultra-Orthodox Jews	Christians	Druze	Muslims	Ultra-Orthodox Jews
Top Quintile	24,7	7,7	0	0,9	2,1
Fourth Quintile	23,5	13,4	3,6	3,2	5,7
Third Quintile	21,6	21,3	22,4	11,9	7,7
Second Quintile	17,4	25,6	32,7	32	26,2
Bottom Quintile	12,8	32	41,3	52	58,3

■ Bottom Quintile ■ Second Quintile ■ Third Quintile ■ Fourth Quintile ■ Top Quintile

Source: Central Bureau of Statistics, *Household Expenditure Survey 2007-2012*

Similarly, the Israeli poverty rate is higher than the OECD average. In recent years the average rate of poverty per capita among OECD countries is estimated at around 11 percent, opposed to 19 percent in Israel. The Israeli poverty rate is in fact the highest among all OECD countries with Japan and the United States being the closest countries to Israel. The difference in the depth of poverty is smaller, roughly 32 percent in Israel as opposed to an average of 27 percent among developed countries, with Israel being ranked in seventh place[19]. As of 2012 the poverty rate by disposable income[20] is estimated at 19.4% among households, 23.5% per capita, 33.7% among children and 23.3% among the elderly. As of 2013, the poverty threshold index, which is derived from the levels of disposable income, shows that the number of families who live below the poverty threshold in Israel stands at around 18.6 percent, which constitutes roughly 1,658,200 individuals and among them around 756,900 children[21]. The state of the country is similarly bleak when it comes to inequality in economic

[19] The Committee for the War Against Poverty in Israel, ALALUF committee, June 2014.

[20] In Israel the poverty threshold is defined as 50% of the median disposable income in Israel.

[21] Poverty and Social Gaps Index, The National Insurance Institute, December 2015.

income[22], and in this ranking Israel is placed in the fifth place out of the 22 OECD countries (Ben-David and Bleikh, 2013). As of 2011 the poverty rate according to economic income is estimated at 31.3% among households, 31.4% per capita, 39% among children and 48.9% among the elderly. As of 2005 the poverty rates in Israel have remained relatively stable, however, an examination of the depth of poverty[23] in Israel points to a rise from 30% in 2002 to 34% in 2012[24].

The manifestation of poverty in Israel is especially common among the Ultra-Orthodox and Arab sectors. The poverty rate by disposable income within the entirety of the Jewish population is 14%, however this number rises to 53% among Ultra-Orthodox and 54% among Arabs. Moreover, the poverty rate by general income among these populations is 25% amongst the general Jewish populace as opposed to 59% among Arabs and 68% among the Ultra-Orthodox. These figures point to low occupational participation rates and earning capabilities within the Arab and Ultra-Orthodox populace. The differences in the depth of poverty are less dramatic. The depth of poverty among Jewish households is 31% compared to 41% among Arabs and 36% among the Ultra-Orthodox[25]. Similarly, the percentage of Ultra-Orthodox whose income is below the poverty threshold is 66%, and among the Arab populace it is 47.4% (Lewin &Stier, 2013).

In addition to these populations, single parent households are another group who are typicly charectirized by the relativly high povery rate of roughly 29 percent, and poverty depth of 33 percent. Simirily, single parent households constitute around 9 percent of all households living in poverty, thier porportion of the overall population in 2012 grew by a relativly small ammount from their porportion in 2002[26] . Likewise, the communal rift in Israel is refelected within the relativly high poverty rates among the Mizrachi Jewry populace as opposed to Ashkanzi Jewery. According to figures from the Adva Center, which researches the trends in inequality in Israeli society, it appears that the poverty rate among the Mizrachi populace in Israel is close to three times the rate among the Ashkenazi poulace[27].

Figure 6 shows that on a regular monthly basis, the average household in all sectors of society is in negative expenditure and is unable to financially see through the month (Gruber, 2014, P. 54).

From this graph we can see that a negative gap between expenditures and income exists among all sectors of society, with expenditures being greater than income. However, among minority populations, and specifically among the Ultra-Orthodox sector, we can see an especially large gap. Within the Ultra-Orthodox sector the monthly spending gap is estimated at approximately 3,209 NIS per month, which constitutes around a third of the total income reported by Ultra-Orthodox households. In a study conducted by the Taub Institute it was proposed that the size of the gap between income and expenditure stems, among other things, from a constant rise in debts and financial commitments for the purpose of acquiring household property (see attach 1).

It is possible that this process has been brought about due to cuts made in personal subsidies in 2003 and the subsequent need to find alternative sources of income. These figures point to how the rise of debts and the extent of poverty in Israel increases the dependence of households in various credit lending bodies.

There are several additional components which characterize the overall social-economic state of an individual, for instance, the economic resources and materials possessed by the individual, his quality of life, and his access to financial services. These indexes are linked to the level of income of an individual, with some of them

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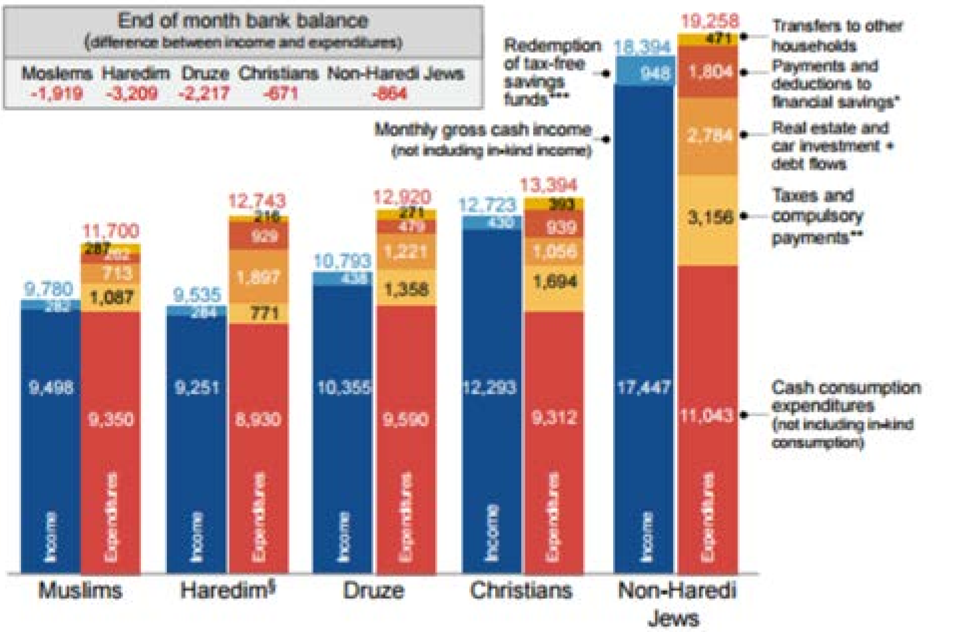
[22] Income from work, investments and pensions.
[23] The difference between the income of those how live in poverty and the poverty line.
[24] The Committee for the War Against Poverty in Israel, June 2014.
[25] The Committee for the War Against Poverty in Israel, June 2014.
[26] The Committee for the War Against Poverty in Israel, June 2014.
[27] Georgie, A, At the current rate, it will take 99 years to reach the Orientals absolute equality",25.03.2013, "de-marker".

possibly driving him to a low income, some possibly being caused by low income, and some possibly both driven by and influenced by his income[28] . In the next section we will examine these poverty indexes as they are come about in Israel. The source of some of the figures presented is the study by Lewin and Stier (2013),where data is presented from 2007 concerning the distribution of people who relinquish various products and services according to quarterly personal income brackets[29].

Fig 6- Household incomes and expenditures by population group 2007-2012, Average, in 2012 Israeli Shekels



* Mortgage payments; payments to provident funds, tax-free savings funds (*kranot hishtalmut*), executive insurance, pension funds, life insurance

** Income tax, health tax and National Insurance Institute payments

*** Calculated according to employee contributions to tax-free savings funds multiplied by 5 (to account for employer contributions and for returns on the principal until redemption)

§ Haredim are ultra-Orthodox Jews

Source: Eitan Regev, Taub Center for Social Policy Studies in Israel

Data: Central Bureau of Statistics, *Household Expenditure Survey*

One of the criteria for assessing the economic welfare of households is “asset poverty”. This index is defined in academic literature as:

“A state where a household (or individual) cannot provide themselves with their basic needs in a limited time of a lack of workforce income and/or a lack of income from transfer payments whether governmental or otherwise, given the stock of his existing property, both physical and financial. The criterion of asset poverty allows one to measure the economic welfare of a household in a different manner to the generally accepted indexes which are entirely based on his monetary income”[30].

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[28] The Committee for the War Against Poverty in Israel, June 2014.

[29] Quarterly income is defined by the division of all households into four equal quarters according to their income. The quartiles are defined according to net income per household from all sources, and our calibrated according to the number of individuals living in a household. Even though this is not a completely accurate definition of the poverty threshold, it does identify households whose income is in all likelihood close to that which is defined by the poverty threshold (Levine & Shtier, 2013).

[30] Inequality in Israel: How the wealth is divided?, Bar Levav & Milgrum, Institute for Structural Reform, October 2014.

In this report, Gilad Bar Levav and Maor Milgrum, examined the inequality of asset ownership in Israel using a 2015 C.B.S survey and found that the asset wealth gap in Israel was larger than the income gap. 11 percent of households in Israel have assets worth less than a 1000 shekels and 5 percent of households have more debt than assets. Another figure shows that 17 percent of the Israeli populace (roughly 420 thousand households) persists in asset poverty, and the total worth of their assets is sufficient to cover at least three months of a minimal sustenance basket.

Another expression of the hardships of poverty in Israel is the lack of access to critical infrastructure services such as electricity, water and gas. In the year 2013 roughly 54,000 occurrences of disconnections from the electricity company and 85,000 disconnections from water were documented) Alaluf, 2014). No available data is available regarding disconnections from gas services. As of 2007, aproximitly 31 percent of citizens belinging to the bottom income qaurteile, and 15 percent of citizens belonging to the next quaretile experienced a disconnection from either electric or telephone services (Lewin &Stier, 2013).

The gaps in health and access to healthcare services are constantly widening, hand in hand with the widening of the socio-economic divide in Israel thereby constituting a serious indicator of social injustice. Similarly, the economic quality of life of an individual is influenced by their ability to provide themselves with health services, food security, adequate quality of housing, and education. This worrying situation reflects the day to day reality of hundreds of thousands of Israeli individuals who live in poverty, and who are unable to protect their basic rights to health because of their economic distress and their dependence on public healthcare services.

Additionally, figures from 2007 show that citizens belonging to the lowest income categories in Israel experience difficulty in financing their healthcare. Approximately a third of those belonging to the bottom most quartile, and who require medical care, are unable to afford treatment, and 27 percent cannot afford to purchase medication. Likewise, in the field of dental healthcare, which is not included in regular public medical insurance in Israel, a high percentage of citizens who require dental care, tend to opt out of treatment: more than two thirds of the those in the lowest income quartile, and more than half of those in the next quartile abstained from receiving dental treatment due to financial difficulty (Lewin &Stier, 2013).

The hardships of poverty are expressed also through many citizens' lack of economic ability and regular accessibility to a basic level of nutrition which is required for a standard and balanced existence. This hardship stems from a lack of monetary resources which allow access to food in an amount and quality which is required for basic persistence. Food insecurity harms day to day functions, the development of children, the health of individuals and the ability of families to live in basic dignity and quality of life. According to figures from the National Insurance Institute[31], as of 2012, around 18.8 percent of individuals in Israel (532,000 families) live in a state of food insecurity, and from them around 8.6 percent (243,000) live in a state of severe food insecurity. In addition the figures point to the fact that the phenomenon of food insecurity is most common among large families (those with four or more children), in Arab households and among single parents: close to half of these populations are in a state of food insecurity.

According to the report, the rate of food insecurity amongst the Arab populace is high: around 46% (down from 48% in 2011), more than three times the rate amongst the Jewish population. Families of immigrants are characterized by a relatively low rate of food insecurity (16 percent). Amongst the Ultra-Orthodox (those who defined themselves accordingly when asked in the survey) the rate of food insecurity is lower than would be expected according to the prevalent rate of poverty, as recognized by the poverty index reports. Food insecurity reached 24% in 2012 an improvement on 28% in 2011. Although this rate is higher than the general

[31] Poverty and Social Gaps index, The National Insurance Institute, December 2015.

average, its correlation to the level of income is severely lower when compared to food insecurity amongst other groups with similar levels of income. High levels of food insecurity are prevalent amongst those of working age receiving basic governmental stipends – especially amongst those receiving stipends to ensure income – around 51% (opposed to 52% in 201). Within this group are families who receive disability stipends and whom suffer from especially high levels of food inequality – 30% in 2012.

Conversely, the level of food insecurity amongst those receiving old age benefits and income supplements is noticeably lower than those receiving substance stipends– 12%. The prevalence of food inequality is especially low – 6.9%. Likewise, as of 2007, 44 percent of citizens belonging to the bottom quartile refrained from buying food due to economic difficulties (Lewin &Stier, 2013).

Sparse living conditions are another index to assess the economic welfare of the citizen. Surroundings and limited living possibilities influence all aspects of life including the potential development and the ability to take advantage of opportunities which are available to each individual. Figures from 2007 point to the fact that most of those within the bottom income quartile (approximately two thirds), and around half of those is the next quartile did not activate means of warmth or cooling in their houses due to economic hardships.

4. CREDIT RATING REGIMES AND THE FINANCIALIZATION OF INDIVIDUAL'S IDENTITY

At the end of the 20th century, economic integration, globalization, and global financial crises lead to changes in financial market regulation and the restructuring of government intervention in financial markets. There are obvious deregulatory trends during this period as financial markets expanded, products were marketed to all segments of the population, the financial industry boosted profits by creating complex and risky financial products, household debt spiked, and consumers increasingly purchased financial services[32] (Wills, 2008). The increased demand for credit, financial products, and financial services leads many countries to reexamine the challenges facing an effective and competitive banking market. Given these changes, the government began restraining from extensive direct involvement in personal financial matters (Wills, 2008). Additionally, the nature of public policy in capitalist countries often encourages the development of financial service markets as a means to economic growth and expansion of consumer choice[33]. One such market, the financial information market, underwent accelerated development in many countries as a result of these factors.

A credit rating regime refers to the public and private mechanisms that constitutes, enable and restrict the collection of financial data, their analysis and amalgamation and the abuse of this data. The structure of this regime differs by country. Such a regime has far reaching implications for an individual's status and capabilities. Transactions conducted with credit are reported to credit agencies either voluntarily or by legal mandate. Over the years, this lead to the advent of the current credit rating system, relied upon heavily both by regulators (particularly financial regulators) and investors (Cantor and Packer, 1994). This system enables agencies and organizations to track a wide range of financial information on citizens, characterize individual economic behavior, compare costumers, and rate individuals on interval scales.

Regimes can be partial or comprehensive, full with loop holes of not, they can be national or sub-national and they can be even regional (e.g., a European regime) or global (e.g., global privacy conventions). At the center of the regime are the institutions that govern the collection, processing and use of data and the actors' networks that makes these institutions work. Institutions, networks and mechanisms vary across countries although global practices and actors appear to be increasingly prevalent. Credit rating regimes can govern credit supply and withdrawal of credit to individuals as well as to corporate (small and big) and political organizations (e.g., states, nations, municipalities). Credit rating regimes can be used for various purposes by different type of actors. They can be used for example in decisions to allocate credit to individuals, loans for business, insurance premiums and even by employers in the context of hiring individuals or even promotion decisions. These uses can be done by corporations as well as by state officials and by NGOs. The rules that determine the amalgamation and statistical representation of this data also vary and can be more or less transparent complex, reliable and punitive. Plurality of options in the rule that govern the use of data – from its commercialization to the extent in which individuals can control these uses – also vary widely across regimes.

One useful way we suggest to think about credit rating regime is to distinguish between two analytical ideal types: restrictive and permissive. In the restrictive regime the collection of data, the ways it is processes and leads to the scoring of individuals and the uses made in the information are all restricted. Figure 7 presents the various components of restrictive and permissive regimes and thus allows us to better present the various choices that regimes architects, in different countries and context, take when they design or patch-together the various parts of the regimes.

[32] Lott, August 2005.
[33] Lott, August 2005.

Figure 7: Ideal Types of Credit Rating Regimes

	Restrictive Regimes	Permissive Regimes
Collection of data	Limits on the sources, procedures, and length of time that the data is collected and then kept; Limits on the coverage of the data collected (e.g, negative information on debtors, or all type of information on all consumers-citizens); limits with regards to the consent of the individuals that the data covers.	Minimal restrictions if at all on the sources, procedures, length of time, coverage and consent.
Ranking and/or Scoring	Restrictive regulations on the algorisms and other type of scores that govern the **calculations, modeling and transparency** of scoring and ranking	Minimal limits, if at all, on the procedures, calculations, modeling and transparency that govern scoring and raking.
Uses	Limits on the **ownership** of the data (e.g., individuals/regulatees are the owners of their data); limits on the **access** of the data (restriction on who can get access to the data); limits on the **legitimate application** of data (e.g., for job interview or for insurance purposes)	Minimal limits, if at all, on ownership, access and legitimate application of individual data.

5. Institutionalization of the Israeli Credit Rating Regime

This section present and analyze the policy process that led to the creation of the Israeli credit rating regime through five evolutionary stages which began in the late 90's until today. Through each and every stage, the Israeli credit rating regime shifted and transformed from a restrictive to a permissive regime.

5.1 Genesis of the regime

Up until the early 2000s, there were various mechanisms for regulating insolvency. Three relevant legal arrangements for the collection of personal information in Israel were highly relevant:

Bankruptcy Ordinance- Defines cases of bankruptcy and allows the district court to handle such cases by arranging debts and payments between the debtor and creditor.

The Execution Law- Regulates the activities of the Enforcement Office and allows those in possession of a judgment, deed or check to collect them in an orderly and efficient manner.

Checks without Cover ("Bad Checks") **Law**: Establishes the conditions and limitations imposed on an individual who has written ten bad checks.

These arrangements reflect the beginning of the development of the Israeli credit rating regime. However, they were subject to the Protection of Privacy Law, which prohibits the use and delivery of personal information of an individual (including financial information) for any purpose other than that for which it was provided. Furthermore, these arrangements identify only consumers who have a distinctive negative credit history, thereby constructing a defined regime characterized by limited and clear boundaries. As we shall see, it was these mechanisms that survived the institutional change that were introduced in the 2000s, but during those years, the efforts that were placed to establish such a regime would collect information from all types of Israeli citizens.

5.2 The Credit Data Services Law

The second, and main, stage in the development of the credit rating regime was established in 2004 with the implementation of the Credit Data Service Law of 2002. After a lengthy 5-year legislative process, the law came into effect on August 1, 2004. Contrary to the legal arrangements that existed before, this law represents the first legal attempt to address not only the collection of information about individual financial risk level and solvency, but also trading and later the rating of this information by private companies.

Even though The Credit Data Services Law is largely based on the information collected and stored in accordance with the legal arrangements that existed before, such as information from the Enforcement Office, information concerning bankruptcy from the official receiver, and information from the Bank of Israel concerning "restricted" or "severely restricted" customers. The law also permits the collection of information from commercial information sources, including banks, issuers of debit cards, courts, and other official and authoritative sources[34] (Credit Data Service Law of 2002). These steps were undertaken in order to promote the accurate assessment of credit risk and increase competition between credit providers. Banks and debit card companies were identified as institutions that grant credit, identify their consumers with high levels of confidentiality, and keep official and organized financial accounting records (Plato-Shinar, 2009).

The choice to grant credit data service companies the legal right to receive information from commercial financial institutions, testifies to the expansion of the credit rating regime. In doing so, the law casts these

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[34] Official and authoritative sources include: chain stores, insurance companies, infrastructure companies (including Bezek and the Israel Electric Corporation), and companies that provide other services, provided that their value exceeds 25 million NIS and they comply with the legal requirements for institutional records.

commercial institutions as active participants in forming the financial identity of individuals. The information transferred by banks, as opposed to other sources, indicates negative credit history much earlier and doesn't ensure the same level of reliability and accuracy. Additionally, as private institutions serve business interests and are not subject to the same government regulation, using them as information sources presents further complications. (Shpanitz, 2002).

Moreover, large amounts of the information which was collected from those commercial institutions is "favorable information", which is information about consumer's ability to meet their financial obligations. It is a common practice to differentiate between the sensitivity levels of various types of favorable information. For instance, collecting information concerning the gender and religion of a person is considered highly invasive. Data concerning a person's income or property is considered less sensitive. Information detailing what institution granted a loan, the length of time a check account has been operational, and the degree to which the customer has met payments is considered even less sensitive.[35] (Shpanitz, 2002).

According to the law, the three parameters set on favorable information mandate that it must be data concerning loans[36], credit limits[37], and credit[38] (Amendments to the Credit Data Service Law, 2004). According to the law, collecting this kind of information is optional, contrary to "negative information" which is compulsory. Moreover, the collection of "favorable information" has major privacy implications and is therefore considered a sensitive and controversial issue. The danger of breaching privacy by transmitting favorable information is higher than the risk of a similar breach when transmitting unfavorable information. Using favorable information to increase competition by accurately assessing customer solvency, requires a large amount of information and is therefore more invasive to the customer (Shpanitz, 2002).

Regarding negative information, the data service companies don't need a customer's consent in order to collect it, unlike collecting positive information which requires the consent of the customer. However if the data service company has collected sufficient negative information to deliver a negative credit report for the client, then the client's consent is no longer required in order to collect his positive credit information. The information in the credit databases can be kept for seven years, after this period the data service company can no longer provide the information and is obligated to delete all data on credit at the end of the period.

The civil identity of Israelis is thus "financialized" by the Credit Data Service Law. The current version of the law has the most severe implications for potentially high risk citizens with problematic credit histories. The abundance of unfavorable information collected on such costumers is disproportionate to the favorable information collected and transmitted. Thus, credit data services further isolates a population already at the bottom of the social ladder.

Even though there was massive pressure from some financial regulators to allow the rating of consumers, at this stage, the law didn't permit it. The idea to allow individual customer rating received much criticism from members of the financial committee in the parliament, which discussed this initiative, who expressed opposition to the idea and presented various arguments against the creation of a credit rating. Opponents of the notion claimed that the rating could lead to negative labeling of customers, and therefore isolate a population already at the bottom of the social ladder. Eventually, the bill set a provision allowing the Minister of Justice to re-enact future regulations on the subject, with the agreement of the Financial Committee members.

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[35] Interview with Ronnie Neubauer, February 23, 2015.
[36] Date of receiving a loan, period set for repaying the loan, frequency of payments, amount loaned.
[37] Date and amount of most recently established credit limit.
[38] A bank will transmit the previous five years of a customer's credit history to a licensed credit data service upon request, provided the credit was not granted to the customer before the law went into effect.

The credit reports which were defined as a commercial product, were then sold by the data service companies. These reports can be used for different uses rather than just for credit, such as: buying a house, renting an apartment, applying for a job, and more. In effect, any person can easily gain access to these reports.

5.3 The Credit Data Services Law –The Amendment of 2011

This amendment first permitted the establishment of a credit score system in Israel. The legislative process continued for 4 years and began in 2007. Credit ratings or scores are statistically calculated interval numbers which translate an individual's credit data and history into a uniform index. This index testifies to the credibility of a customer and indicates consumer behavior.[39] Higher credit ratings mean lower customer risk and a greater chance of the customer obtaining favorable financial services. Lenders assume that customers with higher credit scores are more likely to meet their financial obligations, and therefore are more willing to grant them loans.[40]

At this stage the credit score was considered a limited tool, mainly because the information which was collected by the data service companies was negative and included only a small amount of citizens.

5.4 The "Financial ID" Initiative of the Israeli Banking Regulator

Attempts to established and strengthen the financial information market in Israel go beyond the Credit Data Service Law and its amendments. In 2014, the Bank of Israel raised the issue when they suggested creating a "financial ID" for every bank customer. This proposal was one of many proposed by the governmental Committee for Increasing Banking Market Competition. The committee included representatives from the government, regulators of the banking market, and experts from various advisory bodies. Similar to the Credit Data Service Law, the proposal aims to increase banking market competition by using information about individuals for the sake of profit and economic benefit.

Financial ID contains two primary components: a statement and a rating. The statement reflects information gathered by the bank and is transmitted to the customer, in order to allow the consumer to present it to credit lenders as a financial profile in order to obtain better terms and financial services. This kind of information has been collected and stored by the banks for many years. Thus, the banks do not have to compile any new data in order to issue a financial ID. The information in the statement includes a customer's properties, debts, credit, savings, securities, annual total of asset-related revenues and expenditures, and expenses incurred by interest and fees. A condensed report and a detailed report are both transmitted to the customer.[41]

The second part of the financial ID is the rating component. It includes a score which is calculated internally by the bank and indicates the financial value or risk of the customer. The rating is calculated using a variety of data concerning the consumer's behavior. For instance, the calculation includes weighting the number of years that a customer holds an account and the frequency at which a salary enters the account. This data is supposed to reflect the customer's quality and risk as a borrower. Similarly, to the credit rating prescribed by the Credit Data Service Law, the formula for scoring used by the bank is not public knowledge. Furthermore, each bank has its own scoring model, which means that the same client is able to receive different ratings from different banks.

The financial ID proposal has the same aim as that of the credit scoring systems which exists around the world today, to increases competition in the banking market by disclosing personal information. However, both its structure and operation differs significantly from other systems. Financial ID offers a micro-economic solution

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[39] Increasing Competition in the Banking Sector, Bank of Israel, March 2013.

[40] Interview with Lawyer Dror Strum, February 1, 2015.

[41] Increasing Competition in the Banking Sector, March 2013.

to enhance the competition in the financial markets. It proposes to transmit the information to customers, and thereby it allows them to bargain with different credit providers, while usually, credit scoring systems rely on extensive information stored in databases and are accessed by corporate or government entities.[42] Additionally, the information on financial IDs are updated annually while in most similar systems, it's updated constantly. A report that does not use updated information is likely to present an inaccurate customer profile and cause those who rely on that profile to produce possible errors. Furthermore, a financial ID only reflects the financial history of the customer at one bank, disregarding his or her financial record at other banks or institutions. Finally, the information included regarding the financial ID, is not information that reflects the ability of a customer to repay a loan or meet other financial obligations. Instead, it presents information about a customer's wealth and economic status, neither of which is relevant when assessing the customer's quality as a borrower. Thus, the financial ID is likely to cause irrelevant and discriminatory information to affect the pricing of banking terms available to a customer. These factors detract from the value and credibility of the financial ID. Additionally, they question the ability of such a system to effectively increase banking competition.

In contrast to the credit reports prescribed and regulated by the Credit Data Service Law, the financial ID is only issued to individual customers. That is to say, the customer has control over what he or she does with the information issued, therefore, financial ID reports may better preserve personal privacy. However, opponents maintain that the financial ID only transfers the responsibility for defending privacy to the customer. The consumer now must face corporate entities and decide whether or not to grant them the information they may request. When a financial ID is issued to a customer, it becomes impossible, legally and operationally to prevent credit providers from demanding the information. If the customer r refuses to provide it, he or she will likely be tagged as suspicious or dangerous[43]. Furthermore, it is difficult to bind these limits and uses in the financial ID. Using financial ID for non-credit related purposes is likely to lead to the displacement of vulnerable populations and prevent them from fully participating in society. According to other claims, it endangers, weak populations by limiting their chances to integrate in society.

Eventually, implementing the credit rating component of the financial ID failed as the Bank of Israel couldn't find solutions to its social problems. In 2016 the Financial ID came into effect, but only included the statement part of the rating. The financial ID model, as the Credit Data Services Law is based on, forms the idea of trading information for services. However, in proposing this model, bank regulators suggest that the balance between privacy and market competition should be determined by the customer himself.

5.5 The Credit Data Services Law of 2016

The attempts to extend the financial information market in Israel has continued with the appointing of the Committee for Improving the System for Sharing Credit Data by Prime Minister Benjamin Netanyahu and former Justice Minister Tzipi Livni on 26 August 2014. The committee was led by the National Economic Council, which is an advisory organization to the Prime Minister's Office (PMO) on economic issues. The committee included representatives from the Ministry of Justice, the Antitrust Authority, the Ministry of Finance, and the Bank of Israel[44].The goal of the committee was to assess and adjust the legislative arrangement in place since 2002. By doing this, the committee hoped to create an Israeli system for sharing credit data in which a broad range of information on small businesses and retail customers could be shared.

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[42] Interview with Lawyer Dror Strum, February 1, 2015.

[43] The Economic Committee: Protocol Number 114 Credit Ratings of Bank Customers - "Identity Card", November 2013.

[44] Interview with Morris Dorfman, Vice Chairman of National Economic Council, February, 19, 2015; Interview with Yoel Ben-Or, National Economic Council, February, 23, 2015.

Because of the technical and operational difficulties with establishing such a system, the committee hired an advisory company to assist with effectively and efficiently shaping the credit data system. This company also served as a knowledgeable source of information concerning the operation of credit data systems in various countries around the world. After a period of assessment, the committee produced a report that included interim recommendations, which later set the basis for a new legal proposal. The legislative process was rushed and continued for almost half a year. The finance minister made extensive efforts to pass this law quickly, mainly because it was part of a wider reform which aimed at enhancing the competition in the credit markets.

Contrary to the Credit Data Service law from 2002, this proposed law offered significant changes in the structure, rules and practices of the credit information system existing in Israel. It suggested building a centralized database which would be owned by the Bank of Israel and would replace the databases currently held by service information companies. This means that the bill would make the data collection system monopolistic instead of it being part of the competitive structure of the service information companies in which databases currently exist today. This also led to other essential differences in the rules outlined in the responsibility for the construction, maintenance and management of the database. The new law proposes to have the database set up by the Bank of Israel, which is a public body, instead of the commercial companies, and this, according to the bill, was administered in order to reduce the costs of maintenance and operation of the system and facilitate information security.

The regulatory regime under the new law, to a great extent, is lastly restricted. For example, it sets that the supervision of credit information systems will be made by the Bank of Israel instead of the Law and Technology Authority. Such a change in the supervisory structure has important implications, since the Bank of Israel is not a privacy protection body and has a troubled past and present in terms of consumer protection. In general, the bill creates a more commercial system, which allows collecting, trading and scoring services on all, not just the minority of citizens with deep debt. The type of information which can be collected and used is wider and includes also the consumer's type of credit accounts, and his history of credit applications. Also, the time period for holding information and its use by the service data companies is significantly extended. Regarding the sources of information, the bill increases the number of credit providers which are obliged to provide information to the customer including the electricity company.

Figure 8: A comparison between the Credit Data Service Law of 2002 and the Credit Data Service Law of 2015

	Credit Data Service Law of 2015	Credit Data Service Law of 2002
Purpose of the Law	Strengthen competition in the retail credit market Identifying and marking customers with low ability to fulfill repayments Reduction of the collateral payments required from customers with positive credit history	Expanding access to credit Strengthen competition in the retail credit market Reducing discrimination in the distribution of credit and the socio-economic gaps Creating an anonymous database which would be used by the banks in the conduction of their roles.
Proposed Model	A centralized and monopolistic database.	Competing databases
Regulation	Loose. Conducted and financed by the Bank of Israel.	Stringent. Conducted by the Law and Technology Authority, under the auspices of Ministry of Law and with the issue of privacy defied as part of its role

Creation, running and maintenance of the database	The Bank of Israel.	Private credit offices.
Distribution of data	An unlimited number of credit offices who are granted permits by the Band of Israel.	An unlimited number of credit offices who are granted permits by the Law and Technology Authority.
Scope of the data	Extended negative and positive information Wide amount of data – “positive” and “negative” gathered from the entire population.	Limited data – mainly “negative” and gathered from a small number of citizens.
Period of time that data is kept	Twelve years/ *Anonymous data is not erased.	Seven years
Period of time of the data	Between two to twelve years.	Between three and seven years, depending n the type of data.
Obligation to provide data	Public databases (Official Receiver, Bank of Israel, Writ of Execution), the courts, banks, credit companies and the Electricity Company.	Public databases (Official Receiver, Bank of Israel, Writ of Execution), the courts, banks.
Time lapsed until information can be traded	No time lapse, all information gathered on citizens can be sold and traded.	Negative information is reported only after the client has passed the time limit and has failed to meet his financial obligations over an extended period of time.
Permission needed to gather client information	Information gathered without client consent.	Gathering of negative data without need of client’s consent. Gathering of positive data requires client consent, unless negative data exists regarding the client.
Bodies to whom it is permissible to provide data	Bodies which are defined as Credit bodies, and only those who provide data to the central database.	To any individual or company which desires the info, so long as said individual has declared that his intent is in line with one of the intents stated in the law.

The bill also proposes to set an opt-out system for collecting information which enables the collecting of positive and negative information automatically, without the customer's consent. However, because the bill includes a lot of information which is not included in the original law, it sets limitations on the entities which can provide the information and determines that they have to meet two conditions: They must be defined as providers of credit institutions and to provide information to the database. Concerning the rating model, similarly to the other initiative, here also the credit score is calculated by credit bureaus, which have the authority to determine the criteria according to which the score is calculated and each criteria’s weight in determining the score- without interference from supervisory institutions. These calculations are not transparent to the public and are considered a trade secret. The law will take effect in March 2018 and the establishment of the database is expected to be in June 2018.

6. The effects of the new credit ranking regime on minorities and disadvantaged groups

The presence of a credit ranking system has a major influence on all citizen's daily life. With the production of credit reports and credit scores, citizens' conduct as debtors is under constant financial surveillance. These practices control the gateway to so many areas of economic need and want, and creates individual profiles which are, like ID tags, marking our rank and class in the present and in the years to come. According to this system's principles, those with the lowest scores, are the ones who have more debts, or the ones who are desperate for credit, and automatically being tagged as more "risky" clients. However, moving from these general assumptions to a more personal perspective, it is essential to understand who are, potentially, those people? How many are they? And what segment of the population do they represent within Israeli society?

Figure 9: Comparison between populations

	Entirety Of The Population	Debtors	Customers With Limited Financial Means
Gender			
Male	49%	60%	**61%**
Female	51%	40%	**39%**
Age			
24-15	21%	4%	**3%**
29-25	10%	7%	**1%**
34-30	10%	8%	**7%**
44-35	18%	21%	**24%**
54-45	14%	24%	**20%**
64-55	13%	19%	**18%**
74-65	8%	12%	**26%**
+75	7%	5%	**1%**
Marital Status			
Single	32%	16%	**8%**
Married	56%	55%	**64%**
Divorced	8%	24%	**23%**
Widowed	5%	6%	**4%**
Population Group			

Jewish	75%	61%	**64%**
Non-Jewish	25%	39%	**36%**
Total (Thousands)	5,895.9	629.2	**74.4**

Figure 10: Distribution by age of debtors in the overall population by gender

	women		men	
Age	**Total Population Average**	**Debtors Average**	**Total Population Average**	**Debtors Average**
15-24	20%	5%	22%	4%
25-29	10%	8%	10%	7%
30-34	9%	11%	10%	7%
35-44	18%	22%	18%	20%
45-54	14%	21%	14%	27%
55-64	13%	16%	12%	20%
65-74	9%	8%	8%	14%
75+	8%	9%	6%	2%

Figure 11: Distribution by marital status of debtors in the overall population by gender

	Women		Men	
Marital Status	**Total Population Average**	**Debtors Average**	**Total Population Average**	**Debtors Average**
Single	28%	14%	35%	17%
Married	55%	49%	57%	59%
Divorced	9%	26%	6%	22%
Widowed	8%	11%	2%	2%

As presented in figure 9, there are 629.2 thousand debtors in Israel which are identified as "limited consumers". That means that one out of every nine people in Israel are identified as a debtor by the Execution Authority. Among them, there are 74.4 thousand people with extremely high debts who declared that they could not pay their debts, identified as "customers with limited financial means". Among the non-Jewish population, the percentage of "limited consumers". and customers with limited financial means" are, in both categories, higher than their percentage of the total population. Figure 10 shows another population group which suffers from high debts, elderly men- between the age of 65-74, this population have a higher percentage of debts as compared to their amount from the entire population. Similarly, figure 11 shows that the percentage of divorcees, both women and men, who have debts, is higher than their amount from the population.

Those citizens, which belong to the weaker layers within society and suffer relatively more from debts and financial difficulties, will probably be the ones to get a low credit score in the wake of an absent or negative financial history. The fact that disadvantaged populations are characterized by lower credit scores is clearly understandable, and has also been proved in empirical researche. For example, research conducted by the Federal Reserve Bank in the U.S found that different demographic groups have substantially different credit scores, on average. Therefore, blacks and Hispanics, on average, have lower credit scores than non-Hispanic whites and Asians. Similarly, individuals younger than age 30 have lower credit scores than older individuals. Furthermore, research conducted by the Federal Reserve Bank in the U.S shows that recent immigrants have poorer credit score comparing to the rest of the population, not necessarily because of their financial performance, but rather just because they have poor financial history record (Avery, Brevoort,Canne, 2009).

In summary, the statistical data regarding debts in Israel, so as the empirical findings regarding U.S shows clearly who are the people, which under the credit ranking regime, will have to deal with new financial limitations, and with the creation of a new financial identity. But what is the meaning of this new credit ranking regime for those populations? Our claim is that credit ranking is a policy tool which will either increase the vulnerability of poor populations and minorities to financial difficulties or it will have no positive influence on disadvantaged populations. This claim is supported by two related explanations which will be discussed next.

One of the main, and noncontroversial, purposes of the development of the credit ranking regime was to enhance the access to credit and therefore to promote the financial inclusion in the Israeli society. However, promoting the access to credit has already been a central value of the policy and public agenda of Israelis governments in the past few years. As a result, many policy initiatives have been focusing on extending credit to all segments of the population, and particularly to low income populations and minorities. This policy process is based on the perception of credit as a basic citizen "right", a perception represented by more and more policy makers and bureaucrats in Israel and which also came into expression in the governmental committees discussed in this paper: The Committee for Improving the System for Sharing Credit Data and the Committee for Increasing Banking Market Competition.

Moreover, this process, of "democratization" of credit, is considered an integral part of the development of the capitalist economy, which is characterizes many western countries. This process led to political, economic and cultural changes, and therefore has been extensively studied and researched, precisely in the U.S. The empirical literature focusing on the U.S describes how, since the second half the nineteen century, new financial products and services were offered to social groups that could not previously access formal credit, and as a result, credit was extended to new populations, which are mainly belong to low to middle class (Stavins, 2000; Dick & Lehnert, 2009; Mertens, 2014). More recent evidence emphasizes the shift in regard to access to credit which can be seen in the latest research conducted by the New York Federal Reserve Board (Federal Reserve Bank Of New York, 2016). According to that report, credit card use among people with less-than-stellar credit is on the rise. Furthermore, While the historic rate of people with good credit scores that use credit cards has held roughly steady at 88% over the years, credit card usage among those with "subprime" scores (those below 620 for purposes of the report) has seen significant growth.

Allegedly, this perception concerning credit seems positive, but disproportionate and unlimited access to credit can be harmful, especially to citizens with no financial leverage. . Therefore, it has to be under a strict regulatory supervision and accordingly balanced with policies and regulation that encourage people to save. Unfortunately, it seems like this kind of regulation is absent from the way the financial regulatory system in Israel is developing. The State Comptroller's report from 2015 reveals that there is insufficient regulation on the non-banking financial lenders, and specifically on the non-institutional credit suppliers which have become a real threat to many citizens. Furthermore, the financial regulators do not hold any accurate information concerning the amount of debts taking by households in Israel, regarding the distribution of credit among different group populations, or regarding the risk they produce (State Comptroller, 2015). The absence of a proper regulatory supervision is critical, because a disproportional increase in consumer debts could endanger the financial stability of the whole credit market, and in particular it will expose the lower class populations in Israel who are more sensitive to financial vulnerabilities.

As was explained above, the lack of proper regulatory supervision on the debts market, might increases the vulnerability of disadvantaged populations. But, even with the improvement of the regulatory infrastructure on the credit and debt markets, the credit ranking regime may still not have any positive influence on disadvantaged populations in Israel. The credit ranking regime will not benefit this population so long as they continue to be denied access from the official financial institutions and they continue to be dependent on unregulated institutions from the “gray market”.

According to estimations, households in Israel increasingly rely on “grey market” credit suppliers. Figure 12 shows the results of a survey conducted by the Central Bureau of Statistics. According to its findings, many households indicate they rely on private lenders, employers, and businesses as their main source for credit. Moreover, figure 13 shows that in 2015 the scope of this credit market was 25 billion NISwhich is 4.5% of the entire credit market. With no financial institution supervising them, these credit suppliers do not adhere to any price regulation, and their average interest rate can range from 31.2% to 791.6% Which is significantly higher compare to the prices regulated institutions are allowed to charge. According to the estimations of the governor of the Bank of Israel- Karnit Flug, disadvantaged populations are the main consumers of credit lenders from the “gray markets”(Bank of israel, 2015). Those consumers include: limited consumers, bankrupt, customers without financial backup and borrowers who need fast and fluid money. These people, who usually turn to these kind of institutions to get credit, are rejected by the official banking system, or do not meet its minimal requirements and are therefore dependent on those “grey market” lenders.

Figure 12 - Sources of Credit for Households who have at least one loan - 2012

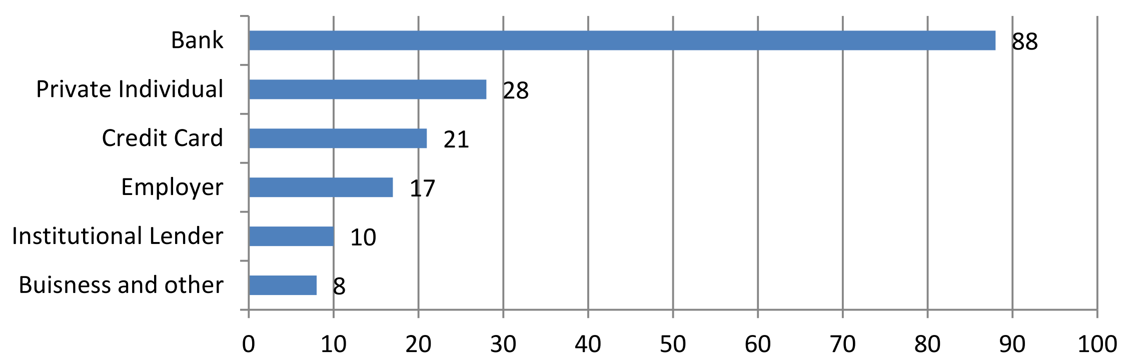
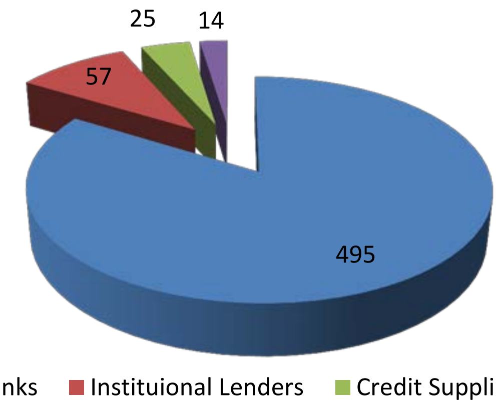


Figure 13 - Credit Provided to the private market in 2015 in millions of NIS



According to the principles of the credit ranking system, the access to the individual's financial information from the database excludes these types of credit lenders, is justified mainly because they are not regulated by any financial regulator and their use of the information can expose their consumer to abuse and misuse. Thereby, the credit ranking regime is practically exclusive of this population, and preserves their exclusion from the mainstream economy. It is clear that for them, the credit ranking regime does not stand to improve their financial condition or won't help them achieve the prices of the financial products they need. With or without the credit ranking regime, the banking system will still reject this population, and their financial future will still continue to be under threat.

7. Conclusions

The Israeli citizenship regime is a multilayered, a polymorphic and a dynamic regime. New dimensions and institutional layers are being added to this regime. One of the most interesting and important of these layers is now being changed, being extended in scope and depth, is the layer of financial identity. It is a long process which has taken place since the 90's and until today. As part of this process citizenship is set as a moving target, a dynamic institution rather than a stagnant one. New rules, hurdles and privileges of citizenship are extended and developed via highly salient political, legal and judicial struggles on the one hand and via more subtle regulatory levels on the other. Much of the literature on citizenship focuses on the political, legal and judicial struggles that are being carried out in the media, courts, the government and the parliament. Still not less important are the regulatory means and struggles where citizenship takes and shape forms by defining economic rights and indeed the boarders between the market and the society.

Our aim was to extend the current discussion on citizenship to the realm of financial governance, in particular governance by credit ranking. So far, with some exceptions, the field of finance is rather removed from the literature on citizenship. Our analysis of 'finalization' and 'financial identity' allow us to understand and conceptualize dimensions of citizenship that are not usually considered by legal or formal approaches. Our understanding of citizenship follows the road taken by Marshal (1950) but instead of grounding it in the "economic" and the "social" our analysis explores the implications of the "financial" in the context of financial capitalism. Here policy officials aim to expand consumer options and promote market competition as a means to economic growth. This policy is consistent with the extension of the credit markets and loan industry and furthermore it strengthens them. Along with the expansion of credit markets, many countries have seen the advent and growth of financial information markets, as a means to increasing competition between lenders and correcting market risks associated with moral hazards and asymmetrical information. This process of individual credit ranking is becoming more crucial and important as it turns into a central policy on the agenda of many countries. The number of credit markets covered by credit reporting systems has almost tripled worldwide over the past two decades (The World Bank, 2013). It is even being discussed on the international level in Europe with the effort to improve the EU landscape of credit reporting systems and to develop a transnational information network in Europe. Nonetheless, the differing interpretations and implementations of the Consumer Credit Directive (2008/48/EC) and the EU Data Protection Directive 1995/46/EC2, seems to impede the development of a transnational network in Europe. However, that is expected to be changed with the new General Data Protection Regulation which recently came into force, and would expect to change the underdeveloped information structure in Europe to grate extant.

This making and remaking of financial information markets, reflects an attempt to maximize profits and control over individuals in society. As part of this process, market actors have created mechanisms that collect, rate and trade financial information about private citizens. In this aggressive and, at times, oppressive regime, citizens are labeled and rated in the name of minimizing financial market risks. However, this often comes at the expense of the social inclusion and opportunities of certain populations, especially minorities. Analysis of the characteristic of disadvantage population, which apparently will get lower credit score as part of the new regime, expose the expected implications this regime will have on them and indicate a real threat to their future. Considering that this financial information is becoming an integral part of our identity, these increasingly relevant issues need to be limited and controlled much more seriously.

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FIGURES