BANK OF ISRAEL

Office of the Spokesperson and Economic Information

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Press Release:

Review of Examination Activity in the Marketing and Management of Revolving Credit Cards

- **Over the past year, the Banking Supervision Department conducted an examination of the marketing and operational practices associated with revolving credit cards in several supervised institutions. Consumer credit services have been a focus of supervisory efforts for several years through regulation, examination, and oversight activities.[1]**
- **A revolving credit card functions as both a payment tool and an open ended credit facility that accrues interest. With standard Israeli credit cards (nonrevolving), the customer is charged the full amount of monthly transactions.[2] In contrast, revolving credit cards require only partial monthly repayment; the unpaid portion accrues interest and is added to the outstanding debt.**
- **Revolving credit serves as an additional financing option for customers. It may supplement or replace a bank account overdraft facility, depending on customer needs. It can be useful for those seeking extra credit, experiencing fluctuating incomes and expenses, wanting to reduce their monthly bank account charges for a period or in other circumstances.**
- **As of September 2024, the total revolving credit card balance stood at NIS 6.2 billion, about 4.6 percent of all nonhousing consumer credit issued by banks and credit card companies. Over 90 percent of revolving credit is issued by credit card companies, with the remainder issued by banks.**
- **Both revolving credit and overdraft limits represent flexible credit services with no fixed repayment schedule (hereinafter: "flexible credit"). Due to the uncertainty regarding the amounts and timing of credit usage and repayment, flexible credit is generally priced higher, meaning interest rates are typically higher than those for structured repayment loans.**
- **Revolving credit cards are common in many countries including the US, UK, Canada, Italy, Spain, and Singapore, where usage is significantly more widespread than in Israel. Data from US, UK and Canada indicates that interest rates on such services tend to be higher than in Israel, and that, as in Israel, flexible credit carries higher rates than structured repayment loans.**

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[1] Previous publications on the Bank of Israel website; Directive A311 on the subject of consumer credit marketing and management, etc.

[2] Unless he sought to repay certain transactions through a "*credit*" transaction (which is an interest-bearing loan for a specified period) or it is a "*payments*" transaction which constitutes interest-free facility.

- **This report outlines the key findings from the Banking Supervision Department's review, summarizing the requirements communicated to supervised institutions involved in revolving credit card marketing.[3] These requirements aim to improve the sales process, clarify service terms and informed usage, and enhance post-enrollment service management. Given the service's features and higher cost to customers, it is crucial that customers fully understand the product, match it to their needs, and use it wisely. The outlined "Do's and Don'ts" should serve as the foundation for training and periodic instruction of representatives involved in the marketing and servicing of these products.**
- **Based on the findings, the Banking Supervision Department is currently evaluating whether specific regulatory measures are needed for this sector.**
- **The report also includes consumer tips for responsible use of credit services in general and revolving credit cards in particular.**

What Is Revolving Credit?

1. With standard Israeli credit cards (nonrevolving), the customer is billed monthly for the total transaction amount[4]—although this includes an implicit short-term credit from transaction to billing date, no interest is charged.[5] With revolving cards, only a portion of the total is paid monthly, and the remainder accrues interest from the billing date onward. This process continues monthly, and the unpaid balance may grow, within the credit limit, if only partial payments are made.
2. Revolving credit provides an additional or alternative form of credit to bank loans and overdrafts. It suits customers seeking extra credit access, those with variable cash flows, or those wishing to reduce their monthly bank account charges for a period.
3. Today, revolving credit is marketed under various branding names such as "fixed charge service" or "fixed charge cards." It may be activated at the time of card issuance or later, by modifying the card's billing terms from full to partial monthly payment with interest on the balance.

Revolving Credit vs. Overdrafts

4. Both overdraft facilities and revolving credit feature no amortization schedule and offer the customer significant flexibility in borrowing and repayment (open end credit). These differ from term loans with defined payment schedules (closed end credit).

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[3] The findings and requirements are referred to in the document in an aggregate manner and do not reflect the actual situation in any particular body.
[4] Unless he sought to repay certain transactions through a "*credit*" transaction (which is an interest-bearing loan for a specified period) or it is a "*payments*" transaction which constitutes interest-free facility.
[5] These cards are also known as deferred debit cards.

5. Revolving credit shares many characteristics with bank overdrafts but is not identical:

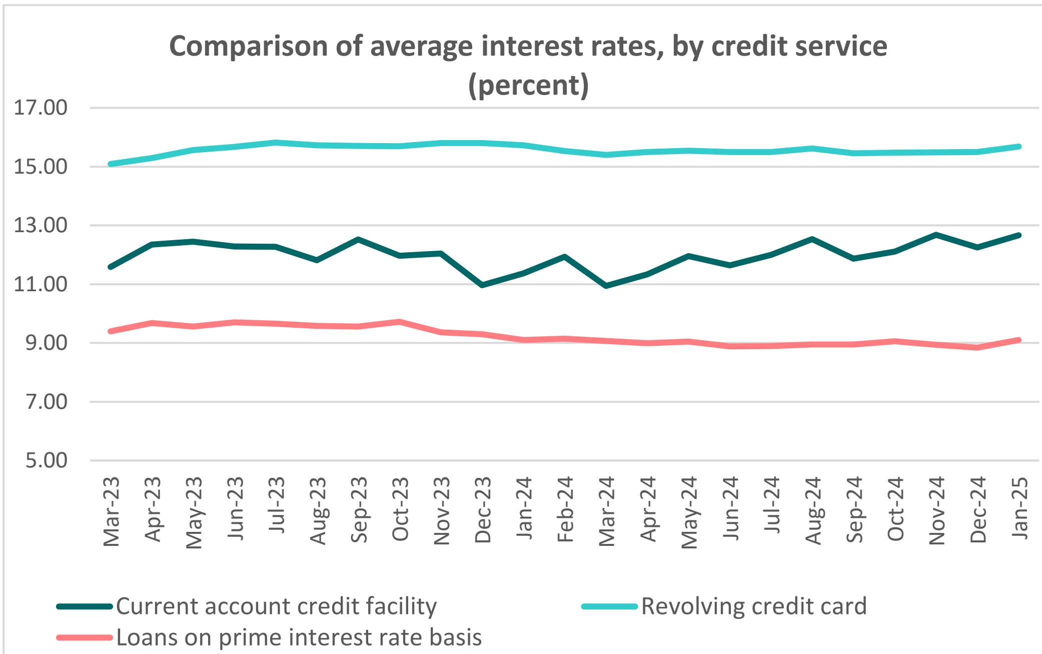
	Current account credit facility	Revolving credit card
Period	Neither is limited by time	
Dates to take out and to repay	Neither has an amortization table and both are flexible in terms of the date to take it out and to repay—subject to the amount of the credit facility, it is possible to take credit and to pay it back in accordance with the customer's needs.	
	Repayment is possible at any time with no fee.	On a credit card, for a repayment that is not on the repayment date, an early payment fee of up to NIS 40 may be charged.
Repayment	Any amount that enters the account repays the negative balance and reduces the debt.	If there is no other active instruction from the customer, the repayment is the minimum amount or the amount that was set by the customer, which could be lower than the total transactions carried out that month.
Interest rate	The interest rates in general are relatively high compared to loans—see the comparison below.	
Interest rate charges	Calculated from the date that the balance turns negative, for the days in which the account has a negative balance.	Calculated on the unpaid balance, beginning from the date of the monthly payment. Interest does not accrue during the month in which the transaction is conducted.

6. Approximately 87 percent of interest-bearing consumer credit (excluding housing) from banks and credit card companies consists of term loans, while only about 13 percent is flexible credit (revolving credit and overdrafts). Revolving credit card balances account for roughly 4.6 percent of total consumer credit. Over 90 percent of this credit is issued by credit card companies, with the rest provided by banks.

Cost of Revolving Credit

7. The distinction between term loans and flexible credit (overdraft limit or revolving credit) is significant and important. Due to the uncertainty in borrowing amounts and repayment timing, flexible credit tends to be more expensive both in Israel and globally.

8. Bank of Israel data shows the average interest rate on revolving credit is higher than for overdraft facilities—see chart in original bellow. This pattern has held since the beginning of data publication in 2023. The average interest rate on variable-rate prime-based loans is lower than that for overdrafts and revolving credit. Reviews from the US, UK, and Canada[6] show that revolving credit rates are significantly higher than structured consumer loans, and rate gaps are wider than those seen in Israel.



How Is Revolving Credit Repaid?

9. Monthly repayment is either a customer-chosen amount or a minimum set by the card issuer—typically less than the total monthly transaction amount. Unpaid balances accrue interest. If monthly repayments are low and usage remains consistent, the debt grows and continues to accrue interest.

10. Credit card companies notify customers via SMS of the upcoming total billing amount and offer the option to adjust the monthly repayment. However, examinations found that over 80 percent of customers remain passive and do not alter their repayment amount, leading to growing interest-bearing debt, extended

[6] For a data as of November 2024:
FRS, Consumer Credit – G.19
https://www.bankofengland.co.uk/statistics/visual-summaries/quoted-household-interest-rates
https://www.bankofcanada.ca/rates/banking-and-financial-statistics/interest-rates-for-new-and-existing-lending-by-chartered-banks
In the United States, the average interest rate on revolving credit cards is about 22%, in the United Kingdom, the interest rate on revolving credit cards is about 25%, and in Canada, it is about 21%. In these countries, the average interest rate on revolving credit cards is significantly higher than the interest rate on fixed-term consumer loans.

repayment periods, and increased total interest payments. This chronic debt rollover may also be observed in overdraft usage.

Revolving Credit—International

11. Revolving credit cards are not unique to Israel. They are widespread in many countries including US, UK, Canada, Italy, Spain, and Singapore—in some of them with significantly higher usage than in Israel. For example, as of the end of 2023, credit cards revolving balances made up about 24 percent of US consumer credit, compared to 4.6 percent in Israel.[7] Flexible credit is also more prevalent in the US than in Israel.
12. In Israel, overdraft facilities are the main flexible credit tool. In some of the other countries, such as the US and UK, revolving credit cards are the primary flexible credit instrument.
13. In Israel, credit card payments are typically collected via automatic debit, which may contribute to passive behavior in relation to the monthly payed amount. In other countries, manual payments upon receiving a monthly statement were common in the past, though there is a gradual shift toward automatic payments globally. Nonetheless passive repayment behavior—particularly paying only the minimum requested by credit card company—is also observed in markets where payment is largely done by sending a statement to the customer.

Key Requirements for Supervised Institutions

14. Given the characteristics of revolving credit described above, the Banking Supervision Department requires stronger measures to ensure customers properly understand the service, its appropriateness to their needs, and that they understand that passive repayment of small amounts will result in rapid accumulation of debt and high interest charges.
15. The Banking Supervision Department requested that supervised entities must implement significant changes to the marketing process that would improve customer understanding of the service. Service providers were required to refine the messages in the marketing process to increase customer understanding of the service's features and the behavior required of them to use the service as correctly as possible.
16. During the marketing process, all supervised institutions must:

    16.1. Offer a range of credit options, not just revolving credit, and tailor the product to customer needs. The revolving credit should be proposed to customers who indicate certain needs that the revolving credit may meet.

[7] https://www.federalreserve.gov/econres/notes/feds-notes/a-note-on-revolving-credit-estimates-20240614.html

16.2. Separate the process of card issuance or other service requests from offering revolving credit. Representatives must clearly state that the purpose of the call is to offer a credit service.

16.3. Explicitly state that the service is a revolving credit facility with interest. Marketing names like "fixed charge" are misleading.

16.4. Disclose the annual interest rate early in the conversation, before customer agreement. Numerical examples are insufficient; the exact annual rate must be provided upfront.

16.5. Improve oversight of sales calls, avoiding problematic practices such as pressuring customers, offering unsolicited advice, or repeated persuasion. Measures include strict scripting, compliance-focused incentives, staff training, and robust monitoring.

16.6. Avoid offering temporary interest rate benefits (e.g., 3 or 6 months), especially after the customer has accrued interest-bearing debt. Interest rates should remain constant throughout the service period (aside from prime rate changes).

17**.** Even after the customer has joined and during the period in which the service is managed, the supervised entities were required to make significant updates:

17.1. For some revolving credit cards, it was defined that all additional services on the card, such as a loan, converting a transaction to "credit", or cash withdrawal, would be added to the revolving balance and would bear interest. The requirement of the Banking Supervision Department is to allow customers the option to repay such additional services outside the revolving credit mechanism of the card, so that they do not incur additional interest. Customers may choose to repay the additional services via the revolving credit card only after receiving proper explanations regarding the implications of such a choice.

17.2. It is prohibited to approve a permanent increase in the credit limit without the explicit consent of the customer. The only exception is the unilateral provision of a low amount of credit for a short period during a transaction at a business in order to allow the customer to complete the purchase.

17.3. Supervised entities must develop methods to deal with customers who remain passive over extended periods, by implementing tools designed to ensure a reasonable reduction of debt (for example, by updating the minimum payment, providing adequate explanations on the need to act proactively, and adjusting the monthly repayment amount to match the customer's repayment ability, etc.).

17.4. Improve disclosure regarding the amounts charged to customers for revolving credit services and other credit services in the monthly statement sent to the customer.

18**.** The "Do's and Don'ts" guidelines detailed below by the Banking Supervision Department should serve as the basis for training and periodic instruction of representatives from the supervised entities who are involved in marketing and customer service.

Marketing revolving credit	
☑ **Do's:**	☒ **Don'ts:**
☑ Clarify to the customer that the goal of the conversation is to offer credit.	☒ Avoid offering credit camouflaged in marketing terms such as "control tool", "fixed charge" etc.
☑ Clarify what the goal of the credit is, and align the credit offer with the customer's needs.	☒ Do not proactively market a specific credit service while ignoring the customer's need. The service should be aligned with the needs of the customer.
☑ Call the service "revolving credit", and explain to the customer clearly what that is.	☒ Avoid proactively marketing credit if your sense is that the customer does not understand the service or does not understand the language.
☑ Clarify the terms of the service, particularly the annual interest rate accrued on the service, as early in the conversation as possible.	☒ Do not only rely on a numerical example of the cost in shekels per month.
☑ Explain to the customer the significance of the total revolving amount and its impact on the interest rate charges.	☒ Avoid placing pressure or urging the customer to consent to the credit service.
☑ Explain to customers that their active conduct, and an increase in the monthly payment in line with the customers' ability, reduces the interest charges.	☒ Do not offer credit services (or other services) before dealing with the customer's requested service.

Advice and Tips for the General Public

19. The Banking Supervision Department also publishes useful tips for customers when choosing credit services in general and revolving credit services in particular. Among other things, the Department encourages consumers to make informed financial decisions regarding the various credit solutions, taking into account the different costs associated with each type of credit. It is advisable to use solutions like credit lines and revolving credit more moderately—these are generally designed to provide flexibility in managing ongoing expenses and income. When possible, it is preferable to opt for loans, which typically come at a lower cost—provided that the customer is cautious and does not accumulate loans beyond what is necessary.

20. Credit frameworks, including revolving credit cards, may be an effective solution for the situations described—if the debt does not become chronic, as it accumulates high interest rates. Therefore, customers must adopt proactive behavior: monitoring their debt balance and reducing or repaying it from available sources or by using lower-cost credit alternatives.

21. The Banking Supervision Department encourages the public to examine various alternatives, and to enquire about the annual interest rate—the key figure for comparing credit solutions. For this purpose, customers can use the average interest rate comparison tool available on the Bank of Israel website to evaluate the offers presented by banks and credit card companies, and to choose institutions offering better terms.

Advice and tips for customers
1. Loan, overdraft facility, or revolving credit?
Choose the type of credit based on your needs. Remember that in most cases the interest rate on loans is lower than on an overdraft facility, or a revolving credit card.
2. Clarify the annual interest rate
This is the most important figure in the entire credit transaction. Don’t just follow the various benefits or campaigns on the card or account.
3. Compare interest rates and save money
Don’t be enticed by the first credit offered to you by a sales representative. Take your time, checks additional options, and compare the terms.
4. Repay the entire balance and avoid interest payments
Pay attention to the monthly SMS notice you are sent before the revolving credit card payment date, and find the balance to pay. Check also the balance in the overdraft facility and reduce it to the extent possible.
5. It pays to be active
You can increase or decrease the monthly payment on a revolving credit card in accordance with your need. The more you increase the monthly payment amount, to the extent possible, the more you will save on interest expenses.
6. Do you want to “revolve” loans or cash withdrawal?
Check if you are revolving, through the card, other services as well, such as the repayment amount on loans that you took out through a credit card company, and even cash withdrawals. Remember, these amounts are added to the loan balance and accrue interest.