

CHAPTER XVIII

SOCIAL INSURANCE FUNDS AND INSURANCE COMPANIES

I. SOCIAL INSURANCE FUNDS

1. SAVING

SAVINGS ARE ACCUMULATED in pension, provident, and severance pay funds for three distinct purposes:

(a) To provide pensions for workers reaching retirement age. The pensioner generally receives a monthly payment which bears a defined relation to his final salary, the number of years that he worked, and the number of years that he was a member of the pension fund.

(b) To compensate employees leaving their jobs. They receive, in the form of a lump-sum payment, the entire amount accumulated to their credit from their own contributions and from those of their employer, as well as their share of the profits and the linkage increments accumulated in the fund.

(c) To provide severance pay for employees who have been dismissed from their job or who have resigned under circumstances that legally entitle them to receive severance pay. The severance pay funds, to which only employers contribute, are mainly of two types: those established by banks and insurance companies and those operated by central pension funds. In the independent severance pay funds money accumulates to the credit of the employer, who must provide full severance pay whether or not a sufficient sum stands to his credit.¹ An employer who contributes to the second type of fund has no claim on the money which he has paid in, but on the other hand the fund assumes full responsibility for severance payments.

The different purposes for which money is accumulated in the social insurance funds influence the pattern of the accumulation and the problems facing the funds. Provident funds are simply savings institutions: they must invest the savings of their members judiciously, but they do not have the problems of insurance companies.

On the other hand, severance pay funds, and particularly pension funds, do have such problems, for their obligations to their members are contingent on

¹ Employers accumulate assets in severance pay funds in order to benefit from income tax concessions. There is nothing preventing them from building up a severance pay fund of their own.

future developments. They have to make an exact actuarial calculation in order to ensure that the sums accumulating will suffice to cover liabilities that will arise in the distant future. The problems facing pension funds are actually much greater than those facing life insurance companies: they must take into account not only life expectancy but also changing wage patterns, since their liabilities are determined according to the member's wage at the time of his retirement. (This also makes the linkage problems of the pension funds more complicated than those of the insurance companies.)

The importance of the actuarial aspect can be understood against the background of the gradual transition in recent years from provident arrangements to pension arrangements, as is brought out in Table XVIII-1. The funds have no difficulty meeting their current liabilities, since pensioners constitute less than 5 percent of their total membership, but they must ensure that a sufficient reserve is accumulated in anticipation of the period when the number of pensioners will reach 18-20 percent of their total membership.¹ Moreover, the funds' liabilities are linked, and they must see to it that their assets are also linked.

Table XVIII-1
COMPOSITION OF SOCIAL INSURANCE FUNDS, 1958-65
(percentages)

	1958	1959	1960	1961	1962	1963	1964	1965*
Pension fund	40.3	44.8	46.2	47.3	46.0	46.0	46.5	47.2
Provident fund	37.6	32.1	30.4	29.4	29.8	28.6	27.2	25.8
Severance pay fund	9.0	9.7	10.8	11.2	11.6	12.1	12.6	13.5
Other funds and liabilities	13.1	13.4	12.6	12.1	12.6	13.3	13.7	13.5
Total liabilities	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* Estimate.

2. ACCUMULATION AND SAVING

Total assets of the social insurance funds came to IL 1,596 million at the end of 1965 (not including revaluation), as compared with IL 1,303 million at the end of 1964; this is an increase of IL 293 million, or 23 percent, as against IL 266 million, or 26 percent, the year before.

The addition of revaluation increments, which were actually calculated in only part of the funds, brings the asset figure up to IL 1,726 million at the end of 1965 (IL 1,423 million at the end of 1964).

¹ This is the percentage of pensioners in veteran pension funds abroad.

Table XVIII-2

ASSETS AND ANNUAL ACCUMULATION OF SOCIAL INSURANCE FUNDS, 1962-65

(IL million)

Year	Assets at end of year, excl. revaluation	Assets at end of year, incl. revaluation ^a	Percent increase in total assets ^b	Annual accumulation ^b	Percent increase in accumulation
1962	811	849	28.5	180	38.5
1963	1,037	1,089	27.9	226	25.6
1964	1,303	1,423	25.7	266	17.7
1965	1,596	1,726	22.5	293	10.2

^a Only part of the funds revalued their assets.^b Excluding revaluation increments.

SOURCE: Ministry of Finance, National Saving Commissioner.

Accumulation represents the difference between the funds' receipts—from employees' and employers' contributions, as well as from income from investments and realized capital gains—and payments to withdrawing members and current expenses. Total contributions to the funds expanded from IL 255 million in 1964 to IL 317 million in 1965, i.e. by 25 percent (about two-thirds of this sum consisted of employers' contributions). This increase was due to three factors:

(a) An 8-10 percent rise in average monthly earnings per employee (apart from Government employees, who do not belong to social insurance funds).

(b) The changeover from provident to pension schemes,¹ which involves a higher contribution rate.

(c) A moderate growth in the funds' membership: total membership at the end of 1965 is estimated at some 520,000 (3 percent more than in 1964); of this number, nearly 350,000 belong to pension funds.

Income from investments went up to nearly IL 104 million in 1965—IL 21 million, or 25 percent, more than in 1964. The average return on the funds' assets rose to 7.1 percent in 1965, compared with 6.5 percent in 1962-63 and 7.0 percent in 1964. This improvement was apparently connected with the decline in the percentage of low-yielding assets held by the funds. Loans to members and employers' debts accounted for 25 percent of the funds' assets in 1962, but less than 20 percent at the end of 1965.

Realized capital gains totalled only IL 20 million in 1965, in contrast to IL 32-33 million in the two preceding years. This change is not of great

¹ This changeover began several years ago and will be stepped up in the wake of the 1965 collective labor agreement between the Histadrut and the Manufacturers' Association. Contributions to provident funds generally amount to 6-8 percent of the employees' wages, while those to pension funds reach 14-16 percent.

significance in itself—much greater significance attaches to the appreciation of investments as a result of value-linkage arrangements. Full details on developments in this sphere—which will determine the funds' capacity to meet future obligations—were not available at the time of this report.

Payments to present and withdrawing members rose appreciably in 1965, to IL 128 million, or 45 percent more than in 1964 (the 1964 total—IL 88 million—was 34 percent higher than in 1963). This increase in payments was an important factor in the slower accumulation during the year reviewed. It resulted from both a rise in the number of recipients of pension and provident payments and from the larger per capita payments, which are partially linked to the cost-of-living index. Payments to members in 1962 totalled IL 53 million, or some 80 percent of the funds' total income (including capital gains) that year. In both 1963 and 1964 payments to members were also less than income from investments and capital gains—a situation that changed in 1965 (see Table XVIII-3).

Table XVIII-3

ANNUAL ACCUMULATION OF SOCIAL INSURANCE FUNDS, 1962-65

(IL million)

	1962	1963	1964 ^a	1965 ^b
Employees' and employers' contributions	177.2	212.9	254.5	317.4
Interest and other income on investments	47.2	59.4	82.9	103.7
Realized capital gains	19.5	32.1	32.8	20.2
Less:				
Benefit payments ^c and withdrawals	53.0	65.6	88.1	128.1
Current expenses	11.0	13.0	16.1	20.2
Total accumulation	179.9	225.8	266.0	293.0

^a Revised figures.

^b Estimate.

^c Pension, provident, and severance payments, as well as other social benefits.

SOURCE: Ministry of Finance, National Saving Commissioner.

Net household saving through these funds reached IL 217 million in 1965, as against IL 195 million in 1964—a growth of only 11 percent. The household saving figure is obtained by subtracting from the annual accumulation

the increase in outstanding loans to members, realized capital gains, and the incremental assets of the central severance pay funds.¹

Despite the slower growth of household saving through social insurance funds, this item was still the largest component of its incremental financial assets. For many employees their contractual saving through provident and pension funds is their main or only form of saving. Nevertheless, saving surveys have shown that this form of saving in many instances does not substitute for other forms but complements them.

3. BALANCE SHEET DEVELOPMENTS

(a) *Assets*

Social insurance funds enjoying income tax concessions are obligated to invest 80 percent of their assets in "approved investments".² The uptrend in the weight of securities among total assets, which had been evident for several years, carried over through the year reviewed, the figure reaching 71.2 percent as against 64.8 percent at the end of 1963. The overwhelming share of these securities are on the list of approved investments. Other approved investments, mainly special deposits in banking institutions and in Gmul Ltd. (the investment agent of the social insurance funds), are gradually disappearing from the consolidated balance sheet.

The extension of approved investments in November 1964 to include the majority of common stock listed on the Stock Exchange had little bearing on the investment portfolio of the funds. They hardly exercised their right to invest up to 5 percent of their total assets, excluding employers' debts, in common stock. There were some who hoped that the acquisition of common stock by the funds would help to revive the stock market, but apparently the depressed state of the market deterred them from investing in equities.

The two main asset items after approved investments are loans to members and employers' debts. Members' loans totalled IL 192 million at the end of 1965, as compared with IL 163 million at the end of 1964, but their relative weight in total assets edged down from 12.5 to 12 percent. This reflects the influence of the regulations, issued at the end of 1963, which obligate the funds to invest 80 percent of their assets in "approved investments", as compared with 75 percent previously.

¹ Accumulation through severance pay funds is not regarded as part of household saving, since households have no claim on the money paid in. On the other hand, the sums accumulated in provident and pension funds from employers' contributions are regarded as part of household saving.

² Approved investments include: (a) securities issued or guaranteed by the Government, or those for which tax concessions are provided under the Law for the Encouragement of Saving; (b) shares or debentures of public companies that have been approved by the Minister of Finance; and (c) shares acquired through the conversion of approved debentures.

ASSETS AND LIABILITIES OF SOCIAL INSURANCE FUNDS, 1962-65

	IL million				Percent			
	1962	1963	1964 ^a	1965 ^b	1962	1963	1964 ^a	1965 ^b
Assets								
Cash and demand deposits	7.6	7.9	9.3	11.5	0.9	0.8	0.7	0.7
Special deposits in banks	44.8	25.4	19.4	14.6	5.5	2.4	1.5	0.9
Other time deposits in banks	8.4	10.0	12.7	15.3	1.1	1.0	1.0	1.0
Deposits in Gmul Ltd.	45.5	30.9	28.0	22.0	5.6	3.0	2.1	1.4
Securities, at cost	462.3	671.9	896.5	1,136.4	57.0	64.8	68.8	71.2
Loans to members	125.2	144.5	163.3	191.7	15.4	13.9	12.5	12.0
Employers' debts	72.5	82.4	95.3	112.9	8.9	7.9	7.3	7.1
Loans to business enterprises	9.8	12.8	18.0	21.3	1.2	1.2	1.4	1.3
Real estate	26.8	34.0	40.4	45.9	3.3	3.3	3.1	2.9
Miscellaneous ^c	8.5	17.4	20.3	24.6	1.1	1.7	1.6	1.5
Total assets	811.4	1,037.2	1,303.2	1,596.2	100.0	100.0	100.0	100.0
Revaluation increment	37.8	51.9	120.0	130.0	—	—	—	—
Grand total	849.2	1,089.1	1,423.2	1,726.2	—	—	—	—
Liabilities								
Pension fund	372.8	476.3	607.0	752.6	46.0	46.0	46.5	47.2
Provident fund	241.9	297.0	354.4	412.6	29.8	28.6	27.2	25.8
Severance pay fund	94.3	125.5	163.9	215.5	11.6	12.1	12.6	13.5
Various social benefit funds ^d	47.0	65.4	89.9	103.8	5.8	6.3	6.9	6.5
Investment realization fund	12.1	20.0	29.7	39.9	1.5	1.9	2.3	2.5
Balance of profit and loss account and reserve fund	17.4	21.4	23.0	30.3	2.1	2.1	1.8	1.9
Creditors ^e	25.9	31.6	35.3	41.5	3.2	3.0	2.7	2.6
Total liabilities	811.4	1,037.2	1,303.2	1,596.2	100.0	100.0	100.0	100.0
Revaluation increment	37.8	51.9	120.0	130.0	—	—	—	—
Grand total	849.2	1,089.1	1,423.2	1,726.2	—	—	—	—

^a Revised figures.

^b Estimate.

^c Mainly life insurance and interest owed.

^d Special aid, rehabilitation, sickness, etc.

^e Mainly past members.

SOURCE: Ministry of Finance, National Saving Commissioner.

Employers' debts went up from IL 95 million at the end 1964 to IL 113 million at the end of 1965, but dropped in weight from 7.3 percent of total assets to 7.1 percent. The relative decline in this item in recent years is also attributable to the aforementioned regulation on approved investments, as well as to the Treasury regulation requiring employers who fall behind in meeting their obligations to the social insurance funds to pay interest and even a fine on their outstanding debt. As a result of this pressure on the funds and employers, some of the central funds made arrangements with their main debtors for the settlement of outstanding liabilities.

(b) *Liabilities*

As already mentioned, the pension and severance pay funds have been growing relatively more important in recent years, at the expense of the provident fund.

The pension fund, which reached IL 753 million at the end of 1965 (a rise of IL 146 million over the end of 1964), accounted for more than 47 percent of total liabilities.

The provident fund, which stood at IL 413 million at the end of 1965 (IL 58 million more than in the previous year), constituted about 26 percent of total liabilities, compared with over 27 percent in 1964.

The severance pay fund, which amounted to only IL 216 million at the end of 1965, grew during the year to almost the same extent as the provident fund (IL 52 million), bringing up its weight in total liabilities to 13.5 percent.

It should be pointed out that the weights of the aforementioned funds are liable to change somewhat when they are credited with their share of the asset revaluation fund, which is presently being administered separately (a partial estimate of this fund at the end of 1965 is IL 130 million).

4. MONEY FLOWS, BY SECTOR

(a) *Receipts*

Total net receipts of the funds reached IL 295 million in 1965, a rise of IL 27 million over the previous year. This sum (see Table XVIII-5) differs slightly from the accumulation (see Table XVIII-3), since the "balance of payments" of this subsector does not include part of the profits of Gmul Ltd.¹

Over 90 percent of the funds' receipts are from households. This figure includes not only the contributions of the employees and self-employed themselves, but also the amounts contributed by employers on behalf of their

¹ Part of the profits of Gmul Ltd., which acts as the investment agent of the social insurance funds, are not distributed but are used to increase its own resources.

personnel. These contributions, like the other income of the funds, accrue to the credit of households and they are therefore defined as household saving. The sums (IL 27 million in 1965) accumulated in the central severance pay funds run by a number of banks and insurance companies are defined as receipts from business firms. They are credited to the employers and consequently are regarded as part of business saving.

In 1964–65 there was a considerable increase in the assets of the central severance pay funds (and therefore in this subsector's receipts from the business sector). One of the factors responsible for this development was the Severance Pay Law of 1963. Aggregate assets of the central severance pay funds grew from IL 41 million at the end of 1963 to IL 60 million at the end of 1964 and IL 87 million at the end of 1965.

(b) *Payments*

Total investments by the funds, including those made through Gmul Ltd., reached an impressive IL 295 million in 1965. These funds are the largest buyers in the bond market. Of the total issue amount of IL 285 million (not counting the Government Short-Term Loan), they took up IL 256 million worth.

At the same time it should be remembered that the funds' policy regarding the selection of investments and their sectorial distribution are largely determined by the Government, through its regulations on approved investments and its approval of the issue of securities purchasable by the funds. Under an agreement between the Ministry of Finance and the Histadrut, the funds are authorized to make about half of their approved investment in debentures of Histadrut enterprises; most of the remainder is invested in other bonds.

Investments in the public sector and public sector companies declined from IL 84 million in 1964 to IL 75 million in 1965, bringing down their weight from 31 percent of total payments to about 25 percent.

IL 134 million went to banking and financial institutions in 1965, and their share of total investments remained at about the 1964 level (approximately 46 percent). A considerable portion of the amount going to financial and banking institutions is invested in financial institutions of Hevrat Ovdim, the Histadrut holding company, under the aforementioned arrangement between the Ministry of Finance and the Histadrut.

Credit extended to private business totalled IL 46 million in 1965, as compared with IL 36 million in 1964. The amount lent to households and nonprofit institutions was also higher in 1965—IL 35 million as against IL 22 million the year before.

It should be noted that there is considerable pressure on the part of households for credit. Loans to members are in many instances given without linkage

Table XVIII-5

"BALANCE OF PAYMENTS" OF SOCIAL INSURANCE FUNDS AND GMUL LTD., 1962-65^a

(IL million)

Receipts	1962	1963	1964 ^b	1965 ^c		Payments	1962	1963	1964 ^b	1965 ^c	
				IL m.	%					IL m.	%
From households (incl. employers' contributions)	167.0	213.0	249.0	268.3	90.9						
From private business	13.1	16.2	19.3	26.7	9.1						
						Loans					
						To public sector and public sector companies	56.7	88.9	84.0	74.9	25.4
						To financial and banking institutions	56.6	72.3	120.6	133.9	45.4
						To households and nonprofit institutions	22.6	20.6	21.8	34.8	11.8
						To private business	39.7	40.2	35.5	45.9	15.5
						Real estate investment	4.5	7.2	6.4	5.5	1.9
Total ^d	180.1	229.2	268.3	295.0	100.0	Total	180.1	229.2	268.3	295.0	100.0

^a Excluding revaluations of assets^b Revised figures.^c Estimate.^d The discrepancy between total receipts shown in this table and the annual accumulation in Tables XVIII-2 and XVIII-3 stems from the fact that part of Gmul's profits are not transferred to the funds, but are used to augment its resources.

and at easy terms.¹ The fact that the growth of this type of credit—and of credit to business in the form of employers' debts—was of modest proportions is attributable to the regulations on approved investments.

II. INSURANCE COMPANIES

The life insurance fund expanded in 1965 by IL 29 million, or 23 percent, reaching IL 140 million. This fund, which constitutes some 38 percent of the insurance companies' total liabilities, represents the accumulated savings of households in the form of insurance. As in previous years, most of the accumulation was invested in Government and Electric Corporation bonds—IL 11.7 million in the former and IL 14.7 million in the latter. In 1964, IL 15.4 million of the IL 22 million accruing to the life insurance fund was invested in these bonds.

Premium receipts from life insurance rose by 21 percent to IL 49 million. About a third of this sum went into the life insurance fund, in addition to IL 12.6 million earned on investments.

Life insurance in Israel has not yet achieved the same importance as an instrument for saving that it has in more developed countries, but it is rapidly gaining in significance. In the last five years the annual accumulation has increased 5.2 times in nominal terms and 3.7 times in real terms.²

In addition to life insurance, the companies sell general insurance, which provides coverage against ordinary risks and has no element of saving. It includes automotive insurance, insurance against fire and theft, and marine insurance. Income from such business increased in 1965 by 23 percent, reaching IL 180 million. About half of this sum was transferred to reinsurers abroad.

In 1965 there were 81 insurance companies operating in Israel; of these, 28 were Israeli and 53 foreign. There were also 19 Lloyd's agents. The foreign companies and the Lloyd's agents deal mainly in general insurance, their share of aggregate premium receipts in this branch amounting to about 28 percent. Only six foreign companies sell life insurance; their share of total premium receipts from this type of insurance came to only 10 percent in 1965. The 28 Israeli companies display a marked divergence in size—the six largest firms account for 65 percent of premium income and some 70 percent of aggregate assets of the sector.

1. LIFE INSURANCE

(a) *General developments*

During 1965 the insurance companies issued approximately 20,000 linked life insurance policies, with a total value of IL 290 million; this represented an

¹ The proposal to subtract nonlinked loans to members from the amount of linked saving credited to their accounts has not yet been put into general operation.

² I.e. allowing for the rise in the consumer price index.

increase of 43 percent in the number of policies and 48 percent in their value. The gross increase in the number of persons holding severance pay insurance fell from 14,000 in 1964 to 11,000, and the gross value of incremental policies from IL 90 million to IL 55 million. The linked life insurance portfolio¹ rose by IL 225 million, or 33 percent, to IL 913 million. While this was a substantial increase, it represented a continuation of the declining growth rate in evidence since 1961.

The share of the dollar-linked life insurance portfolio moved down still further in 1965, to stand at 10 percent of total life insurance in force. This is attributable to the fact that dollar-linked life insurance has not been issued since the 1962 devaluation, and also to the surrender of policies. The number of index-linked policies rose by some 40 percent in 1965, to IL 818 million. In May 1965 a new insurance scheme was introduced, and by December 3,550 policies, valued at IL 53.2 million (IL 15,000 per policy), had been issued.

The total value of nonlinked life insurance in force advanced to IL 882 million; this was an increase of about 10 percent, a slower rate than in previous years. Purchases of group insurance by institutions and enterprises on behalf of their employees account for a large percentage of the nonlinked life insurance

Table XVIII-6
LIFE INSURANCE IN FORCE, 1959-65
(IL million)

Year	Total amount at end of year	Linked insurance		Nonlinked insurance	Ratio of linked insurance to total insurance (%)
		Linked to consumer price index	Linked to the dollar		
1959	256.0	59.3	28.7	168.0	34.3
1960	304.0	89.6	45.1	169.3	44.3
1961	406.5	128.0	73.6	204.9	49.6
1962	632.3	201.0	119.3	312.0	50.7
1963	1,048.5	375.7	109.8	563.0	46.3
1964	1,489.6	586.3	101.8	801.5	46.2
1965*	1,794.4	818.1	94.6	881.7	50.9

* Estimate.

SOURCE: Ministry of Finance, Superintendent of Insurance.

¹ Including severance pay insurance but excluding pension insurance.

portfolio. Group insurance is principally term insurance, which pays the beneficiary a certain sum in case of the death of the insured within a specified period. Unlike linked life insurance, which contains an element of saving, most non-linked insurance is essentially a form of risk insurance, like general insurance.

(b) *Investment of linked insurance funds*

The companies selling life insurance (23 in 1965) are obligated by law to invest at least 20 percent of their life insurance funds and at least 35 percent of their paid-up share capital in Government or Government-guaranteed securities. In 1965 they invested IL 14.7 million in Electric Corporation debentures and IL 11.7 million in Government bonds—a total of IL 26.4 million, in contrast to IL 15.4 million the previous year. The total investment of life insurance funds in these securities amounted by the end of 1965 to IL 78.3 million, of which IL 50 million was in Electric Corporation debentures. These bonds, which bear 6 percent interest and are linked to the consumer price index, have very long maturities (up to 40 years), thus enabling the insurance companies to issue linked insurance policies for a similar period.

(c) *Income and outgo of the life insurance branch*

1. *Income*

Income of the life insurance companies operating in Israel rose in 1965 by IL 10.4 million, or 22 percent, to a total IL 57.6 million. Earnings from life insurance have displayed a slower growth trend in recent years, together with the slower expansion of the life insurance portfolio.

About 85 percent of the IL 57.6 million income in 1965 came from premium receipts, while interest on investments accounted for the remainder. The profit and loss account was also credited with IL 4 million stemming from the appreciation of investments and from realized capital gains.

2. *Outgo*

Benefits paid to policyholders were 24 percent greater in 1965, reaching IL 15.5 million, or 27 percent of total current income from life insurance business. Current expenses amounted, at IL 14.9 million, to some 26 percent of income. These expenses include commissions to agents, fees for medical examinations, and administrative expenses. Gross profit on life insurance business is estimated at IL 3 million. It should be noted that life insurance is one of the most profitable classes of insurance and very few companies lose money on it. The annual accumulation plus the rise in the value of investments came to IL 28.2 million, an increase of 30 percent over the previous year. This amount represents the saving of the household sector through life insurance. The life insurance fund stood at IL 138 million at the end of 1965.

Table XVIII-7

**INCOME AND OUTGO OF LIFE INSURANCE COMPANIES
IN ISRAEL, 1962-65**

(IL million)

	1962	1963	1964 ^a	1965 ^b
Income				
Premiums	22.0	30.4	40.4	49.0
Interest	4.4	5.6	6.8	8.6
Total	26.4	36.0	47.2	57.6
Outgo				
Benefits to policyholders	6.4	8.6	12.5	15.5
Operating expenses	6.1	9.2	12.4	14.9
Gross profit ^c	1.6	1.7	2.7	3.0
Total	14.1	19.5	27.6	33.4
Balance of income over outgo	12.3	16.5	19.6	24.2
Income from investment of life insurance funds	8.3	1.4	2.0	4.0
Annual accumulation (growth of the life insurance fund)	20.6	17.9	21.6	28.2

^a Revised figures.^b Estimate.^c Including profits of reinsurers abroad.

SOURCE: Ministry of Finance, Superintendent of Insurance.

2. GENERAL INSURANCE¹

Premium receipts² from general insurance expanded by IL 34 million, or 23.3 percent, during the year, and totalled IL 180 million; this compares with a rise of 26.4 percent in 1964. Almost two-thirds of the receipts stemmed from the sale of motor vehicle insurance and comprehensive insurance (fire, theft, etc.).

In January 1965 premiums on motor vehicle insurance were raised by 6 percent³ and a minimum tariff was set. The revision was approved after the companies selling this type of insurance had incurred losses of IL 4.7 million in 1963 and IL 6.5 million in 1964. The gross deficit from the insurance of

¹ Including marine insurance.² Including registration fees.³ Premium rates had been raised earlier (May 1964) by 6 percent; in January 1966 they were again revised—this time by 5 percent.

automotive vehicles amounted in 1964 to IL 10.0 million, of which foreign reinsurers covered IL 3.5 million.

Table XVIII-8

**PREMIUM RECEIPTS FROM GENERAL INSURANCE,^a
1961-65**

Year	IL million	Percent increase over previous year
1961	70.8	18.8
1962	94.3	33.2
1963	115.8	22.8
1964	146.4	26.4
1965 ^b	180.5	23.3

^a Including registration fees and marine insurance; excluding re-insurance in Israel.

^b Estimate.

SOURCE: Ministry of Finance, Superintendent of Insurance.

Premium receipts of Israeli companies from general insurance were 22 percent higher than in 1964, reaching nearly IL 132 million. Of this, 49 percent was transferred abroad on account of reinsurance, the self-retention thus amounting to IL 67 million. The share of the Israeli companies in gross premium receipts was 73 percent.

Payments of claims to policyholders in Israel, including settlement expenses, rose by some 26 percent to stand at approximately IL 86 million. The local companies actually covered only half of the claims, the rest being covered by reinsurers abroad.

General expenses in this branch amounted to IL 62.3 million, or about 34 percent of total premium income. Most of these expenses (about 70 percent) are commission payments, the remainder being administrative outlays.

3. BALANCE SHEET DEVELOPMENTS

(a) *Israeli companies*

1. *Assets*

The combined balance sheet of the Israeli insurance companies went up by 25.5 percent in 1965, the same rate as in 1964, and totalled IL 325 million. The proportion of assets invested in Government and Government-guaranteed bonds continued upward, standing at 33 percent (IL 107 million). As stated previously, the insurance companies are obligated to invest at least 20 percent

of their life insurance funds and no less than 35 percent of their paid-up share capital in Government or Government-guaranteed securities. Actually they invested much more than the required amount, because of the agreements signed with the Electric Corporation and the Government for the investment of the annual accumulation in the life insurance fund in bonds issued by these two bodies.

Apart from investments in Government and Government-guaranteed bonds, the companies hold other securities, mainly shares of financial institutions. The relative share of such securities in total assets declined in 1965, as it had in the

Table XVIII-9

ASSETS AND LIABILITIES OF ISRAELI INSURANCE COMPANIES, 1963-65

	IL million			Percent of total		
	1963	1964 ^a	1965 ^b	1963	1964 ^a	1965 ^b
Assets						
Government or Government-guaranteed bonds	52.8	75.4	107.3	25.7	29.1	33.0
Other securities	8.3	9.2	10.0	4.0	3.6	3.1
Loans on policies or against mortgages	11.5	11.5	10.8	5.6	4.4	3.3
Other loans	34.7	36.4	37.0	16.9	14.1	11.4
Real estate and investment in subsidiaries	19.1	24.5	26.5	9.3	9.5	8.2
Long-term deposits	4.1	4.7	5.0	2.0	1.8	1.5
Outstanding premiums	35.9	48.9	64.7	17.5	18.9	19.9
Sundry debtors	16.5	21.2	28.8	8.0	8.2	8.9
Cash and demand deposits	22.7	27.1	34.9	11.0	10.5	10.7
Total assets	205.6	258.9	325.0	100.0	100.0	100.0
Liabilities						
Paid-up share capital	33.0	38.4	40.0	16.1	14.8	12.3
Reserves	14.0	14.6	15.0	6.8	5.6	4.6
Life insurance fund	72.9	92.5	118.4	35.5	35.7	36.4
General insurance fund	16.1	19.2	23.1	7.8	7.4	7.1
Extraordinary risks fund	5.6	7.2	8.7	2.7	2.8	2.7
Deposits of reinsurers	15.5	20.8	27.9	7.5	8.0	8.6
Pending and approved claims (general insurance)	20.1	26.7	36.0	9.8	10.3	11.1
Current liabilities	28.4	39.5	55.9	13.8	15.4	17.2
Total liabilities	205.6	258.9	325.0	100.0	100.0	100.0

^a Revised figures.

^b Estimate.

previous year, reaching 3.1 percent. This was apparently connected with the depressed state of the stock market.

The balance of loans granted by the Israeli insurance companies did not rise during the year, and hence their weight in total assets fell off. This development was presumably due to the legal limitations imposed on the volume of such loans.¹

Outstanding premiums continued their rapid upward movement, rising by 32 percent to IL 65 million, or some 20 percent of aggregate assets. This item actually constitutes a form of credit to clients and particularly to agents. Such credit generally does not carry any interest charge, and the fact that it is granted reflects the stiff competition prevailing in the insurance sector.

2. *Liabilities*

The life insurance fund² expanded by 28 percent in 1965, reaching IL 118 million, or about 36 percent of total liabilities. This fund represents the estimated amount of claims which will have to be paid to policyholders or beneficiaries in the future, less estimated future premium receipts capitalized at a certain rate. The inflow of premium income is known in advance, and future claims are calculated on the basis of life expectancy tables. The capitalization rate is set individually by the insurance companies, and is not limited by law. The choice of capitalization rates is likely to influence the size of the life insurance fund and therefore also the estimated profit from life insurance business. Insurance companies tend to use capitalization rates of 3–4 percent. These rates are lower than the yield from investments in bonds, and the companies employ them so as to anticipate any possible deviation from the estimate of future claims payments. From the viewpoint of the insurance sector as a whole, this practice increases the life insurance fund and reduces the estimated current profit. The life insurance fund represents the accumulated savings of households in the form of insurance.

The general insurance fund went up by 20 percent to IL 23 million; this compares with a rise of 19 percent in 1964. The size of this fund is based on the estimated risk assumed by the insurance companies in connection with general insurance business. Its weight in total liabilities has dropped in recent years, and at the end of 1965 stood at 7.1 percent.

Equity capital expanded by 4 percent—a lower rate than in previous years. The proportion of equity capital in total liabilities declined in the last two years, standing at about 17 percent at the end of 1965. Companies selling life insurance are required to have at least IL 800,000 in equity capital; most of the companies do not have much more than this sum. Of the 28 Israeli

¹ Loans are limited to a certain percentage of liabilities.

² Less the extraordinary risks fund.

insurance companies, only two have listed their shares on the Tel Aviv Stock Exchange.

Pending and approved claims rose during the year by 35 percent and totalled IL 36 million, or close to 11 percent of total liabilities. Pending claims, which constitute the bulk of this item, represent the estimated sum of claims filed by policyholders, mainly in the general insurance branch, and whose exact size has not yet been finally determined. Approved claims represent payments which have been approved but not yet effected.

(b) *Foreign insurers operating in Israel*

Total assets invested in Israel of the 53 foreign companies rose by 11 percent in 1965, to reach approximately IL 41 million. The foreign companies deal mainly in general insurance, and this accounts for the fact that their investment in Government and Government-guaranteed bonds is relatively lower than that of Israeli companies—19 as against 33 percent in 1965. Their investment in other securities amounted to 14 percent of total assets, which exceeded the rate for Israeli companies. The weight of outstanding premiums is exceptionally high in the case of foreign companies—35 percent at the end of 1965—and this too because of the fact that they mainly sell general insurance.

Table XVIII-10

ASSETS OF FOREIGN INSURANCE COMPANIES OPERATING IN ISRAEL, 1963-65
(IL million)

	Amount			Percent of total		
	1963	1964 ^a	1965 ^b	1963	1964 ^a	1965 ^b
Government or Government-guaranteed bonds	5.7	6.8	7.8	17.2	18.3	18.8
Other securities	6.8	6.3	6.0	20.5	16.9	14.5
Loans on policies or against mortgages	2.7	2.5	2.3	8.2	6.7	5.6
Other loans	5.1	6.3	7.0	15.4	16.9	16.9
Real estate	0.1	0.3	0.3	0.3	0.8	0.7
Outstanding premiums and sundry debtors	10.0	12.0	16.0	30.2	32.3	38.7
Cash and demand deposits	2.7	3.0	2.0	8.2	8.1	4.8
Total assets	33.1	37.2	41.4	100.0	100.0	100.0

^a Revised figures.

^b Estimate.

SOURCE: Ministry of Finance, Superintendent of Insurance.

"BALANCE OF PAYMENTS" OF THE INSURANCE SECTOR,^a 1963-65

Receipts	1963	1964 ^b	1965 ^c	Payments	1963	1964 ^b	1965 ^c
Transfers and real transactions							
Transfers from domestic sectors, mainly premium receipts and registration fees from general insurance in Israel	120.1	154.2	192.3	Transfers to domestic sectors, mainly general insurance claims paid in Israel	53.7	68.3	85.9
Interest and other income in Israel	6.6	8.8	11.0	Commissions on general insurance (mainly to agents)	30.7	40.3	50.5
Transfers from abroad, mainly on account of reinsurance	40.2	52.4	65.5	Current expenses	23.4	29.8	36.2
				Transfers abroad, mainly on account of reinsurance	46.0	59.8	76.6
				Investment in real estate	2.8	3.4	2.0
Total	166.9	215.4	268.8	Total	156.6	201.6	251.2
Financial transactions,^d by sector							
From households	22.0	23.2	29.4	Credit (loans, purchase of securities, and deposits)			
From private business	2.3	5.3	10.4	To the public sector	9.4	15.3	15.3
From social insurance funds, banks, and financial institutions	3.0	1.3	1.0	To public sector companies	8.5	9.4	18.1
From the Government	—	—	—	To banks and financial institutions	1.9	3.6	7.8
From the rest of the world	7.7	1.0	—	To private business	24.1	14.8	18.9
				To households and nonprofit institutions	6.5	5.6	6.0
				To the rest of the world	—	3.3	—
Total	35.0	30.8	40.8	Total	50.4	52.0	66.1
Intrasector transactions							
Receipts from other insurance companies on account of reinsurance in Israel	8.6	10.2	12.7	Payments on account of reinsurance in Israel	8.6	10.2	12.7
Errors and omissions, net	5.1	7.4	7.7				
Total receipts	215.6	263.8	330.0	Total payments	215.6	263.8	330.0

^a Israeli insurance companies and foreign companies operating in Israel.

^b Revised figures.

^c Estimate.

^d Premium receipts and claims paid on account of life insurance are not included in transfer payments; the difference between the two is included in financial transactions (mainly under households).

4. MONEY FLOWS

Receipts of the insurance sector from real transactions rose in 1965 by 25 percent, to nearly IL 269 million. Most of this income—about IL 174 million—was from premiums and registration fees for general insurance in Israel. Transfers from abroad, mainly on account of reinsurance, went up by IL 13 million to IL 65 million. Income from the sale of life insurance is not included with the real transactions; the difference between it and the amount paid out on claims and on general expenses is included under financial transactions (see Table XVIII-11), since it represents a change in the financial claims of the household sector against the insurance companies.

Payments on account of real transactions increased by 24 percent, reaching IL 251 million. Transfers to local sectors, mainly claim payments to holders of general insurance policies, went up 26 percent to IL 86 million. Current expenses plus commission payments to agents were 23 percent larger, totalling about IL 87 million. Transfers to the rest of the world, mostly on account of reinsurance, expanded by nearly IL 17 million to stand at IL 76 million. This exceeded receipts from the rest of the world by approximately IL 11 million.¹

Receipts from transactions in financial claims rose by 32 percent and totalled about IL 41 million. Receipts from households, chiefly on account of life insurance, amounted to IL 29 million, about 26 percent more than in 1964.

Payments on account of financial transactions rose by 27 percent to IL 66 million. Most of these payments represented the investment of life insurance funds in Government and Electric Corporation bonds. Payments to the public sector, mainly to the Government, amounted to IL 15 million, about the same as in 1964. Payments to public sector companies, primarily the Electric Corporation, doubled during the year to reach IL 18 million.

¹ The definition of the rest-of-the-world sector in this chapter differs from that usually employed for balance of payments presentation, in that the foreign insurance companies operating in Israel are here included in the insurance sector, i.e. a local sector.