

## CHAPTER XVIII

# SOCIAL INSURANCE FUNDS AND INSURANCE COMPANIES

### I. SOCIAL INSURANCE FUNDS

#### 1. MAIN DEVELOPMENTS

RECEIPTS OF SOCIAL insurance funds from employer and employee contributions increased by an appreciable 19 percent in 1968. This followed a standstill in the previous year, owing to the slowdown of economic activity, the high rate of unemployment, and the reduction of the economy's wage bill. In absolute terms, the figure went up from IL 352 million in 1966 and 1967 to IL 419 million, with the rise stemming from the 12.5 percent higher wage bill.

The other two components of the funds' receipts, "interest and other income from investments" and "realized capital gains and linkage increments", also expanded considerably—by 20 percent, bringing the level up to IL 221 million.

Payments to current members and to those who left the funds added up to IL 185 million in 1968—an increase of 18 percent, compared with 11 percent in 1967. The biggest rise was in pension payments—by IL 14 million to IL 57 million—a development explained by the larger number of persons eligible for pensions. The improved employment situation is reflected in the other two payments items: The largest of these, severance and provident payments, went up by only IL 4 million in 1968, as contrasted with a rise of IL 10 million in the previous year, and totalled IL 78 million. The more sluggish growth was due to the smaller number of workers dismissed. The second item, social benefits, rose by IL 10 million, to stand at IL 50 million, compared with a decline of IL 3 million the year before. These outlays are made mainly to temporary and casual workers to cover such benefits as convalescence, annual leave, holidays, etc.; in effect, they constitute part of the workers' wages and are paid through the funds in accordance with branchwide labor agreements. The number of temporary and casual workers eligible for such payments increased with the expansion of employment in 1968.

The funds' receipts increased more rapidly than withdrawals and payments to current members, so that there was a much larger accumulation—an advance of 20 percent, compared with a mere 3.5 percent the year before, bringing the figure up to IL 432 million. Accumulation (the difference between the funds'

aggregate assets between the beginning and the end of the year, less the accumulation of the pension funds administered by banks and the increase in loans to households) represents household saving through the funds. This saving totalled IL 367 million in 1968, compared with IL 339 million the year before.

Total assets of the subsector reached IL 2,745 million at the end of 1968, as against IL 2,313 million the year before. Most of the assets consisted of long-term investments, mainly bonds.

The social insurance funds are an important factor in the capital market, especially as regards the purchase of domestic bond issues. Out of IL 837 million in total new bond issues in 1968 (excluding the Absorption and Defense Loans and the Government Short-Term Loan), the funds took up IL 448 million, or about 54 percent of the total.

Net credit (securities and loans) extended by the funds during the year totalled IL 421 million, a rise of 22 percent, compared with 4 percent in 1967. The allocation of credit is largely determined by the Government through its regulations on recognized investments in approved bonds which the funds must purchase. Part of these were corporate securities, but in the main they consisted of Government bonds and those of financial institutions granting loans to businesses or depositing funds for loan purposes with the banking system, in accordance with Government directives.

Other credit items are loans to members and employer debt. Employers' obligations were further reduced in 1968, in line with the trend of the previous year. Member loans totalled IL 255 million at the end of the year, an increase of IL 28 million, compared with a decline in 1967. These loans are given chiefly for the purchase of housing and consumer durables, and presumably the steep rise in purchases of these assets explains the increased volume of member loans in the year reviewed.

## 2. FLOW OF FUNDS

### (a) *Receipts*

Social insurance fund receipts derive from two principal sources: employer and employee contributions and profits from investments, which consist of interest, dividends, linkage differentials, and realized capital gains. Employer and employee contributions were up 19 percent in 1968 to stand at IL 419 million, after holding steady in the previous year. The higher figure for 1968 is attributable to the growth of fund membership and to a rise in average wages (contributions to the funds are calculated as a percentage of employees' wages). Exact data are not available on fund membership, but partial reports and various indicators point to an expansion: an increase in social benefit payments (which in effect represent part of the workers' wages transferred by the employer to the employee through the funds); the growth of employment in certain

Table XVIII-1

## FLOW-OF-FUNDS STATEMENT OF SOCIAL INSURANCE FUNDS AND GMUL LTD., 1966-68

(IL million)

Receipts	1966	1967	1968	Percent annual change		Payments	1966	1967	1968	Percent annual change	
				1967	1968					1967	1968
Nonfinancial transactions											
Employer and employee contributions	352	352	419	—	19.0	Pension payments	35	43	57	22.9	32.6
Interest and other income from investments, linkage differentials, and realized capital gains	158	184	221	16.5	20.1	Provident and severance payments <sup>a</sup>	64	74	78	15.6	5.4
						Social benefits	43	40	50	-7.0	25.0
						Total benefit payments	142	157	185	10.6	17.8
						Purchases					
						On current account	26	27	27	3.8	—
						On capital account	10	6	7	-40.0	16.7
						Total payments on real account	178	190	219	6.7	15.3
Total	510	536	640	5.1	19.4						
Financial transactions											
						Long-term (securities and credit)					
						Financial institutions	160	170	165	6.2	-2.9
						Public sector and public sector companies <sup>b</sup>	59	108	106	83.1	-1.9
						Business	46	21	35	-54.4	66.7
						Households	24	-2	26		
						Nonprofit institutions	12	10	7	-16.7	-30.0
						Total	301	307	339	2.0	10.4
						Short-term					
						Employer debt and other credit					
						Business	-22	-3	-4		
						Total	-22	-3	-4		
Transactions with banking system <sup>c</sup>											
						Securities and credit	53	42	86	-20.8	104.8
						Total financial transactions	332	346	421	4.2	21.7
						Total payments	510	536	640	5.0	19.4
Total receipts	510	536	640	5.1	19.4						

<sup>a</sup> Includes employer and employee contributions refunded.<sup>b</sup> Net of the incremental credit granted by the public sector and the social insurance funds, which totalled IL 4 million in 1968, IL 8 million in 1967, and IL 5 million in 1966.<sup>c</sup> Long- and short-term.

sectors where employers are obligated to contribute to social insurance schemes, as in industry and construction; and a conspicuously larger volume of employer and employee contributions to severance pay funds and bank-administered funds for the self-employed. Employer and employee contributions account for two-thirds of total receipts, the other third consisting of profits from investments. The latter grew by IL 37 million in 1968, compared with IL 26 million the year before, and totalled IL 221 million. This increase was due entirely to the expansion of investments, the average yield thereon remaining unchanged.

(b) *Payments*

Payments to current members and to those withdrawing from the funds fall into three categories: (1) monthly pensions to members who have retired or to their survivors, in accordance with the fund regulations; (2) social benefits, which are in effect paid by employers through central pension funds (for such purposes as convalescence, holidays, etc.); and (3) payments to members withdrawing from the funds after leaving their jobs—these consist mainly of provident payments out of accumulated monthly employer and employee contributions, plus profits and linkage differentials, as well as severance payments, in accordance with the Severance Pay Law.

About 30 percent of all payments to current members and those who left the funds consist of pensions, which went up by IL 14 million in 1968 to reach IL 57 million.<sup>1</sup> The growth is attributable to the larger number of pensioners and survivors.

Social benefit payments came to IL 50 million—a rise of IL 10 million, following a decline of IL 3 million in 1967. As already mentioned, the growth was due to the rise in gainful employment in industry and construction, where there are labor agreements obligating employers to pay fringe benefits through the social insurance funds.

Provident and severance payments went up by IL 4 million, as against IL 10 million in 1967, and amounted to IL 78 million. In contrast to the other two items, the growth rate here was higher in the previous year, presumably because of the large numbers of dismissals as a result of the economic slowdown.

Total payments to members and those who left the funds amounted in 1968 to IL 185 million. This is equivalent to 84 percent of receipts from income on investments, linkage differentials, and capital gains; this compares with 85 percent in 1967 and 90 percent in 1966.

(c) *Household saving*

Household saving through social insurance funds accounts for much of the total growth of household financial assets. This is contractual saving and is de-

<sup>1</sup> Public sector budgetary pension payments are not included here.

terminated mainly by labor agreements; hence it is not affected in the short run by changes in the propensity to save. Only in a few social insurance funds—provident and pension funds for the self-employed and certain funds where membership is voluntary—is saving of a somewhat different character.<sup>1</sup>

**Table XVIII-2**  
**HOUSEHOLD SAVING THROUGH SOCIAL INSURANCE FUNDS, 1966-68**  
(IL million)

	1966	1967	1968
(1) Total accumulation	348	360	432
(2) Less: Accumulation in central pension funds	22	23	39
(3) Accumulation of households (1-2)	326	337	393
(4) Less: Increase in loans to households	24	-2	26
(5) Household saving through social insurance funds (3-4)	302	339	367
(6) Percent increase in saving		12.3	8.3

Household saving through the funds totalled IL 367 million in 1968, a growth of 8 percent as against 12 percent in the previous year. This form of saving is defined as the accumulation of households through the social insurance fund sector (see Table XVIII-2), after subtracting the growth in outstanding loans to households. The decline in the saving figure for 1968 was due to the much larger volume of loans granted to households, chiefly for financing the purchase of real assets, whereas in the previous year loans had edged down, as may be seen from Table XVIII-4.

### 3. BALANCE SHEET DEVELOPMENTS

The nominal value of assets owned by the social insurance fund subsector (including Gmul Ltd., the funds' investment company) reached IL 2,745 million in 1968. The increase—19 percent—was higher than in the previous year, and checked the declining trend in the growth of the subsector's balance sheet which began in 1963. The accelerated rise in the year reviewed is chiefly attributable to the bank-administered schemes, which expanded their relative share in total assets from 9.6 percent in 1965 to 12.1 percent in 1968. They recorded a 32.9 percent advance during the year. The central pension funds, on the other hand, showed a further decline in their asset growth rate.

<sup>1</sup> These funds account for a mere 5 percent of the subsector's aggregate assets.

(a) *Assets*

The relative shares of the various social insurance fund assets are determined by the character of the funds' operations. In order to assure payment of the long-term claims of their members, the funds invest the bulk of their assets in value-linked bonds and long-term loans. In 1968, 82 percent of aggregate assets were invested in securities (mainly long-term value-linked bonds) and in long-term loans to various sectors of the economy,<sup>1</sup> while only IL 55 million was invested in shares. Outstanding loans, most of which are granted by Gmul Ltd., went up by IL 102 million in 1968 to stand at IL 445 million. This large increase was partly a result of Government policy aimed at promoting industrial development through the guaranteeing of loans. As mentioned above, loans to members expanded in 1968 by IL 28 million to reach IL 255 million, and this after a decline of IL 3 million the year before. Treasury regulations<sup>2</sup> obligate the funds to invest 80 percent of their assets in recognized investments and limit the volume of members' loans to 20 percent of total assets.

Table XVIII-3

GROWTH OF SOCIAL INSURANCE FUND ASSETS,<sup>a</sup> BY TYPE OF FUND, 1966-68  
(IL million)

	1966	1967	1968	Percent increase over previous year		
				1966	1967	1968
Pension funds	1,350	1,586	1,832	21.4	17.5	15.5
Funds administered by banks	195	246	327	27.5	26.2	32.9
Central pension funds	108	131	170	25.6	21.3	29.8
Funds for the self-employed	87	115	157	13.0	32.2	36.5
Other funds	376	434	520	17.5	15.4	19.8
Total	1,921	2,266	2,679	21.2	18.0	18.2

<sup>a</sup> Excluding Gmul Ltd.

Another asset item, employer debt, has been shrinking since 1966, owing to pressure exerted by the Ministry of Finance through the income tax regulations. An employer who fails to discharge his debt on time (i.e. within 42 days of the wage payment) must pay interest for a 90-day delinquency, after which the interest is converted into a fine not deductible for income tax purposes. Furthermore, the National Savings Commissioner uses his authority to recommend that

<sup>1</sup> Excluding loans to fund members.

<sup>2</sup> See Income Tax Regulations (Rules for Approval and Management of Benefit Funds), 5724-1964.

a social insurance fund not be exempted from payment of income tax on its profits if its employer debt exceeds the permissible limit, and not to recognize employee contributions to the fund as a deductible expense for income tax purposes. This pressure induces employees to urge their employers to pay their debt to the fund within the period specified by regulations.

**Table XVIII-4**  
**COMBINED BALANCE SHEET OF SOCIAL INSURANCE FUNDS AND**  
**GMUL LTD., 1966-68**

	IL million			Percent		
	1966	1967	1968	1966	1967	1968
<b>Assets</b>						
Securities	1,202	1,510	1,809	61	65	66
Loans	291	343	445	15	15	16
Loans to members	230	227	255	12	10	9
Real estate	57	63	70	3	3	3
Employer debt	95	81	69	5	3	3
Other assets	78	89	97	4	4	3
<b>Total</b>	<b>1,953</b>	<b>2,313</b>	<b>2,745</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Liabilities</b>						
Pension fund	959	1,201	1,390	49	52	51
Provident fund	438	502	545	22	21	20
Severance pay fund	252	267	384	13	12	14
Social benefit funds	150	153	189	8	7	7
Equity capital	100	142	180	5	6	6
Creditors	49	35	40	3	1	1
Government deposits	5	13	17		1	1
<b>Total</b>	<b>1,953</b>	<b>2,313</b>	<b>2,745</b>	<b>100</b>	<b>100</b>	<b>100</b>

SOURCE: Ministry of Finance, National Savings Commissioner.

(b) *Liabilities*

The liabilities of the social insurance funds consist of three main types of funds:

1. Pension funds: These provide a monthly pension to workers reaching retirement age, in accordance with the conditions specified by the fund to which the member belongs. The pension payment is defined in relation to the member's final salary and the number of years he worked; it is also linked to changes in the wage scale according to which the worker was paid before he retired.

2. Provident funds: This type of fund accumulates savings from employer and employee contributions. The amount saved by the employee, together with his share of the profits on fund investments, is paid back to him when he leaves his employment, in accordance with the conditions specified by the fund.

3. Severance pay funds: The object of accumulating money in this type of fund is to provide severance pay to the worker who is dismissed or who resigns in circumstances that legally entitle him to severance pay. Contributions to severance pay funds are made only by the employer, who may administer the fund himself or through a central severance pay fund. Funds administered other than by business firms are also included in this survey. There are likewise comprehensive pension plans, under which employers make contributions on account of severance pay in addition to their regular contributions toward retirement savings, and the worker receives severance pay from the fund, if he is entitled to it, upon leaving his place of work before retirement age. If he reaches retirement age, he receives a pension but no severance pay. Besides these three main types of social insurance funds, there are various social benefit plans administered mainly by the Central Pension Funds of the Histadrut (General Federation of Labor). Contributions under these schemes in effect represent the transfer of part of the workers' wages to the central fund by the employer in order to cover the employees for such benefits as seniority allowances, paid vacations, sick leave, etc.

Among the changes occurring in 1968 on the liability side of the subsector's balance sheet, the rise in the relative share of the severance pay fund—stemming from larger employer contributions—should be noted. The income tax authorities recognize as a deductible current expense employer contributions over and above the normal annual rate with a view to covering part of the difference between the amount that will eventually accrue in the fund and the employer's future obligation to a worker who is dismissed (the severance pay is generally calculated on the basis of the worker's final pay, which rises over the years). This concession has encouraged employers to increase their contributions with the growth of profits. An additional change was the expansion of the social benefit funds due to increased employment in sectors where, in accordance with the labor agreements, part of the fringe benefit payments are made through the social insurance funds.

#### 4. FINANCIAL TRANSACTIONS

Because of the need to ensure their ability to meet the full benefit claims of their members, which necessitates the investment of much of the funds' assets in linked long-term bonds, as well as the Treasury regulations requiring the funds to purchase approved bonds, the social insurance funds are among the biggest purchasers of new domestic issues. In 1968 they took about 54 percent of total new bond issues in Israeli currency<sup>1</sup> (55 percent in 1967).

<sup>1</sup> Excluding the Absorption and Defense Loans and the Government Short-Term Loan.



In January 1968 the Treasury limited purchases of the option-type bonds<sup>1</sup> to 10 percent of the funds' total recognized investments. This restriction was introduced after the funds, which are exempt from income tax, began to buy up option-type bonds close to their early surrender date in order to reap a larger profit (the market price of the bonds is lower than their redemption price plus interest, because the interest income is liable to tax), and also in order to cash in part of their approved bonds and switch to more lucrative investment outlets. The heavy demand on the part of the social insurance funds drove up bond prices and prompted bondholders to sell and thus avoid paying the tax on the interest income (which turned into a tax-exempt capital gain). As a result of this restriction, purchases of the option-type bonds by the funds dropped from IL 115 million in 1967 to IL 30 million in 1968.

The funds' investment policy is largely determined by the Government, which approves the issue of securities purchasable by the funds. Under an agreement between the Ministry of Finance and the Histadrut, the social insurance funds administered by the latter are authorized to make part of their approved investments in bonds of Histadrut enterprises, such as Gmul and Bitzur Ltd. Out of IL 458 million in gross purchases of bonds, IL 180 million worth were issued by these two concerns.

Social insurance funds administered by banks tend to make their approved bond investments in subsidiary or affiliated companies.

The volume of long-term credit (including securities) and short-term credit granted by the funds increased in 1968 by IL 75 million, as against IL 13 million in 1967, and totalled IL 421 million.

The allocation of credit, as stated, is determined by the Government, and changes in its volume can hardly be attributed to any discretionary action on the part of the funds in the capital market. Credits extended directly to the public sector and public sector companies totalled IL 108 million in 1968; this represented a drop of IL 2 million, as contrasted with the doubling of the volume in the previous year.

Credit granted through banking institutions<sup>2</sup> doubled in 1968 to reach IL 86 million, owing to larger purchases of Bitzur Ltd. bonds and increased deposits in banks for the purpose of granting loans through Gmul Ltd. The amount of credit extended through financial institutions remained more or less steady during the past three years at some IL 165 million.

<sup>1</sup> Option-type bonds are five-year fixed-interest securities which entitle their holder at maturity to either a lower rate of interest with the principal and interest linked to the consumer price index or a higher interest without linkage. Some of the bonds issued up to the end of 1967 carried the right of early redemption, after two years from the date of issue.

<sup>2</sup> Credit to Bitzur Ltd. is included in this chapter under credit to banking institutions, since Bitzur deposits the proceeds of its bond sales to the social insurance funds with Bank Hapoalim for loan purposes.

## II. INSURANCE COMPANIES

The expansion of insurance business accelerated in 1968, after a sluggish rise in 1967 due to the slowdown of economic activity. Both the life and general insurance branches contributed to the faster growth rate, which was high compared with earlier years as well.

With the general recovery of economic activity, premium receipts also expanded. Those on general insurance policies increased by about IL 41 million, as against IL 2.1 million in 1967 and IL 10–34 million in the years 1960–66, and totalled approximately IL 246 million.<sup>1</sup> Premium income from linked and unlinked life insurance went up by about IL 12 million, compared with IL 6.5 million in 1967, IL 12 million in 1966, and IL 4–12 million in 1960–65, and amounted to nearly IL 80 million. Accumulation in the life insurance fund expanded in line with the growth of premium receipts and reached approximately IL 52 million, compared with IL 44.4 million in 1967.

The growth of the combined balance sheet of the Israeli insurance companies<sup>2</sup>—which is largely a function of the accumulation in the life insurance fund and to some degree also of the volume of general insurance business—totalled approximately IL 74 million, compared with IL 71 million in 1967 and IL 75 million in 1966. Whereas in 1967, which saw a slowdown in the level of activity, about 22 percent of the balance sheet growth resulted from a rise in current liabilities, and only 55 percent (approximately IL 39 million) from the expansion of the life and general insurance funds (where accumulation is directly connected with the volume of business), in 1968 these two funds accounted for 76 percent (about IL 56 million) of the balance sheet growth. In 1968 as well, over 60 percent of the asset increment was in the securities item, which consists overwhelmingly of Government and Government-guaranteed bonds.

The insurance sector surveyed here comprises 28 Israeli companies, 52 branches of foreign insurance firms, and 19 Lloyd's agents. It should be noted, however, that some of the foreign insurers who hold permits to operate in Israel have actually been inactive for the past several years.

The mergers carried out in 1968 did not reduce the number of insurance companies, since the smaller parties to the merger had not yet wound up their operations. The reasons for the mergers were the new regulations issued by the Commissioner of Insurance relating to the required minimum equity capital, and also the desire on the part of the insurance companies to benefit from economies of scale.

<sup>1</sup> Less reinsurance in Israel. Data for 1968 are estimates based on partial reports received from a small number of insurance companies, and hence they are liable to change.

<sup>2</sup> Israeli companies account for about 75 percent of all general insurance and about 90 percent of all life insurance business.

## 1. LIFE INSURANCE

### (a) General developments

In 1968 the life insurance portfolio<sup>1</sup> was enlarged by about IL 718 million, compared with IL 502.5 million in 1967, IL 635.5 million in 1966, and IL 100 to 440 million during the years 1961–65, and totalled approximately IL 3,745 million.

**Table XVIII-5**  
**LIFE INSURANCE IN FORCE, 1961–68**  
(IL million)

	Total amount at end of year	Linked insurance		Unlinked insurance	Ratio of linked to total insurance (%)
		Linked to consumer price index	Linked to the dollar		
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	1,888.9	863.4	96.1	929.4	50.8
1966	2,524.4	1,093.9	90.8	1,339.7	46.9
1967 <sup>a</sup>	3,026.9	1,233.9	99.0	1,694.0	44.0
1968 <sup>b</sup>	3,745.0	1,559.0	93.0	2,093.0	44.1

<sup>a</sup> Revised data.

<sup>b</sup> Estimate.

SOURCE: Commissioner of Insurance, Ministry of Finance.

In contrast to the moderate rise in the incremental value of unlinked life insurance in force (which is essentially a form of risk insurance), there was a striking increase in 1968 (more than double) in the incremental value of insurance linked to the consumer price index (which contains an element of saving).<sup>2</sup> These findings accord with the fact that private saving expanded appreciably compared with 1967. It should nevertheless be noted that part of the incremental value of index-linked insurance can probably be attributed to the 5 percent reduction in premium rates in 1968.

<sup>1</sup> Including severance pay insurance but excluding pension insurance.

<sup>2</sup> About IL 60 million of the incremental value of linked insurance in force in 1968 stemmed from a supplementary risk insurance, which is added to the whole-life and endowment insurance policies and does not contain any element of saving. But even discounting this amount, the growth in the incremental value of linked insurance in 1968 was still about 90 percent higher than in 1967.

The unlinked life portfolio expanded by approximately IL 399 million, as against IL 354.3 million in 1967.

Index-linked insurance registered a striking growth—about IL 325 million as against IL 140 million in 1967. About 16,000 linked life policies were issued, as contrasted with 11,800 in 1967 and some 14,000 in 1966. The average size of the policies continued upward in 1968, amounting to IL 27,500 compared with IL 20,300 in 1966 and IL 24,500 in 1967.

The dollar-linked life portfolio shrank further in 1968 (no dollar-linked life policies have been issued since 1962, while many policies have meanwhile lapsed or been surrendered).

#### (b) *Investment of linked funds*

Under existing regulations, insurance companies must hold, against their liabilities on account of linked life insurance, assets with matching terms, with the exception of 7.5 percent, which they may hold in cash, outstanding premiums (as stipulated in the regulations concerning the collection of premiums), and other current assets, in accordance with their balance sheet position.

As to the composition of the assets subject to linkage, insurance companies may grant policyholders loans up to the redemption value of the policy without any restriction; of the balance, they may invest up to 20 percent in securities approved by the Commissioner of Insurance and up to 20 percent in linked loans against bank guarantees, while the remainder must be invested in Government or Government-guaranteed bonds. Because of the relative profitability of this type of investment, the companies actually purchase more bonds than legally required. The agreements signed by the insurance companies with the Israel Electric Corporation and the Government assure the purchase by insurance companies of index-linked Electric Corporation and Government bonds, which bear 5.8 percent interest (6 percent until 1967) and have maturities of up to 40 years. In 1968 purchases of such bonds added up to IL 38.5 million, as against IL 38.8 million the year before.

#### (c) *Income<sup>1</sup> and outgo of the life insurance branch*

Income of insurance companies operating in Israel from life insurance business rose in 1968 by about IL 14 million, as against IL 8.4 million in 1967 and IL 14.2 million in 1966, and totalled nearly IL 95.5 million. Premium receipts (the leading income item) were up approximately 17 percent, compared with 10.5 percent in 1967 and 23.9 percent in 1966. The ratio between premium receipts and the average annual amount of insurance written continued downward in 1968 as a result of two main factors: (1) linked life insurance premiums

<sup>1</sup> Income from transactions in Israel alone.

Table XVIII-6

**INCOME AND OUTGO OF LIFE INSURANCE COMPANIES IN ISRAEL, 1965-68**  
(IL million)

	1965	1966	1967 <sup>a</sup>	1968 <sup>b</sup>
Income				
Premiums	50.2	62.2	68.7	80.5
Interest	8.7	10.9	12.8	15.0
Total	58.9	73.1	81.5	95.5
Outgo				
Benefits to policyholders	14.8	17.0	24.0	26.2
Operating expenses	15.3	17.7	17.8	20.1
Gross profit <sup>c</sup>	3.1	3.1	3.1	3.1
Total	33.2	37.8	44.9	49.4
Balance of income over outgo	25.7	35.3	36.6	46.1
Income from investment of life insurance funds	4.5	5.5	7.8	6.0
Annual accumulation (growth of the life insurance fund)	30.2	40.8	44.4	52.1

<sup>a</sup> Revised data.

<sup>b</sup> Estimate.

<sup>c</sup> Including profits of reinsurers abroad.

SOURCE: Commissioner of Insurance, Ministry of Finance; Central Bureau of Statistics.

were reduced by about 5 percent, and (2) the relative share of whole-life linked insurance went up at the expense of linked endowment insurance.<sup>1</sup>

In addition to premium receipts, the life insurance business account was credited with about IL 15 million in interest income, and another IL 6 million in capital gains on fund investments.

Claims paid to policyholders rose by about IL 2 million in 1968, as against IL 7 million in 1967 and some IL 2 million in 1966, and totalled nearly IL 26 million.

The net accumulation in the life insurance fund thus amounted to IL 52 million in 1968, compared with IL 44.4 million in 1967 and IL 40.8 million in 1966.

## 2. GENERAL INSURANCE

The recovery of economic activity left its mark on general insurance transactions as well. Premium receipts expanded in 1968 by about IL 41 million, as against IL 2 million in 1967, and stood at nearly IL 246 million. Part of the

<sup>1</sup> Premium payments for a given amount of insurance are smaller for whole-life than for endowment insurance.

**Table XVIII-7**  
**PREMIUM RECEIPTS FROM GENERAL INSURANCE\* 1963-68**  
(IL million)

	Total	Increase over preceding year	
		IL m.	%
1963	109.2	20.7	23.4
1964	138.8	29.6	27.1
1965	172.4	33.6	24.2
1966	202.7	30.3	17.5
1967	204.8	2.1	1.0
1968 <sup>b</sup>	246.0	41.2	20.1

\* Including registration fees and marine insurance; excluding reinsurance in Israel and receipts from abroad.

<sup>b</sup> Estimate.

SOURCE: Commissioner of Insurance, Ministry of Finance; Central Bureau of Statistics.

growth in 1968 was due to the extension of compulsory vehicle liability insurance (to cover all passengers in private vehicles, including motorcycles), which increased the premium by about IL 50 per vehicle. The devaluation of November 1967 was another factor contributing to the upward revision of marine insurance rates.

The growth of general insurance business was much slower among foreign insurers (who account for approximately a quarter of all such transactions) than among Israeli companies. On the other hand, the latter transferred about half of their general insurance premium receipts to reinsurers abroad.

### 3. BALANCE SHEET DEVELOPMENTS

The combined balance sheet of Israeli insurance companies expanded in 1968 by approximately IL 74 million, as against IL 71 million in 1967 and IL 75 million in 1966, and totalled nearly IL 535 million.

The increase in the life and general insurance funds explains approximately 76 percent of the total growth of liabilities (including stockholders' equity), as contrasted with 54.6 percent in 1967.

The life insurance fund, which represents the accumulated savings of households through the insurance companies, rose by about IL 50 million, as against IL 39 million in 1967, and reached approximately IL 245 million. The size of this fund is theoretically equal to the present value of all claims which it is estimated will have to be paid to policyholders in the future according to actuarial

Table XVIII-8

## ASSETS AND LIABILITIES OF ISRAELI INSURANCE COMPANIES, 1966-68

	IL million			Percent		
	1966	1967 <sup>a</sup>	1968 <sup>b</sup>	1966	1967 <sup>a</sup>	1968 <sup>b</sup>
<b>Assets</b>						
Government or Government-guaranteed bonds	143.4	186.5	243.0	36.7	40.4	45.4
Other securities	10.3	15.8		2.6	3.4	
Loans on policies or against mortgages	14.5	13.6	48.0	3.7	2.9	8.9
Other loans	35.5	32.3		9.1	7.0	
Long-term deposits	12.1	13.2	15.0	3.1	3.0	2.9
Real estate and investment in subsidiaries	35.4	37.9	40.0	9.2	8.2	7.5
Outstanding premiums	70.7	73.5	96.0	18.1	15.9	17.9
Sundry debtors	34.0	47.0	93.0	8.7	10.2	17.4
Cash and demand deposits	34.5	41.6		8.8	9.0	
Total assets	390.4	461.4	535.0	100.0	100.0	100.0
<b>Liabilities</b>						
Paid-up share capital	45.5	46.9	78.0	11.7	10.2	14.6
Reserves	22.0	26.3		5.6	5.7	
Life insurance fund	156.4	195.4	245.0	40.0	42.3	45.8
General insurance fund	25.9	25.7	32.0	6.7	5.6	6.0
Extraordinary risks fund	12.8	15.8	18.0	3.3	3.4	3.4
Deposits of reinsurers	32.5	40.4	48.0	8.3	8.8	9.0
Pending and approved claims (general and life insurance)	41.8	49.3	52.0	10.7	10.7	9.7
Current liabilities	53.5	61.6	62.0	13.7	13.3	11.5
Total liabilities	390.4	461.4	535.0	100.0	100.0	100.0

<sup>a</sup> Revised figures.<sup>b</sup> Estimate (based on a small percentage of the insurance sector—most of the companies had not yet submitted data when this chapter was written).

SOURCE: Commissioner of Insurance, Ministry of Finance; Central Bureau of Statistics.

calculations, less the present value of estimated future premium receipts and other anticipated income.

The general insurance fund, allocations to which are based on the estimated actual risk assumed by insurance companies in connection with general insurance business, increased by IL 6 million net, as against a decline of IL 0.2 million in 1967, and totalled about IL 32 million. This sharp rise is explained by the striking expansion of general insurance business in 1968 following a standstill in 1967.

Stockholders' equity went up by IL 5 million to IL 78 million, representing about 15 percent of total liabilities.

Nearly 60 percent of the asset growth was in holdings of Government and Government-guaranteed bonds. Because of profitability considerations, insurance companies tend to purchase more of these securities than the legally required minimum.

The second largest asset item is outstanding premiums, which actually constitute a form of short-term credit to clients and particularly to agents. After the relative share of this item declined in 1967, from 18.1 percent of total assets to 15.9 percent, there was a pronounced growth of some IL 13.5 million in 1968, bringing the figure up to approximately IL 96 million, or some 18 percent of total assets. This increase is explained by the strong expansion of insurance business.

#### 4. FLOW OF FUNDS<sup>1</sup>

Receipts of the insurance sector from real transactions apparently rose by about 16 percent, compared with 3.5 percent in 1967 and 17.1 percent in 1966, and totalled nearly IL 370 million. This appreciable growth is explained by the much larger volume of general insurance business, which accounts for the bulk of such income. Payments on real account, which consist mostly of claims payments to policyholders, commissions to agents, and transfers to reinsurers abroad, went up to about the same extent and totalled IL 355 million.

Receipts from transactions in financial claims (the greater part of which originate in life insurance business) totalled approximately IL 56 million, while payments on financial account reached about IL 72 million. It should be noted that the relative share of credit to business and households in these payments increased in 1968, while that of Government and Government-guaranteed bonds declined.

<sup>1</sup> The flow-of-funds statement of the insurance sector is omitted this year, since at the time of writing this chapter the required data had not yet been received from the majority of insurance companies. The balance sheet presented in this chapter is also based on a small sample of the Israeli companies.