CHAPTER XVIII

SOCIAL INSURANCE FUNDS AND INSURANCE COMPANIES

I. SOCIAL INSURANCE FUNDS

1. Main Developments

The expansion of social insurance funds slowed down in 1967. Annual accumulation amounted to 6 percent compared with 9 percent the previous year, while total assets rose by 17.5 percent as against 20 percent in 1966.

This slower rate of growth continued the trend of the past several years and can be attributed mainly to static fund membership on the one hand, and an increase in severance payments and payments to withdrawing members on the other. The growth of the funds' assets and their annual accumulation was also adversely affected by the moderation of economic activity: on the receipts side, employer and employee contributions expanded more slowly as a result of the economy's stable wage bill, while on the payments side there was an increase of 38.5 percent in severance payments and payments to current and withdrawing members (either because of retirement or dismissal from their jobs).

As a result of these developments, the growth of net household saving through social insurance funds slowed down from 26 percent in 1966 to 18 percent in 1967.

The composition of the funds' assets continued to change in line with the existing trend, the proportion invested in securities reaching 79 percent of total assets and the weight of the other assets falling; the absolute decline in employer debt and in loans to members stood out in particular. The composition of liabilities also continued to change in 1967: the weight of pension funds moved up from 50 percent of total fund liabilities at the end of 1966 to about 53 percent, while the proportion of provident and severance pay funds and other liabilities declined.

2. Accumulation and Saving

Accumulation represents the difference between fund receipts—mainly employer and employee contributions, and also income from investments—and payments to active and withdrawing members and current expenses. Accumulation in 1967 amounted to IL 338 million, an advance of 6 percent, as against IL 320 million (9 percent) the year before.

Table XVIII-1

ASSETS AND ANNUAL ACCUMULATION OF SOCIAL INSURANCE FUNDS, 1962–67

(IL million)

	Assets at end of year, excl. revaluation	Percent increase in total assets[a]	Annual accumulation	Percent increase in accumulation
1962	811	28.5	180	38.5
1963	1,037	27.9	226	25.6
1964	1,303	25.7	266	17.7
1965	1,596	22.5	293	10.2
1966	1,916	20.0	320	9.2
1967	2,254	17.6	338	5.6

[a] Excluding revaluation increments.
SOURCE: Ministry of Finance, National Savings Authority.

Employer and employee contributions were IL 18 million larger in 1967, compared with a rise of IL 44 million in 1966; the growth rate thus fell from 14.3 to 5.1 percent. Despite the slower growth rate, it was still fairly high taking into account the virtual nonincrease in fund membership and the stability of the economy's wage bill,[1] and is explained mainly by the increased membership of pension funds (where employer and employee contributions are relatively high) relative to that of provident and severance pay funds. Two other causes of the larger contributions were apparently a rise in income from the acquisition of retroactive pension rights by members and an increase in receipts from employers to supplement severance pay to dismissed employees.

On the other hand, the decline in employment in certain sectors of the economy where employer and employee contributions are relatively high[2] tended to slow down the growth of contributions.

Income from investments[3] amounted to IL 141 million in 1967, compared with IL 113 million the year before—an increase of 24.8 percent, as against 22.8 percent in 1966. The rise stemmed from the growth of aggregate fund assets and the share of assets with a relatively high return (securities) as compared with other assets (employer debt, real estate, demand deposits, etc.). In 1966 the return on securities amounted to 6.6 percent, on employer debt to 4.8 percent, and on loans to members to 5.7 percent.

1 The economy's wage bill declined by 0.3 percent in 1967, in contrast to a rise of 19 percent the year before.

2 For example, the construction sector where such contributions amount up to 30 percent of the employee's wage, compared with an average of 10 percent for all social insurance fund members.

3 Including part of the linkage increments which could not be identified.

Payments to current and withdrawing members fall into three major categories: payment of pensions, other social benefits[1] (mainly through pension funds), and severance and provident payments to withdrawing members who were either dismissed from their jobs or transferred to other places of work where they are not covered by social insurance.

Pension payments in 1967 added up to IL 43 million, as against IL 35 million in the previous year—a rise of 23 percent. This is far below the 1966 growth rate of 59 percent, which in great measure was a result of the payment to pensioners

Table XVIII-2

ANNUAL ACCUMULATION OF SOCIAL INSURANCE FUNDS, 1965-67

(IL million)

	1965[a]	1966[a]	1967[b]	Percent increase or decrease (–)	
				From 1965 to 1966	From 1966 to 1967
Income					
Employee and employer contributions	307	351	369	14.3	5.1
Interest and other income from investments	92	113	141	22.8	24.8
Realized capital gains	25	27	29	8.0	7.4
Total	424	491	539	15.8	9.8
Expenditure					
Pensions	22	35	43	59.1	22.9
Social benefit payments	36	42	39	16.7	-7.1
Severance pay and withdrawals	48	65	90	35.4	38.5
Subtotal	106	142	172	34.0	21.1
Current expenses	25	29	29	16.0	—
Total expenditure	131	171	201	30.5	17.5
Annual accumulation	293	320	338	9.2	5.6

[a] Revised figures.
[b] Estimate.

[1] Paid holidays, sick leave, etc.

of retroactive increments following the revision of benefit rates.[1] The increased volume of pension payments in 1967 is ascribable to the larger number of pensioners and the payment of a special grant to casualties of the Six Day War.

IL 39 million was paid in social benefits in 1967, as against IL 42 million the year before. The reduction was due to a fall in employment in certain sectors such as construction and agriculture, where social benefits are paid out through the funds.

Severance and provident payments to withdrawing members were up IL 25 million in 1967, compared with a growth of IL 17 million the previous year, and amounted to IL 90 million (rises of 38.5 and 35 percent respectively). The increase resulted from the larger volume of both severance and provident payments to members who lost their jobs or retired. The number of members withdrawing from these two types of funds was high in the second half of 1966 and the first half of 1967, bringing down the weight of these funds in total social insurance fund membership. The marked increase in severance and provident payments also reflects employment conditions in the first half of 1966, since provident payments are usually made six months after the member's withdrawal from the fund.

Net household saving through social insurance funds totalled IL 288 million[2] in 1967, compared with IL 248 million in 1966 and IL 215 million in 1965. Business saving (the accumulation of the central severance pay funds) amounted to IL 23 million, as against IL 22 million in 1966 and IL 27 million in 1965.

Household saving through the funds represents contractual saving and depends mainly on labor agreements; hence it is not affected in the short run by changes in the individual's propensity to save. Only in a few social insurance funds—provident and pension funds for self-employed and certain funds in which membership is voluntary, which together account for a mere 5 percent of total fund assets—can changes in saving be identified as resulting from a change in the members' propensity to save. In these funds accumulation and saving expanded in 1967 at a rate exceeding the average for the subsector as a whole; the growth of accumulation came to 26 percent as against 13 percent in 1966, while membership expanded by 10 and 7.5 percent respectively. The fact that household saving through the funds expanded more rapidly than accumulation was due largely to the smaller volume of loans granted households, apparently a result of the diminished demand for loans by members on the one hand, and the stability of fund credit terms compared with the easing of the terms of other forms of household credit on the other.

[1] The rate of pension benefits is linked to the general wage level.

[2] This figure is obtained by subtracting from the annual accumulation the increase in outstanding loans to members, realized capital gains, and the incremental assets of central severance pay funds, which represent the savings of member firms.

3. Balance Sheet Developments

(a) *Assets*

The nominal value of social insurance fund assets (excluding revaluation increments) rose by IL 340 million in 1967 to reach IL 2,254 million.[1] About 80 percent of the assets are value-linked, mainly to the consumer price index.

The relative shares of the various assets are largely determined by Ministry of Finance regulations, which exempt the funds from income tax if they undertake, among other things, to invest 80 percent of their assets in approved investments (at present these include *inter alia* Government and public company securities approved by the Ministry of Finance[2]).

As a result of these regulations, portfolio investment accounts for the overwhelming share of social insurance fund assets: in 1967 their weight came to 79 percent and their value, at purchase prices, to IL 1,778 million.

The two next most important asset items are loans to members and employer debt. Member loans edged down from IL 215 million in 1966 to IL 213 million, after having risen steadily in previous years. The absolute decline in this item started at the beginning of the year and continued until the third quarter, the figure standing at IL 208 million by the end of September. In the last quarter the trend turned upward again. Loans to households are given for the purchase of housing, investment in auxiliary farms, and other constructive purposes. The decline in this item in the year reviewed is attributable to smaller purchases of homes and consumer durables. Employers' obligations declined further in 1967, amounting to IL 80 million as against IL 94 million the year before. The decrease in 1966 was made possible by a special arrangement with the Histadrut contracting firm Solel Boneh which provided for the funding of IL 34 million of its indebtedness. The decrease in 1967 can be ascribed mainly to pressure exerted by the National Savings Authority to implement the Ministry of Finance regulations applicable to employer debt. According to these regulations, an employer who fails to discharge his debt on time (i.e. within 42 days of the wage payment) must pay interest at 9 percent per annum for a 90-day delinquency, after which the interest is converted into a fine not deductible for income tax purposes. The lion's share of this indebtedness—about 84 percent—is owed by seven central pension funds of the Histadrut.

[1] Total assets after revaluation, based on reports from the majority of the social insurance funds, are estimated at IL 2,550 million at the end of 1967.

[2] Other approved investments are special deposits made with various financial institutions before February 23, 1961 and which are converted into approved securities upon reaching maturity, and all investments in securities and real estate made before August 29, 1957. The weight of approved deposits is gradually declining and amounted in 1967 to only some 2 percent of total assets.

Table XVIII-3

ASSETS AND LIABILITIES OF SOCIAL INSURANCE FUNDS, 1962–67

(IL million)

	IL million						Percent					
	1962	1963	1964	1965	1966[a]	1967[b]	1962	1963	1964	1965	1966[a]	1967[b]
Assets												
Cash and demand deposits	8	8	5	12	14	16	0.9	0.8	0.4	0.7	0.7	0.7
Deposits in banks and in Gmul Ltd.	98	71	63	39	31	26	12.2	6.9	5.0	2.5	1.6	1.2
Securities, at cost	462	672	897	1,121	1,444	1,778	57.0	64.8	68.7	70.2	75.4	78.9
Loans to members	125	145	163	192	215	213	15.4	13.9	12.5	12.0	11.2	9.4
Employer debt	72	82	95	118	94	80	8.9	7.9	7.3	7.4	4.9	3.6
Loans to business firms	10	13	18	22	28	37	1.2	1.2	1.4	1.4	1.5	1.6
Real estate	27	34	41	48	55	57	3.3	3.3	3.1	3.0	2.9	2.5
Miscellaneous[c]	9	12	21	44	35	47	1.1	1.2	1.6	2.8	1.2	2.1
Total assets	811	1,037	1,303	1,596	1,916	2,254	100.0	100.0	100.0	100.0	100.0	100.0
Liabilities												
Pension fund	373	476	607	779	955	1,199	46.0	46.0	46.5	48.8	49.8	53.2
Provident fund	242	297	354	385	435	489	29.8	28.6	27.2	24.1	22.7	21.7
Severance pay fund	94	126	164	204	250	275	11.6	12.1	12.6	12.8	13.0	12.2
Various social benefit funds[d]	47	65	90	122	145	147	5.8	6.3	6.9	7.6	7.6	6.5
Investment realization fund	12	20	30	38	50	52	1.5	1.9	2.3	2.4	2.6	2.3
Balance of profit and loss account and reserves	17	21	23	29	35	34	2.1	2.1	1.8	1.8	1.9	1.5
Creditors[e]	26	32	35	39	46	58	3.2	3.0	2.7	2.5	2.4	2.6
Total liabilities	811	1,037	1,303	1,596	1,916	2,254	100.0	100.0	100.0	100.0	100.0	100.0

NOTE: Percentages are calculated from unrounded figures.

[a] Revised figures.
[b] Estimate.
[c] Mainly interest and life insurance owed.
[d] Special aid, rehabilitation, sickness, etc.
[e] Mainly former members.

(b) *Liabilities*

The liabilities of this subsector consist primarily of the 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, the number of years he worked, and the number of years he was a member of the fund. The payment 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 in the fund's profits on investments, is paid to the worker when he leaves his place of work, in accordance with the conditions specified by the fund.

Some of the provident funds, in particular those managed by pension funds, actually function as pension funds. A worker who leaves his job before retirement age receives a lump-sum payment, and if he reaches retirement age he is entitled to a monthly pension instead of a lump sum.

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 funds are made only by the employer. Employers may operate this fund themselves or through a central severance pay fund managed by a financial institution or by the regular pension funds. Funds operated other than by business firms are included in this discussion.

In addition, there are various social benefit funds, operated mainly by the Histadrut social insurance funds. Contributions to these funds are in effect part of the workers' wages transferred to the central fund by the employer in order to cover the employees for such benefits as paid vacations and sick leave.

The weight of the pension fund in total liabilities rose in 1967 to 53 percent, thus continuing the upward trend of the past several years. The fund amounted to IL 1,199 million at the end of 1967, compared with IL 955 million at the end of the previous year. The provident fund came to IL 489 million at the end of 1967, and its weight in total liabilities edged down from 23 to 22 percent. The severance pay fund totalled IL 275 million at the end of the year reviewed; this represents a rise of IL 25 million, as against IL 46 million the previous year, and reflects the larger volume of severance payments.

4. Money Flows, by Sector

(a) *Receipts*

Net receipts of the social insurance funds reached IL 346 million in 1967, IL 19 million more than in the previous year. Net receipts (see Table XVIII–5) differ slightly from the total accumulation (see Table XVIII–2) in that they include the receipts of Gmul Ltd., which acts as the investment agency for social insurance funds and part of whose profits are used to increase its own resources instead of being passed on to the funds.

Receipts consist of transfers from households and businesses. Transfers from households, which form over 90 percent of net receipts, include employer and employee contributions, contributions of the self-employed to the various funds, and profits on fund investments. Transfers from businesses consist of the incremental accumulation in the central severance pay funds administered by certain banks and insurance companies. These contributions represent the accumulation of financial assets by the employer and are used for the payment of severance compensation only in cases of dismissal. The growth of these funds continued to slow down in 1967, the total standing at IL 131 million at the end of the year as compared with IL 108 million and IL 86 million at the end of 1966 and 1965 respectively.

Total accumulation in these funds remained unchanged in the past two years, amounting to IL 22.5 million. The smaller percentage rise resulted from increased severance payments to employees losing their jobs and from the delinquent payment of employer contributions.

(b) *Payments*

Social insurance funds (including Gmul Ltd.) are the main purchasers of new domestic bond issues (in local currency, excluding the Absorption, Defense, and Short-Term Loans). Of a total of IL 73.6 million in new issues in 1967, they took up IL 413 million worth (of which IL 115 milion was in option-type loans). As mentioned above, the funds' investment policy is largely determined by the Government, both 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 half their approved investments in debentures of Histadrut enterprises, while the remainder is invested in other bonds approved by the Ministry of Finance. Half the accumulation subject to Histadrut control is invested mainly in debentures of Gmul Ltd. and Bitzur Ltd., which in turn extend credit facilities to enterprises and institutions in accordance with the decisions of the Histadrut holding company Hevrat Haovdim.

The livelier trade in the bond market during the year reviewed and the wide interest shown by the general public in option-type loans, both Government and nongovernmental, as well as in the Short-Term Loan, enabled the funds to step up their stock market operations. Bond prices are influenced, among other things, by the fact that the interest income is liable to tax; the funds, exempt from the payment of income tax, can therefore offer the bondholder a higher

Table XVIII-4

"BALANCE OF PAYMENTS" OF SOCIAL INSURANCE FUNDS AND GMUL LTD., 1963–67

(IL million)

Receipts	1963	1964	1965	1966	1967	Payments	1963	1964	1965	1966	1967
From households (incl. employer contributions)	213.0	249.0	270.4	304.7	322.7	Loans					
From businesses	16.2	19.3	27.3	22.4	22.9	To public sector and public sector companies	88.9	84.0	54.2	67.5	137.3
						To banking and financial institutions	72.3	120.6	166.7	206.5	189.4
						To businesses	20.6	21.8	32.2	9.4	10.7
						To households and non-profit institutions	40.2	35.5	37.0	36.2	6.2
						Real estate investments	7.2	6.4	7.6	7.5	2.0
Total	229.2	268.3	297.7	327.1	345.6	Total	229.2	268.3	297.7	327.1	345.6

price. The increased stock market activity of several of the social insurance funds therefore drove up bond prices.[1]

The sectorial distribution of credit reflects the Government's efforts to raise funds for financing its various activities through the issue of bonds to the general public, and its virtual monopolistic position in the bond market.

The volume of credit granted to the public sector and to public sector companies doubled in 1967, from IL 68 million in 1966 to IL 137 million. Most of the additional credit went to the Government and the National Institutions (about IL 122 million as against IL 46 million in 1966), and it originated mainly in increased purchases of the Government Development Loan and in the purchase of Jewish Agency bonds with part of the monies accumulated by the Histadrut-controlled funds.

Credit extended directly to local authorities rose slightly (from IL 5 to IL 6 million), but it should be noted that part of the credit extended to banking and financial institutions goes to local authorities (mainly through Bitzur Ltd.).

The growth in credit to banking and financial institutions came to IL 189 million in 1967, as against IL 206 million the year before. The smaller figure must be ascribed chiefly to the direct mobilization of borrowed funds by the public sector at the expense of the above-mentioned institutions.[2]

The volume of credit granted to households declined in 1967 after a prolonged rise. The chief reason for this, as already pointed out, was the reduced acquisition of homes and consumer durables, part of which are financed through loans to fund members; this development was in some measure due to the improved terms granted by mortgage banks.

II. INSURANCE COMPANIES

In 1967, and particularly the first half of the year, the expansion of insurance business slowed down in both the life and general insurance branches. Premium receipts from linked and unlinked life insurance were up 12 percent, as against 24 percent in 1966, and totalled nearly IL 70 million. The life insurance fund, which represents the accumulated saving of households in the form of life insurance, grew by IL 39 million, compared with IL 41 million in 1966, and reached IL 197 million.[3] As in previous years, most of the accumulation was invested in Government and Government-guaranteed bonds.

The slowdown in economic activity hit general insurance business in par-

[1] At the beginning of 1968 the funds were required to make 90 percent of their approved investments in bonds redeemable after 10 years at least, thus virtually preventing them from investing in option-type bonds, which are redeemable after five years.

[2] Part of the credit extended by social insurance funds to banking and financial institutions is also deposited by the latter two with the Accountant General.

[3] The figures on insurance business in 1967 are estimates based on incomplete data supplied by a small number of insurance companies and are liable to change.

ticular. Premium receipts from the sale of such insurance in Israel[1] rose by 2 percent only, as against 18 percent in 1966 and 24 percent in 1965.

The moderate expansion of the Israeli insurance companies' business resulted in a slower asset growth as well—approximately 16 percent, compared with 24 percent in 1966 and 22 percent in 1965. The biggest increase was in investment in Government and Government-guaranteed bonds.

The insurance sector comprises 28 Israeli companies, 52 branches of foreign insurance companies, and 19 Lloyd's agents. The foreign insurers, which deal mainly in general insurance, account for about 20 percent of total premium receipts.

1. Life Insurance

(a) *General developments*

In 1967 the life insurance portfolio[2] increased by 18 percent, as against 33 percent in 1966, and totalled IL 2,975 million. The deceleration occurred both in linked insurance, which contains a considerable element of saving, and in unlinked insurance, which contains a smaller element of saving and hence it more closely resembles general insurance.

Table XVIII-5

LIFE INSURANCE IN FORCE, 1960-67

(IL million)

Year	Total amount at end of year	Linked insurance: Linked to consumer price index	Linked insurance: Linked to the dollar	Unlinked insurance	Ratio of linked insurance to total insurance (%)
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	1,888.9	863.4	96.1	929.4	50.8
1966	2,524.4	1,093.9	90.8	1,339.7	46.9
1967[a]	2,975.0	1,268.0	99.0	1,608.0	45.9

[a] Estimate.
SOURCE: Ministry of Finance, Commissioner of Insurance.

[1] Less reinsurance in Israel.
[2] Including severance pay insurance but excluding pension insurance.

Insurance linked to the consumer price index grew by 16 percent, as against 26 percent the previous year, and reached IL 1,268 million. This moderate expansion does not stand in contradiction to the appreciable rise in private saving during the year reviewed. In the prevailing economic circumstances, especially in the first half of the year, households preferred investment in liquid assets over less liquid institutional saving through social insurance funds or in the form of life insurance.

The growth of life insurance displayed diverse movements in 1967. In the first half of the year, marked by the continuation of the economic slowdown, a smaller number of life policies were issued, and the incremental value of linked insurance policies dropped by about 25 percent in comparison with the corresponding period of 1966. With the brighter economic outlook in the second half of the year, linked life insurance business grew by approximately 27 percent over the corresponding period of 1966 and by 66 percent in comparison with the first half of the year.[1] Over the year as a whole, 12,000 linked policies were issued, as against 14,000 in the previous year. The average size of the new policies was somewhat higher than in 1966,[2] so that the gross increase in the amount written was the same as in the previous year. Other factors adversely affecting the growth of linked insurance were the increased cancellation and surrender of policies and the stability of prices. In earlier years the expansion of the life insurance portfolio stemmed largely from index-linkage differentials.

Unlinked insurance was up 20 percent, compared with 44 percent in the previous year, and reached IL 1,608 million. Despite the smaller percentage increase, its weight in the life insurance portfolio continued to rise. This is essentially a form of risk insurance, like general insurance, and in the main provides group coverage for a limited term for employees of institutions and enterprises.[3]

The total value of the dollar-linked life insurance portfolio, net of devaluation differentials, continued downward and stood at IL 99 million at year's end. The figure has been falling steadily, owing to the fact that dollar-linked insurance has not been issued since the 1962 devaluation, and also to the cancellation and surrender of policies.

(b) *Investment of linked funds*

As in previous years, the companies selling linked life insurance invested heavily in Government and Government-guaranteed securities. The amount even exceeded the legally required minimum, a result of the agreements signed with the Israel Electric Corporation and the Government.

[1] The increase in insurance business in the second half of 1967 can apparently be attributed not only to the renewed growth of economic activity, but also to the war.

[2] The rise in the average size of the policies apparently stemmed from a shift from endowment to whole life policies.

[3] Group insurance accounts for about half the total unlinked life insurance portfolio. The average amount per insured on group policies is only IL 4,200.

In 1967, IL 38.8 million in linked life insurance funds was invested in these securities—IL 17.5 million in Government-guaranteed Israel Electric Corporation bonds and IL 21.3 million in Government bonds. In the previous year IL 31 million had been invested—half in Government and half in Israel Electric Corporation bonds.

These securities, 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 life insurance policies for similar periods.

(c) *Income*[1] *and outgo of the life insurance branch*

Income of life insurance companies operating in Israel rose in 1967 by about 13 percent, compared with 24 percent the year before, and totalled nearly IL 83 million. Most of the income was from premium receipts, which rose 12 percent to nearly IL 70 million; this compares with a 24 percent gain in 1966. The slower growth is explained by the relatively small increase in new policies issued, for reasons which have already been discussed, and also by the stability of the consumer price index, to which the linked life insurance premiums are pegged.

Table XVIII–6

INCOME AND OUTGO OF LIFE INSURANCE COMPANIES IN ISRAEL, 1964–67

(IL million)

	1964	1965	1966[a]	1967[b]
Income				
Premiums	40.4	50.2	62.2	69.6
Interest	6.8	8.7	10.9	13.0
Total	47.2	58.9	73.1	82.6
Outgo				
Benefits to policyholders	12.5	14.8	17.0	21.0
Operating expenses	12.4	15.3	17.7	21.0
Gross profit[c]	2.7	3.1	3.1	3.0
Total	27.6	33.2	37.8	45.0
Balance of income over outgo	19.6	25.7	35.3	37.6
Income from investment of life insurance funds	2.0	4.5	5.5	1.8
Annual accumulation (growth of the life insurance fund)	21.6	30.2	40.8	39.4

[a] Revised figures.
[b] Estimate.
[c] Including profits of reinsurers abroad.
SOURCE: Ministry of Finance, Commissioner of Insurance; Central Bureau of Statistics.

[1] From local business only.

Another factor was the increased weight of unlinked life insurance, which, as already pointed out, does not contain any appreciable element of saving and hence carries a high premium charge.

Interest income amounted to IL 13 million, and another IL 1.8 million accrued from the appreciation of investments (in the past capital gains were higher, owing *inter alia* to the rise in the consumer price index).

Benefits paid to policyholders rose more rapidly than in the previous year—23 percent as against 15 percent—and totalled IL 21 million, or a quarter of total premium and interest receipts. Operating expenses are estimated at IL 21 million; these include commissions to agents, administrative expenses, and fees for medical examinations.

Net annual accumulation plus the rise in the value of investments came to IL 39.4 million, slightly less than in 1966.

2. General Insurance

The growth of general insurance business[1] was particularly sluggish in 1967, in comparison with both life insurance and the development of this branch in previous years. Expansion began to slacken in 1966, when premium receipts rose by only 17.5 percent[2] as against 24–30 percent in earlier years. In 1967

Table XVIII–7

PREMIUM RECEIPTS FROM GENERAL INSURANCE,[a] 1962–67

Year	IL million	Increase over preceding year	
		IL m.	%
1962	88.5	20.8	30.7
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[b]	206.7	4.0	2.0

[a] Including registration fees and marine insurance; excluding reinsurance in Israel and receipts from abroad.
[b] Estimate.
SOURCE: Ministry of Finance, Commissioner of Insurance; Central Bureau of Statistics.

1 Includes marine, motor vehicle, sickness and personal accident, employers' liability, and fire and loss of property insurance.

2 The growth of general insurance business in 1966 was actually smaller, since part of the incremental premium receipts stemmed from the revision of premiums for motor vehicle insurance.

the figure stood at approximately IL 207 million—a gain of only 2 percent.[1] The deceleration was connected with the continuation of the economic recession in the first half of the year. Business in this branch began to pick up somewhat in the final months.

3. Balance Sheet Developments

The combined balance sheet of Israeli insurance companies was, at IL 453 million, approximately 16 percent larger than in 1966, when the increase came

Table XVIII-8

ASSETS AND LIABILITIES OF ISRAELI INSURANCE COMPANIES, 1965–67

	IL million			Percent		
	1965	1966[a]	1967[b]	1965	1966[a]	1967[b]
Assets						
Government or Government-guaranteed bonds	106.7	143.4	193.5	33.8	36.7	42.7
Other securities	9.7	10.3	10.3	3.1	2.6	2.3
Loans on policies or against mortgages	12.9	14.5	8.2	4.1	3.7	1.8
Other loans	34.1	35.5	35.5	10.8	9.1	7.8
Real estate and investment in subsidiaries	26.7	35.4	36.1	8.5	9.2	8.0
Long-term deposits	4.6	12.1	12.7	1.5	3.1	2.8
Outstanding premiums	61.0	70.7	77.0	19.3	18.1	17.0
Sundry debtors	29.6	34.0	39.1	9.4	8.7	8.6
Cash and demand deposits	30.0	34.5	40.7	9.5	8.8	9.0
Total assets	315.3	390.4	453.1	100.0	100.0	100.0
Liabilities						
Paid-up share capital	40.0	45.5	47.7	12.7	11.7	10.5
Reserves	19.8	22.0	22.0	6.3	5.6	4.9
Life insurance fund	119.7	156.4	196.9	38.0	40.0	43.4
General insurance fund	22.1	25.9	26.4	7.0	6.7	5.8
Extraordinary risks fund	9.6	12.8	13.8	3.0	3.3	3.0
Deposits of reinsurers	25.5	32.5	41.2	8.1	8.3	9.1
Pending and approved claims (general and life insurance)	33.3	41.8	50.9	10.6	10.7	11.2
Current liabilities	45.3	53.5	54.2	14.3	13.7	12.1
Total liabilities	315.3	390.4	453.1	100.0	100.0	100.0

[a] Revised figures.
[b] Estimate.
SOURCE: Ministry of Finance, Commissioner of Insurance; Central Bureau of Statistics.

[1] This is a rough estimate based on information from a small number of companies.

to 24 percent. Obviously, there is a connection between the slowdown in insurance business and the more sluggish expansion of assets, since part of the premium receipts are invested in various assets. The most conspicuous development in 1967 was the greater investment in Government and Government-guaranteed bonds—up 35 percent to IL 193 million. This was due to the larger volume of life insurance funds invested and to purchases of Defense Loan certificates. The weight of Government and Government-guaranteed bonds rose from 37 percent in 1966 to 43 percent.

The second largest asset item is outstanding premiums. This actually constitutes a form of short-term credit to clients and particularly to agents, and reflects the sharp competition prevailing in the insurance sector. Until 1966 the weight of this item in total assets had moved steadily upward, but in 1966 the trend turned and it continued downward in 1967, following the instructions of the Commissioner of Insurance to gradually reduce the amount of outstanding premiums.

The weight of loans granted to clients and to the different sectors of the economy fell, probably because of the general subsiding of demand for credit in 1967.

The life insurance fund rose by 25 percent in 1967, as against 30 percent in the previous year, and reached approximately IL 197 million, or 43 percent of total liabilities. This fund represents the accumulated saving of households in the form of insurance and is equal to the present value of the claims which it is estimated will have to be paid to policyholders or beneficiaries in the future, less estimated future premium receipts and other anticipated income.

The general insurance fund increased by about 2 percent to IL 26.4 million. The size of this fund is determined by the estimated risk assumed by the insurance companies in connection with general insurance business. The growth of equity capital was slow compared with previous years.

4. Money Flows

Receipts of the insurance sector from real transactions went up in 1967 by approximately 6 percent to IL 327 million; this compares with an increase of 17 percent in the previous year. The slower growth was due chiefly to the relatively small percentage rise in general insurance premiums, which form the bulk of such income. Payments—mostly of claims to policyholders, commissions to agents, and transfers to reinsurers abroad—also rose at a slower rate in 1967, by approximately 6 percent, and totalled IL 307 million.

Receipts from transactions in financial claims were, at IL 51 million, up 10 percent. The greater part of these receipts originated in life insurance business. Payments on account of financial transactions, which mainly represent the investment of life insurance funds, remained on the same level as in the previous

Table XVIII–9

"BALANCE OF PAYMENTS" OF THE INSURANCE SECTOR,[a] 1965–67

(IL million)

Receipts	1965	1966[b]	1967[c]	Payments	1965	1966[b]	1967[c]
Transfers and real transactions							
Transfers from domestic sectors, mainly premium receipts and registration fees from general insurance in Israel	190.8	223.5	227.9	Transfers to domestic sectors, mainly general insurance claims paid in Israel	91.6	102.9	105.9
Interest and other income in Israel	8.3	9.5	9.9	Commissions on general insurance (mainly to agents)	39.3	47.3	50.1
Transfers from abroad, mainly on account of reinsurance	64.6	75.9	88.8	Current expenses	44.6	53.5	64.2
				Transfers abroad, mainly on account of reinsurance	71.3	82.0	86.1
				Investment in real estate	1.8	6.3	0.6
Total	263.7	308.9	326.6	Total	248.6	292.0	306.9
Financial transactions,[d] by sector							
From households	31.0	42.6	49.0	Credit (loans, purchase of securities, and deposits)			
From private business	3.1	4.2	2.2	To the public sector	8.7	28.6	32.5
From social insurance funds, banks, and financial institutions	—	—	—	To public sector companies	24.9	9.7	17.5
From the Government	—	—	—	To banks and financial institutions	3.4	11.6	11.6
From the rest of the world	1.6	—	—	To private business	12.5	11.5	11.5
				To households and nonprofit institutions	3.3	2.8	–5.7
				To the rest of the world	—	3.6	—
Total	35.7	46.8	51.2	Total	52.8	67.8	67.4
Intrasector transactions							
Receipts from other insurance companies on account of reinsurance in Israel	13.2	16.3	16.3	Payments on account of reinsurance in Israel	13.2	16.3	16.3
Errors and omissions, net	2.0	4.1	–3.5				
Total receipts	314.6	376.1	390.6	Total payments	314.6	376.1	390.6

[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 transactions; the difference between the two is included in financial transactions (mainly under households).

year—approximately IL 67 million. However, there was some change in their composition: an appreciably larger investment in Government and Government-guaranteed bonds, stability in the volume of credit extended to businesses and financial institutions, and a decrease in loans to households on policies or against mortgages.