CHAPTER XVII

SOCIAL INSURANCE FUNDS AND INSURANCE COMPANIES

I. SOCIAL INSURANCE FUNDS

1. Main Developments

Social insurance fund receipts continued to expand rapidly in 1970, by 25.5 percent compared with 22.7 percent in 1969, bringing the level up to IL 960 million. The higher growth rate was the resultant of two opposing developments: on the one hand, employer and employee contributions declined owing to the more sluggish increase in employment in the economy and to the reduction of contribution rates to the pension funds, simultaneously with the raising of the maximum wage subject to National Insurance; on the other hand, the expansion of bank-administered funds, the increase in pay to employees, and the growth of current income from interest, dividends, and realized linkage differentials were all greater in 1970 than in the previous year.

Payments to members were, at IL 277 million, 23.7 percent larger than in 1969, when the rise came to 21.1 percent. The biggest increase was in pension payments, which were up 42.6 percent to stand at IL 144 million. Total payments to members were equal to 92.3 percent of total income from profits, linkage differentials, and realized capital gains. The funds were therefore able, as in previous years, to meet their liabilities from current profits and accumulate the whole of employer and employee contributions. This directly influenced the volume of saving and accumulation through the various social insurance funds, but had no significance whatever as far as the actuarial situation of the pension funds is concerned.

Since the growth of the funds' total receipts outpaced that in payments, their accumulation increased to IL 614 million—a gain of 24 percent, as against 22.8 percent in 1969.

Nominal household saving through the funds—which may be defined as the total accumulation of the subsector, plus the increase in unrealized linkage differentials, and less the accumulation in the central severance pay funds and the growth in outstanding loans to households—reached IL 680 million in the year reviewed, as against IL 491 million in 1969.

Total assets of the subsector (including Gmul Ltd., the funds' investment company) increased by about IL 683 million in 1970 to reach IL 3,954 mil-

Table XVII–1

FLOW OF FUNDS STATEMENT OF SOCIAL INSURANCE FUNDS AND GMUL LTD., 1969–70

(IL million)

Receipts	1969[a]	1970	Percent annual change 1969	Percent annual change 1970
Employer and employee contributions	525	660	27.4	25.7
Current income (interest, dividends, linkage increments, etc.) and realized capital gains	240	300	13.6	25.0
Total	**765**	**960**	**22.7**	**25.5**
Total receipts	**765**	**960**	**22.7**	**25.5**

Payments	1969	1970	Percent annual change 1969	Percent annual change 1970
Nonfinancial transactions				
Pension payments[b]	101	144	44.3	42.6
Provident and severance payments[b]	77	80	18.5	3.9
Social benefits[a]	46	53	–8.0	15.2
Total benefit payments	**224**	**277**	**21.1**	**23.7**
Current expenditure	32	42	18.5	31.3
Expenditure on capital account	12	10	71.4	16.7
Total payments on real account	**268**	**329**	**22.4**	**22.8**
Financial transactions				
Public sector and public sector companies[c]	121	135	14.2	11.6
Households	38	41	69.2	7.9
Other sectors	336	438	23.5	30.4
Total	**495**	**614**	**22.8**	**24.0**
Errors and omissions	2	17	—	—
Total payments	**765**	**960**	**22.7**	**25.5**

[a] Revised data.
[b] Includes employer and employee contributions refunded and mutual insurance benefit payments.
[c] Including sums transferred through Bitzur Ltd.

lion. They consisted predominantly of securities (64 percent) and loans and deposits (21 percent).

Purchases of bonds at source added up to IL 617.4 millon in 1970. Less bonds issued by Gmul Ltd. (IL 85.3 million) and redemptions and sales (IL 85.0 million), the securities portfolio of the social insurance funds subsector, including Gmul Ltd., expanded by about IL 450 million. Net credit (including purchases of securities and loans and deposits) extended by the funds during the year reviewed came to IL 614 million, of which IL 135 million went to the public sector and public sector companies, IL 41 million to households, and IL 438 million to businesses and financial institutions (including directed credit to Hevrat Ovdim[1]).

2. Structure of the Social Insurance Funds and Their Investments

In Israel there are approximately 260 social insurance funds administering pension, provident, severance pay, or some other type of scheme, while a few administer more than one type. From a numerical point of view, the pension funds form the smallest group (14), but from the aspect of their weight in the subsector's total assets they hold the leading position (at the end of 1969 they accounted for about 71 percent of the subsector's assets after revaluation). The other major groups are provident and severance pay funds; these break down into schemes administered by the individual firm for its employees only, and central funds which are administered mainly by banks and are open to the general public. There are also a number of schemes for covering holiday leave and advanced study, but their weight is very slight.

Membership in the pension and provident funds is generally on a plantwide basis and has its source in collective labor agreements, which cover all employees of the enterprise and stipulate the fund and the type of insurance to be provided. In contrast to this, the central provident funds administered by commercial banks enroll members also on an individual basis.

Social insurance funds are by and large primary financial intermediaries which mobilize funds from their members but do not allocate them directly to the various sectors of the economy, but use them (in accordance with Treasury regulations) to purchase securities of secondary financial intermediaries. The funds connected with the Histadrut have established a special institution (Gmul Ltd.) to engage in secondary financial intermediation, i.e. in the direct allocation of monies transferred to it by the social insurance funds, in accordance with an agreement with the Treasury. Since this institution belongs exclusively to the social insurance funds which set it up, and since it is engaged in the allocation of monies received from social insurance funds only, it should be considered as part of this subsector, the differentiation being due solely to

[1] The holding company of the Histadrut (General Federation of Labor in Israel).

reasons of administrative efficiency. In this chapter we have therefore included Gmul Ltd. in the combined balance sheet of the social insurance funds, from which it appears that the subsector engages also in secondary financial intermediation.

Treasury regulations prescribe that 85 percent of the assets of the pension, provident, and severance pay funds[1] and 50 percent of the assets of the social benefit funds must be placed in recognized investments, consisting chiefly of approved bonds acquired mainly at source and linked to the index;[2] 90 percent of these investments must be in long-term bonds. The balance of the assets may be used for providing loans to members, invested at the funds' own discretion, or retained in the form of cash. It is interesting to note that while the proportion of equities in the funds' recognized investments is limited to 5 percent,[3] in general neither the subsector as a whole nor most of the bank-administered funds, which have a thorough knowledge of the securities market, reach this ceiling. Insofar as the funds are not affiliated to the issuing institution, it makes no difference at all what approved bonds they purchase, since interest rates, the soundness of the issuing institution, and other terms are about the same for all issues.

The funds' investment policy, as regards the type of approved bonds they acquire, is decisively influenced by the Government. This influence is exerted through the approval of bond issues out of which the funds are allowed to acquire securities, and which in effect determines the supply available to them. Under an agreement between the Treasury and Hevrat Ovdim, the latter is able to allocate half of the proceeds from bond sales through Gmul Ltd. and Bank Hapoalim.[4] This allocation is effected through the issues of Histadrut-controlled financial institutions, which put most of the proceeds at the disposal of Hevrat Ovdim. Beginning in 1966 the Treasury agreed to guarantee the linkage differentials on part of the credit received by Hevrat Ovdim under this arrangement. Thus Hevrat Ovdim enterprises receive credit on an unlinked basis, while financial institutions issuing bonds are paid linkage differentials by the Treasury. In exchange for this guarantee, the Treasury collects a premium ranging from 1–4.5 percent, and Hevrat Ovdim has agreed to reduce its share in the funds' recognized investments and to correspondingly increase the proportion allocated by the Government.

To conclude this section, it should be emphasized that the funds' freedom of action in managing their asset portfolios is limited, and therefore no great

1 In the case of severance pay funds administered by individual firms, all of the assets must be placed in recognized investments.

2 8 percent may be purchased in the secondary market and 5 percent invested in shares.

3 This does not include purchases of shares of Gmul Ltd., which, as explained above, are different in character from regular equity investments and are therefore treated as ordinary recognized investments.

4 In 1970, 76 percent of the total recognized investments were placed through Gmul Ltd. and Bank Hapoalim, and therefore Hevrat Ovdim was able to direct about 38 percent of all such investments.

differences in yields are to be expected. There is, however, a difference in managerial performance, and some of the funds earn somewhat higher yields than others (although this does not ensure a higher return to the saver, since the higher yield sometimes stems from the fact that the fund does not provide cheap loans to its members but instead places its moneys in more profitable investments).

3. Receipts and Payments

(a) *Receipts*

Social insurance fund receipts derive from two sources: employer and employee contributions and profits from investments, consisting of interest, dividends, linkage differentials, and realized capital gains. In 1970 receipts aggregated IL 960 million, a rise of 25.5 percent, compared with 22.7 percent in 1969; thus the upward trend in the growth rate, which started with the emergence from the recession, carried over through the year reviewed.

The leading item—employer and employee contributions—reached IL 660 million in 1970, an advance of 25.7 percent as against 27.4 percent the year before. This slight deceleration is attributable to several contrasting developments. On the one hand, the rise in the number of employees slackened somewhat in 1970 and the rate of employer and employee contributions to the pension fund was reduced (from 5 to 4 percent for employees and to 3.5 percent for employers, on an income of between IL 700 and IL 1,500; at the same time the maximum wage subject to National Insurance was raised); on the other hand, the expansion of bank-administered provident funds accelerated and wages per employee rose more rapidly. (It must be borne in mind, however, that there is a difference between the total wage payment and the wage[1] on which the contribution to the funds is calculated; in addition, in 1970 the 4 percent wage increase given to employees in the form of Savings Loan certificates was not taken into consideration in calculating contributions to the funds.) On balance, the contractionary factors outweighed the expansionary influences, with a consequent slight dampening of the rate of growth in employer and employee contributions.

The second component of the funds' receipts—profits from interest, dividends, linkage differentials, and realized capital gains— stood at IL 300 million in 1970, a gain of 25.0 percent compared with 13.6 percent in 1969. This item is subject to sharp fluctuations, because it depends on the growth of assets in previous years and on linkage differentials on interest in the current year, and also because it includes realized linkage increments accumulated on assets that have reached maturity (but it does not include linkage and revaluation differentials on unrealized assets).

[1] Pay for overtime and premiums are excluded from wages in calculating the contributions.

(b) *Payments*

Payments to current members and to those withdrawing from the funds fall into three main categories:

1. Monthly pensions to members who have retired or to their survivors, in accordance with fund regulations.
2. Social benefits, which are in effect paid by employers through central pension funds, for such purposes as convalescence, holidays, etc. This arrangement is found in branches with a high degree of labor mobility, and its purpose is to safeguard the social benefit rights of workers changing their place of employment. The funds actually act merely as agents for the transfer of contributions, but since part of the sums collected from employers is not paid to employees for various reasons—chiefly because of difficulties in locating them or because of the waiving of rights—and is not paid back to employees, this helps to augment the funds' asset accumulation.
3. Payments to members withdrawing from the funds after leaving their jobs; these consist mainly of provident and severance payments, as well as the refund of pension fund contributions to members who have not worked long enough to entitle them to a monthly pension.

Total payments to members came to IL 277 million in 1970—a rise of 23.7 percent, as against 21.1 percent in 1969. About 52 percent of this sum represented pension payments; in fact, as in 1969, all of the incremental payments were in this item. This increase was due mainly to the larger number of persons eligible for pensions and to the 8 percent rise in pension rates following the "package deal".

Provident and severance payments rose by 3.9 percent, as against 18.5 percent in 1969, and reached IL 80 million.

It should be pointed out that bank-administered funds are still at the stage where all receipts are being accumulated, because the majority of the members have not yet reached the minimum number of years entitling them to withdraw their money; therefore these funds are still contributing to the subsector's receipts but not to its payments. The slower growth of provident and severance payments in 1970 is apparently attributable to institutional improvements which have facilitated the transfer of savings from one fund to another upon a change in the worker's place of employment, thereby resulting in a smaller withdrawal of savings.

Social benefit payments went up by 15.2 percent, reflecting primarily the expansion of economic activity and the rise of wages during the year. The effects of the sectoral changes in employment on the volume of such payments more or less offset each other, a decline in agricultural employment being counterbalanced by an increase in the construction sector[1] (these two sectors account for most of the benefit payments made through the pension funds).

[1] This is true even ignoring the rise in the number of workers from the administered areas.

Total payments to members were equivalent to 92.3 percent of total receipts from profits and realized linkage increments. This indicates that the social insurance funds are still at a stage where all employer and employee contributions are being accumulated, while payments are being made out of current income only. (If we deduct from total payments those for which the funds merely act as agents for the transfer of contributions, payments to members were equivalent to 74.7 percent of total profits and realized linkage increments.) It should be stressed that this fact has no actuarial significance whatsoever, nor does it indicate the extent of the funds' consolidation, but merely the volume of savings and accumulation through the funds.

(c) *Household saving through the funds*

Household saving through the social insurance funds may be defined as the funds' total accumulation, plus the increase in unrealized revaluation increments,[1] less the accumulation in the central severance pay funds (which represents employers' saving) and the growth of outstanding loans to households. Such saving reached IL 680 million in 1970, compared with only IL 491 million the year before. The increase is attributable to the more rapid accumulation of the provident funds (19.3 percent in 1970 as against 18 percent in the previous year), the slower growth of outstanding loans to households, and a 10.1 percent

Table XVII–2

HOUSEHOLD SAVING THROUGH SOCIAL INSURANCE FUNDS, 1969–70

(IL million)

	1969	1970
(1) Total accumulation[a]	495	614
(2) Increase in unrealized revaluation increments	85	180
(3) Total accumulation after revaluation (1+2)	580	794
(4) Less: Accumulation in central severance pay funds[b]	51	73
(5) Accumulation of households (3–4)	529	721
(6) Less: Increase in loans to households	38	41
(7) Household saving through social insurance funds	**491**	**680**

[a] See Table XVII–3.
[b] Including IL 4 million in unrealized revaluation increments in 1969 and IL 10 million in 1970.

[1] These stem mainly from the rise in the consumer price index, to which the greater part of the funds' assets are value-linked; in 1969 the increase amounted to IL 85 million, and in 1970 to IL 180 million.

rise in the consumer price index in 1970 (compared with 3.9 percent in 1969). This definition of household saving through the funds reflects the nominal increase in household assets in the funds during the year reviewed. To estimate the amount of liquid assets absorbed by the funds, unrealized revaluation increments must be deducted from this increase. This yields a figure of IL 510 million for 1970, as against IL 410 million the year before.[1] The amount of funds absorbed by the subsector, expressed as a percentage of gross disposable income from domestic sources, went up from 3 percent in 1969 to 3.4 percent (see Table XVII–2).

Household saving through the funds is contractual saving, and is determined 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 where membership is voluntary is saving of a somewhat different character, but here too members display a strong tendency to keep up their contributions in order not to forfeit accumulated rights.

4. Balance Sheet Developments[2]

The nominal value of assets owned by the social insurance funds and Gmul Ltd. reached IL 3,954 million[3] at the end of 1970—an advance of 20.9 percent, compared with 19.2 percent in 1969 and 18.7 percent in 1968. As in 1969, the accelerated growth can be credited to the schemes administered by banks and insurance companies, which increased their assets by 39.4 percent, as compared with 14.9 percent in the pension funds and 19.3 percent in all the funds (excluding Gmul Ltd.—see Table XVII–3).

(a) *Assets*

The relative shares of the various social insurance fund assets are determined by Treasury regulations, and funds wishing to enjoy income tax concessions and exemptions must adhere to them.[4] In 1970 the regulations were changed in respect of the weight of recognized investments to be held by the funds, which was increased from 80 to 85 percent, while the weight of assets that may be invested at the funds' own discretion was reduced from 20 to 15 percent.[5]

Security holdings[6] of the social insurance funds amounted at the end of 1970 to IL 2,517 million, representing 64 percent of their aggregate assets, as com-

[1] Line 7 in Table XVII–2, less line 2, plus unrealized linkage increments in line 4.

[2] Including Gmul Ltd., for reasons explained in section 2.

[3] Excluding approximately IL 550 million in unrealized revaluation increments.

[4] These regulations are discussed in section 2.

[5] Social insurance funds were allowed a period of grace in which to adjust their asset portfolios to the new requirements; at the end of 1970 the weight of recognized investments was 83.2 percent.

[6] At cost and before revaluation.

Table XVII-3

GROWTH OF SOCIAL INSURANCE FUND ASSETS,[a] BY TYPE OF FUND, 1969–70

(IL million)

	1969[b]	1970	Percent annual increase	
			1969[b]	1970
Pension funds	2,220	2,550	18.0	14.9
Funds administered by banks and insurance companies[c]	502	700	33.3	39.4
Central severance pay funds	217	280	27.6	29.0
Funds for self-employed	285	420	39.5	47.4
Other funds	452	538	8.1	19.0
Total	**3,174**	**3,788**	**18.0**	**19.3**

[a] Excluding Gmul Ltd. and not counting revaluation increments.
[b] Revised data.
[c] Excluding funds for employees of these firms.

pared with IL 2,067 million (63 percent) the year before. This increase is explained by the above-mentioned change in the regulations concerning the percentage of recognized investments. The weight of securities in total assets might have been expected to rise more than it actually did, but it must be remembered that some of the funds' recognized investments are in Gmul Ltd., and are here included chiefly in the item "loans and deposits". The amendment of the regulations therefore led to an increase in the weight of securities in total assets and in the weight of approved loans and deposits in relation to other loans and deposits.

Besides this change in the weight of securities, that of outstanding loans to households edged down from 9 percent in 1969 to 8 percent. This continued a trend discernible for the past several years, which can be ascribed to the rising weight of approved assets as required by Treasury regulations. The share of other items, including employer debt, held steady.

(b) *Liabilities*

The liabilities of social insurance funds consist predominantly of three reserves:

1. Pension reserve—for providing a monthly pension to the worker reaching retirement age, in accordance with the conditions specified by the fund to which he belongs. The pension payment is defined in relation to the number of years the member worked and his salary two or three years before retirement; it is also linked to changes in the wage scale according to which he was paid before retiring.

2. Provident reserve: This reserve represents the accumulated savings from

Table XVII–4

COMBINED BALANCE SHEET OF SOCIAL INSURANCE FUNDS AND GMUL LTD., 1969–70[a]

	IL million		Percent	
	1969[b]	1970	1969[b]	1970
Assets				
Securities	2,067	2,517	63	64
Loans and deposits	668	833	21	21
Loans to members	293	334	9	8
Employer debt	73	74	2	2
Real estate	80	91	2	2
Other assets	90	105	3	3
Total	**3,271**	**3,954**	**100**	**100**
Liabilities				
Pension reserve[c]	1,723	2,009	53	51
Provident reserve[c]	865	1,116	26	28
Severance pay reserve	413	478	13	12
Social benefit reserve	124	140	4	4
Creditors, deposits earmarked for loans, and other accounts	128	192	4	5
Government deposits	18	19	0	0
Total	**3,271**	**3,954**	**100**	**100**

[a] Excluding approximately IL 370 million in revaluation increments in 1969 and IL 550 million in 1970.
[b] Revised data.
[c] Including sums earmarked for this reserve but presently recorded under other liability items by some of the institutions in this subsector.
SOURCE: Ministry of Finance, National Savings Commissioner.

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, or, in the case of bank-administered funds, at the end of ten years.

3. Severance pay reserve: The purpose of this insurance plan is to provide severance pay to the worker who is dismissed or who resigned in circumstances that legally entitle him to such compensation. Contributions to the severance pay fund are made by the employer only, who may administer the fund either by 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 schemes under which employers make contributions on account of severance pay, in addition to their regular contributions toward retirement savings.

Besides these three main reserves, there are various social benefit reserves, most of which are maintained by the central pension funds of the Histadrut.

Table XVII–4 shows that the weight of the pension reserve declined from 53 percent of total liabilities at the end of 1969 to 51 percent at the end of 1970, whereas the weight of the provident reserve rose from 26 to 28 percent. This can be attributed mainly to the accelerated expansion of the funds administered by banks and insurance companies (see Table XVII–3). It should be emphasized, however, that statistically no clear differentation can be made between pension and provident contributions to these funds, and therefore no significance should be attached to such slight changes in the distribution. The weight of the severance pay reserve in total liabilities edged down by 1 percentage point to stand at 12 percent at the end of 1970.

The weight of the social benefit reserve remained at 4 percent.

The last two items on the liabilities side, representing together 5 percent of the combined balance sheet, chiefly reflect the operations of Gmul Ltd. as a secondary financial intermediary.

5. Financial Transactions

Because of the Treasury regulations requiring social insurance funds to invest most of their assets in bonds acquired at source, this subsector has become the principal customer for new domestic issues. In 1970 it purchased bonds for IL 617.4 million.[1] This includes IL 85.3 million in bonds issued by Gmul; net of these securities, the figure came to IL 532.1 million. Redemptions and sales out of the funds' own portfolio totalled about IL 85 million; the growth of the securities portfolio of the funds and Gmul Ltd. together therefore amounted to IL 450 million.

The total amount of long-term credit (including securities) and short-term loans supplied by the funds reached IL 614 million—a rise of 24 percent, compared with 22.8 percent in 1969. Because social insurance fund credits are granted through various financial intermediaries, and sometimes by more than one intermediary, it is difficult to trace their final destinations except in a flow-of-funds analysis of the economy. For this reason, we have broken down the total credit outflow of the subsector into three principal groups: IL 41 million in loans granted directly to households; IL 135 million provided to the public sector and public sector companies (including transfers to the Treasury through the Histadrut concern Bitzur); and IL 438 million transferred mainly to financial intermediaries, including the amount channelled to Hevrat Ovdim.

Of the IL 617.4 million gross purchases of securities in 1970, IL 188 million worth (about 31 percent) were acquired under the aforementioned agreement between the Treasury and Hevrat Ovdim,[2] which provides for part of the social insurance funds' investments to be directed to Hevrat Ovdim, with the proceeds being used chiefly for granting credit, at Hevrat Ovdim's behest,

[1] Excluding the Government Short-Term Loan.

[2] See section 2 above.

to Histadrut enterprises and other affiliated bodies. The IL 188 million represented only 40 percent of the total investment placed through Gmul and Bank Hapoalim.

II. INSURANCE COMPANIES[1]

The year reviewed saw a further expansion of insurance business, though more slowly than in 1969. The downtrend in the weight of reinsurance abroad in total general insurance transactions grew more pronounced, which means there was an increase in self-retention.

In line with the slacker growth of economic activity, the gain in general insurance premium receipts dropped off from 27 percent in 1969 to 16 percent; they totalled IL 382 million for the year.[2]

Premium receipts from life policies totalled IL 126 million—a rise of some IL 24 million, or 23.6 percent, as against 30.5 percent in 1969. The life insurance reserve (including the revaluation of investments) likewise grew more sluggishly—by IL 75 million, or 21.2 percent, as contrasted with 39.3 percent in 1969.

The combined balance sheet of Israeli insurance companies rose by IL 160 million to reach IL 871 million. The upward trend in the weight of self-retention, in evidence for several years, was accentuated in 1970, apparently because of the raising of reinsurance premium fees in the wake of the losses incurred by foreign reinsurers in the past. This increase in self-retention was reflected by the relatively small rise in foreign reinsurers' deposits with Israeli insurance companies (5.4 percent in 1970, compared with 38.5 percent in 1969), as well as by the fact that, despite the slower increase in general insurance premiums, the general insurance reserve grew to roughly the same extent as in 1969 (IL 16 million)—a development attributable to the need to enlarge the reserve because of the smaller amount of premiums reinsured with foreign firms. The Israeli companies' securities portfolio expanded by IL 66 million in 1970, and accounted for about 41 percent of the total asset growth. Outstanding loans and deposits were up by IL 42 million, accounting for 26 percent of the total increment, compared with 16 percent in 1969; this indicates a heavier demand for insurance company credit in 1970.

[1] Israeli insurance companies, branches of foreign insurance firms, and Lloyd's agents operating in Israel.

[2] Less reinsurance in Israel; the data for 1970 are estimates based on reports received from only part of the insurance companies, and hence they are liable to change.

1. Life Insurance

(a) *General developments*

Endowment and whole-life insurance in force increased by IL 490 million net,[1] as against IL 338 million in 1969, and totalled IL 2,705 million.[2] Nearly 95 percent of the increment consisted of value-linked policies, compared with 78 percent the year before. This development runs counter to the general trend of household investment in other financial assets, and apparently it can be ascribed to the fact that this kind of insurance represents very long-term savings, in contrast to other forms of liquid savings, such as time deposits.

About 25,000 linked life policies[3] were issued in 1970, compared with 19,500 in 1969 and 15,000 in 1968. The average size of these policies also continued upward in the year reviewed, reaching nearly IL 21,400 as against IL 20,400 in 1969. However, if the average annual rise of 6.1 percent in the consumer

Table XVII-5

LIFE INSURANCE IN FORCE,[a] 1962–70

(IL million)

	Total amount at end of year[a]	Linked insurance: Linked to consumer price index	Linked insurance: Linked to the dollar	Unlinked insurance	Share of linked insurance (%)
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	3,026.9	1,233.9	99.0	1,694.0	44.0
1968	3,749.6	1,553.5	93.0	2,103.1	43.9
1969[b]	4,640.1	1,979.6	90.7	2,569.8	44.6
1970[c]	5,585.0	2,635.0	80.0	2,870.0	48.6

[a] Excluding pension and retirement plans.
[b] Revised data.
[c] Estimate.
Source: Commissioner of Insurance, Ministry of Finance.

[1] The gross increase, less the estimated value of policies lapsed or surrendered.

[2] Excluding pension insurance, which is essentially different from other types of life insurance.

[3] This is also the number of linked endowment and whole-life insurance policies, since in Israel index-linked pure risk insurance can be purchased only as a rider to a linked endowment or whole-life policy.

price index is taken into account, it turns out that in real terms there was no increase in the average size of the policies.

While endowment and whole-life insurance are mostly linked, pure risk insurance is mainly unlinked. The latter expanded by IL 455 million net, as contrasted with IL 550 million in 1969, and totalled IL 2,880 million. The smaller gain in the year reviewed was probably due to the smaller increase in the amount of group insurance sold; in the past it had accounted for most of the additional risk insurance written. The dollar-linked life portfolio shrank by a further IL 10 million to stand at IL 80 million. No dollar-linked policies have been issued since 1962, and meanwhile many of these policies have either matured or have lapsed or been surrendered.

The net increase in the life insurance portfolio (linked and unlinked) of insurers in Israel (both Israeli and foreign companies) totalled IL 945 million, compared with IL 890.5 million in 1969 and IL 722.7 million in 1968. The slower expansion in 1970 was the resultant of a smaller growth of the unlinked insurance portfolio (IL 300 million as against IL 467 million in 1969) and a much larger gain in the linked insurance portfolio (up from IL 467 million in 1969 to IL 645 million).

(b) *Investment of linked and unlinked 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 (a) 5 percent, which they may hold in cash; (b) outstanding premiums; and (c) 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 cash surrender value of the policies without any limitation; 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. The remainder[1] 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 bonds, which bear 5.8–6 percent interest and have maturities of up to 40 years.

The regulations governing the investment of unlinked insurance premium receipts differ from those for linked insurance: they allow the companies to invest 10 percent of their assets in shares; 35 percent (instead of the 20 percent for linked insurance) in securities approved by the Commissioner of Insurance;

[1] At least 60 percent of the total assets subject to linkage, net of outstanding loans granted up to the cash surrender value of the policies.

Table XVII-6

INCOME AND OUTGO OF LIFE INSURANCE COMPANIES IN ISRAEL,[a] 1967–70

(IL million)

	1967	1968	1969[b]	1970[c]
Income				
Premiums	68.7	78.3	102.2	126.3
Interest	12.8	15.3	18.6	21.7
Total	**81.5**	**93.6**	**120.8**	**148.0**
Outgo				
Benefits to policyholders	24.0	25.3	33.6	44.4
Operating expenses	17.8	20.7	26.3	31.3
Gross profit[d]	3.1	5.9	5.8	6.5
Total	**44.9**	**51.9**	**65.7**	**82.2**
Balance of income over outgo	36.6	41.7	55.1	65.8
Income from investment of life insurance funds	7.8	2.6	6.6	9.0
Annual accumulation (growth of the life insurance reserve)	**44.4**	**44.3**	**61.7**	**74.8**

[a] Israeli and foreign insurance companies operating in Israel; before deducting reinsurance abroad.
[b] Revised data.
[c] Estimate.
[d] Including profits of reinsurers abroad.
SOURCE: Central Bureau of Statistics.

and 50 percent (instead of 20 percent) in loans and bank deposits. They are also permitted to invest up to 20 percent in immovable assets, and they may hold 7.5 percent (instead of 5 percent) in cash.

In 1970, under the linked insurance regulations, insurance companies acquired at source IL 24 million worth of Government bonds and IL 31 million of Electric Corporation bonds.

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

Income of the companies operating in Israel from life insurance business increased in 1970 by IL 27 million, about the same as in 1969, and totalled IL 148 million (see Table XVII–6).

Premium receipts, the leading income item, rose by IL 24 million to IL 126 million. In addition to these receipts, the life insurance business account was credited with IL 22 million in interest income and IL 9 million in capital gains on investments, bringing the total figure up from IL 127.4 million in 1969 to IL 157 million.

Claims paid to policyholders added up to IL 44 million, as against IL 33.6 million in 1969, and amounted (as in 1969) to 27 percent of total receipts plus capital gains in the life insurance business account. The ratio of current expenses (mainly payments to insurance agents) to total premium receipts also remained constant, at 25 percent.

The net increase in the life insurance reserve, including the increment from the revaluation of investments, reached IL 75 million, as against IL 61.7 million in 1969 and IL 44.3 million in 1968. Most of the growth stemmed from endowment and whole-life insurance, with risk insurance accounting for only a minor share.

2. General Insurance[1]

General insurance business continued to expand, but to a lesser degree than in 1969, in line with the slacker growth of economic activity in general. Premium receipts were up 16 percent, compared with 27.4 percent in 1969, and totalled approximately IL 382 million. The deceleration in this class of insurance, however, was presumably less acute than reflected by the data, since part of the 1969 growth of premium income stemmed from an unprecedented increase in the number of private vehicles and the upward revision of cargo insurance rates.

The rising trend in the share of Israeli companies in general insurance transactions carried over through 1970, when they accounted for about 78 percent of total premium receipts. There was an increase in self-retention and

Table XVII–7

PREMIUM RECEIPTS FROM GENERAL INSURANCE,[a] 1965–70

(IL million)

	Total	Annual increase	
		IL m.	%
1965	172.4	33.6	24.2
1966	202.7	30.3	17.5
1967	204.8	2.1	1.0
1968	258.3	53.5	26.1
1969[b]	329.1	70.8	27.4
1970[c]	382.2	53.1	16.1

[a] Israeli and foreign companies and Lloyds' agents; including registration fees and marine insurance; excluding reinsurance in Israel and receipts from abroad.
[b] Revised data.
[c] Estimate.
Source: Central Bureau of Statistics.

[1] All classes of insurance other than life—namely (the weight of gross premiums in each class relative to total general premium receipts in 1969 is shown in parentheses): motor vehicle (31 percent); fire and property loss, cargo, sickness and personal accidents (10–15 percent each); comprehensive, employers' liability, marine, and aviation (3–7 percent each); and others (10 percent).

a corresponding decline in the portion of transactions reinsured abroad (see section 3).

3. Balance Sheet Developments of Israeli Companies

The combined balance sheet of Israeli insurance companies expanded in 1970 by about IL 160 million, as against IL 145.5 million in 1969, and totalled nearly IL 871 million.[1] The increase in the life and general insurance reserves

Table XVII–8

ASSETS AND LIABILITIES OF ISRAELI INSURANCE COMPANIES,[a] 1968–70

	IL million			Percent		
	1968	1969[a]	1970[b]	1968	1969[a]	1970[b]
Assets						
Government or Government-guaranteed bonds	241.0	291.5	355.8	42.6	40.9	40.8
Other securities	19.9	27.6	29.0	3.5	3.9	3.3
Loans on policies	15.7	17.7	22.3	2.8	2.5	2.6
Other loans	31.9	43.5	65.6	5.6	6.1	7.5
Long-term deposits	24.8	34.5	49.6	4.4	4.9	5.7
Real estate and investment in subsidiaries	41.2	53.7	55.7	7.3	7.6	6.4
Outstanding premiums	84.0	97.2	110.3	14.9	13.7	12.7
Sundry debtors	55.7	84.1	103.4	9.9	11.8	11.9
Cash and demand deposits	51.1	61.0	79.6	9.0	8.6	9.1
Total assets	**565.3**	**710.8**	**871.3**	**100.0**	**100.0**	**100.0**
Liabilities						
Paid-up share capital	50.2	58.0	61.2	8.9	8.2	7.0
General and other reserves	37.8	47.2	51.3	6.7	6.6	5.9
Life insurance reserve (less reinsurance)	234.7	288.7	352.2	41.5	40.6	40.4
General insurance reserve (less reinsurance)	36.5	51.0	67.3	6.5	7.2	7.7
Extraordinary risks reserve	20.9	29.3	41.3	3.7	4.1	4.7
Deposits of reinsurers	52.4	72.6	76.5	9.3	10.2	8.8
Pending and approved claims (general and life insurance), less reinsurance	59.1	73.1	98.0	10.5	10.3	11.2
Current liabilities	73.7	90.9	123.5	12.9	12.8	14.3
Total liabilities	**565.3**	**710.8**	**871.3**	**100.0**	**100.0**	**100.0**

[a] Revised data.
[b] Estimate.
Source: Central Bureau of Statistics.

[1] With the exception of the assets and liabilities in respect of life insurance contracts, the balance sheet has not been revalued.

explains approximately 50 percent of the growth of liabilities (including stockholders' equity).

The life insurance reserve, which represents the accumulated savings of households through insurance companies, rose by about IL 64 million, as against IL 54 million in 1969, and amounted to nearly IL 352 million. Its weight in total liabilities stood at 41 percent, about the same as in 1969 and 1968.

Transfers of premiums to reinsurers abroad decelerated sharply, the figure rising by only 9 percent as against 27.9 percent in 1969. This is only partly explained by the slower growth of general insurance premiums; it also reflects the increase in self-retention, in line with the prevailing tendency to reduce the proportion of transactions reinsured abroad with the growth of business. In 1970 this trend was accentuated by the higher premiums charged by foreign reinsurers because of the heavy losses they had suffered in recent years.

This increase in self-retention resulted in several changes in the combined balance sheet: deposits of reinsurers (against premiums transferred to them) rose by only 5.4 percent, as compared with 38.5 percent in 1969. The general insurance reserve, allocations to which are based on the estimated outstanding risk assumed by insurance companies in connection with such business, increased by more than in 1969—IL 16 million as against IL 14.5 million—despite the more sluggish growth of general insurance premium income. The extraordinary risks reserve likewise expanded by more than in 1969—by some IL 12 million as against IL 8.4 million—and this too notwithstanding a smaller percentage rise in general insurance premium receipts.

The weight of stockholders' equity (paid-up share capital and the general and other reserves) in total liabilities continued downward, and stood at 12.9 percent at the end of 1970, compared with 14.8 percent at the end of 1969 and 15.6 percent at the end of 1968.

The securities portfolio of the Israeli firms expanded by IL 66 million, as against IL 58 million in 1969, and amounted to approximately IL 385 million, or 44 percent of aggregate assets.

Outstanding loans and deposits rose by IL 42 million and accounted for 26 percent of the incremental assets, as contrasted with 16 percent in 1969; presumably this reflected a heavier demand for insurance company credit in 1970.

Outstanding premiums went up by IL 13 million to IL 110 million. Most of this represented sums collected by agents and not yet transmitted, but some was still owing by households.

4. Flow of Funds

Receipts of the insurance sector from real transactions were, at IL 616 million, up 16.3 percent, compared with a 30.1 percent rise in 1969. The smaller increase was due both to a slower growth of domestic transfers, which consist mainly of premium receipts and registration fees on general insurance policies,

Table XVII–9

FLOW-OF-FUNDS STATEMENT OF THE INSURANCE SECTOR,[a] 1968–70

(IL million)

Receipts	1968	1969[b]	1970[c]	Payments	1968	1969[b]	1970[c]
Transfers and real transactions[d]							
Transfers from domestic sectors, mainly premium receipts and registration fees from general insurance in Israel	285.0	361.3	420.0	Transfers to domestic sectors, mainly general insurance claims paid in Israel	115.6	171.9	201.0
Interest and other income in Israel	19.1	21.3	26.0	Commissions on general insurance (mainly to agents)	59.4	76.8	101.0
Transfers from abroad, mainly on account of reinsurance	103.1	147.1	170.0	Operating expenses	62.3	74.5	98.0
				Transfers abroad, mainly on account of reinsurance	121.1	149.9	171.0
				Investment in real estate	1.6	1.2	0.0
Total	**407.2**	**529.7**	**616.0**	Total	**360.0**	**474.3**	**580.0**
Financial transactions, by sector							
From households	46.2	72.3	80.0	Credit (loans, purchase of securities, and deposits)			
From private business	6.5	7.4	6.0				
From the rest of the world	–1.0	–2.2	0.0	To the public sector	40.0	23.4	30.0
				To public sector companies	17.9	28.1	37.0
				To banks and financial institutions	22.2	22.4	24.0
				To private business	16.1	35.8	46.0
				To households and nonprofit institutions	6.2	7.4	11.0
				To the rest of the world			
Total	**51.7**	**77.5**	**86.0**	Total	**102.4**	**117.1**	**148.0**
Errors and omissions, net	3.5	–15.8	26.0				
Total receipts	**462.4**	**591.4**	**728.0**	Total payments	**462.4**	**591.4**	**728.0**

[a] Israeli and foreign insurance companies operating in Israel.
[b] Revised figures.
[c] Estimates based on preliminary data submitted by part of the insurance sector; most likely they will later be revised.
[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).

and of transfers from reinsurers (chiefly their participation in operating expenses and claim payments), which rose by only 15.6 percent as against 42.7 percent in 1969. Receipts from transactions in financial claims (the largest part of which originates in life insurance business) also went up more slowly—by 11 percent as against 50 percent the year before.

Payments on real account were, at IL 580 million, up 22 percent; this compares with an increase of 31.8 percent in 1969. Payments on financial account, on the other hand, went up more rapidly in the year reviewed—by 26.4 as against 14.3 percent—and added up to IL 148 million. As in 1969, the major share of such credit went to the private business sector (nearly IL 46 million, including premiums owed by agents), followed by public sector companies (chiefly the Israel Electric Corporation, which received IL 37 million) and the Government (IL 30 million).