

## CHAPTER XVIII

### THE FINANCIAL ACTIVITIES OF PROVIDENT FUNDS AND INSURANCE COMPANIES

#### I. PROVIDENT FUNDS<sup>1</sup>

IN 1961 THE PROVIDENT funds continued to accumulate money at a rapid rate. The annual accumulation amounted to IL. 124 million, as against IL. 104 million in 1960, bringing the funds' assets up to IL. 625 million.

TABLE XVIII-1

*Assets of Provident Funds and Annual Accumulation, 1957-61*

Year	Assets at end of year	Annual accumulation of assets	Per cent increase in total assets
1957	232	56	31.8
1958	305	73	31.4
1959	397	92	30.2
1960	501	104	26.2
1961	625	124	24.8

SOURCE: For approved funds—Ministry of Finance, National Saving Commissioner's Office.

This large-scale accumulation accounted for a substantial part of total household saving.<sup>2</sup> Contributions to the funds rose from IL. 114 million in 1960 to IL. 137 million in 1961, i.e. a gain of IL. 23 million or 20 per cent, as compared with an advance of 17 per cent in 1960. The growth in 1961 was due to two factors: an increase of approximately 12 per cent in average monthly wages per worker, and the expansion of membership due to a 5 per cent rise in employment. On the other hand, the changeover of funds from a system of

<sup>1</sup> This survey includes both provident funds which have been approved for tax concessions and those which have not been approved.

<sup>2</sup> See Table XIX-6 in Chapter XIX—“Saving”.

provident payments to one of pensions, which involves increases in the employers' contributions, was on a smaller scale than in 1960.<sup>1</sup>

TABLE XVIII-2  
*Annual Accumulation of Provident Funds, 1958-61*  
(IL. million)

	1958	1959	1960	1961*
Contributions of employers and employees	78.9	97.2	114.0	136.5
Income from interest on investments and other income <sup>b</sup>	21.2	28.0	33.2	37.0
<i>Less:</i>				
Payments <sup>c</sup> to current and past members <sup>b</sup>	20.4	25.0	34.7	40.0
Current expenses	6.8	8.1	8.4	9.5
<i>Total accumulation</i>	72.9	92.1	104.1	124.0

\* Estimate.

<sup>b</sup> Includes increase in "creditors" in the funds' balance sheets (see Table XVIII-4), stemming from the fact that part of the payments to members had not yet been withdrawn from the funds.

<sup>c</sup> Pension, retirement, severance, and other fringe payments.

SOURCE: For approved funds—Ministry of Finance, National Saving Commissioner's Office.

Payments to past members, including pension, provident, and severance payments, as well as other fringe benefits, rose by only IL. 5 million, to IL. 40 million. Such payments are still small in comparison with annual contributions to the funds, primarily because of the young age structure of the funds' membership; they went up from 25 per cent of the contributions in the years 1958 and 1959 to 30 per cent in 1960, but declined slightly in 1961, to 29 per cent.

These factors, together with the higher profits earned by the funds, led to an increase in the annual accumulation from IL. 104 million in 1960 to IL. 124 million in 1961. However, the net saving through the funds, i.e. the annual accumulation less additional loans to members, advanced by a smaller amount, from IL. 93 million to IL. 104 million. This more moderate expansion was due to the fact that the balance of outstanding members' loans increased by IL. 20 million as against IL. 11 million in 1960.

The large additional accumulation in 1961, when prices rose more rapidly than in any of the previous three years, underlines the importance of the funds as an instrument of saving in a period of inflation. Saving through the funds

<sup>1</sup> If the employer contributed to both the retirement and severance funds at the rate of 13.5 per cent of the wage bill, a changeover to the pension system does not involve an increase in the rate. But if he contributed 5 per cent to the provident fund alone, he has to pay a higher rate in the event of a changeover.

is of a contractual nature and is linked with nominal wage changes. Because of the cost-of-living agreement, wages automatically go up together with prices, and following an increase in the former, contributions also expand. Consequently, a rise in prices results in a larger annual accumulation as long as the volume of payments to members leaving the funds is relatively small. On the other hand, a rise in prices also produces an opposite effect—increased pressure by members for loans from the funds, as actually happened in 1961. This is due to the fact that, in contrast to the general practice as regards medium-term loans, the loans extended by provident funds are not value-linked and bear interest at a rate generally not exceeding 6 per cent. An increase in loans, which as a rule are granted for two to five years, thus slows down the growth of net household saving through the funds.

It should be emphasized that the funds have not yet reached their full potential. Some 30 per cent of all employees—70,000 of them in the civil service and various public institutions and 80,000 unorganized workers—do not belong to the funds at all, while only about 15 per cent of the self-employed save through them.

## 1. MONEY FLOWS, BY SECTOR

### (a) *Receipts*

Total receipts of the funds reached IL. 129 million in 1961, compared with IL. 105 million the year before.<sup>1</sup> Some 90 per cent of the receipts originate in household saving, the figures for the last two years being IL. 112.7 million and IL. 94.1 million respectively.<sup>2</sup> These consist mainly of the excess of contributions over payments, and partly of the funds' profits which are credited to the provident accounts. Such profits, which accrue from operations with the members' money, should also be regarded as members' savings. Employers account for about two-thirds of the aggregate contribution, but their share, too, actually falls in the category of household saving; from the employers' point of view, they of course constitute part of the wage bill.

Receipts from private business enterprises came to IL. 11.6 million in 1961. These represent employers' contributions to the central severance funds administered by a number of banks. For purposes of analysis, a distinction has been made between the employer's participation in the central dismissal compensation fund and his contributions to the severance account in the provident fund administered by the workers, for two reasons:

(1) Where the workers are organized in their own fund, it generally runs

<sup>1</sup> The discrepancy between these figures and the total annual accumulation shown in Table XVIII-2 is due to the fact that part of the profits of the Gmul Invesment Company is not transferred to the members' fund.

<sup>2</sup> In contrast to previous reports, contributions to the funds have this time been recorded as purchases of financial assets by private individuals, rather than as transfer receipts of the funds.

TABLE XVIII-3

*The "Balance of Payments" of Provident Funds and Gmul Ltd., 1958-61*  
(IL. million)

	1961 <sup>b</sup>					1961 <sup>b</sup>				
	1958	1959	1960 <sup>a</sup>	IL million	%	1958	1959	1960 <sup>a</sup>	IL million	%
<i>Receipts</i>						<i>Payments</i>				
From households	64.5	82.6	94.1	112.7	87.2	Loans through securities				
From private business enterprises	5.0	5.7	8.7	11.6	9.0	and other credit:				
Increase in profits of provident funds and Gmul Ltd. which were not credited to the members' funds	3.9	4.5	2.6	5.0	3.8	To public sector <sup>c</sup> and Government companies	16.8	30.8	31.4	37.4
						To financial and banking institutions <sup>d</sup>	32.9	38.4	51.3	28.1
						To households and non-profit institutions	12.4	12.5	8.9	21.6
						To private business enterprises <sup>e</sup>	9.6	7.9	12.1	37.4
						Investments in real estate	1.7	3.2	1.7	4.8
<i>Total<sup>f</sup></i>	73.4	92.8	105.4	129.3	100.0	<i>Total</i>	73.4	92.8	105.4	129.3
										100.0

<sup>a</sup> Revised figures.<sup>b</sup> Estimate.<sup>c</sup> Government, National Institutions, and local authorities.<sup>d</sup> Excluding the funds' deposits with Gmul, recorded in this table as investments in the public sector, in business, and in non-profit institutions.<sup>e</sup> Mainly Histadrut enterprises.<sup>f</sup> The discrepancy between total receipts in this table and the annual accumulation in Table XVIII-2 is due to the fact that part of Gmul's profits is not transferred to the funds.

the severance fund as well; but when the employer is organized in a central fund, the severance fund is usually held by him.

(2) In the first case, responsibility for severance payments does not as a rule fall on the employer but on the fund, while in the second it falls on the employer alone.

It follows that contributions to the severance account in the workers' provident funds constitute an expense which does not involve any claim on the part of the employer, whereas his payments to the central fund constitute an accumulation of financial assets. This accumulation therefore represents savings by the employer, while his payments to the workers' funds are included in household saving. This differentiation is normally valid, but there are cases where the severance fund in a workers' provident fund actually belongs to the employer, and in this event his contributions should be regarded as his own saving rather than household saving. Consequently, in Table XVIII-3 there is a downward bias in receipts from private business enterprises and an upward bias in receipts from households.

#### *(b) Payments*

In 1961, 60 per cent of the total investment was channelled to the public sector and private business enterprises. Credit to the public sector aggregated IL. 37 million as against IL. 31 million in 1960, the increment being reflected in larger purchases of Government bonds.

In contrast, credit to financial and banking institutions declined substantially. That to financial institutions originates primarily in the purchase of approved debentures issued by them, while that to banking institutions is extended in the form of deposits. Total credit to both types of institutions, which reached IL. 51 million in 1960, dropped to IL. 28 million in 1961. This IL. 23 million reduction consisted of a IL. 53 million decline in credit to banking institutions and a IL. 30 million increase in credit to financial institutions. The sharp drop in respect of the former was due to a IL. 18 million decrease in the balance of the funds' "special deposits" which passed their due dates, as compared with a growth of IL. 35 million in 1960. With the cancellation of the "special deposits" arrangement in 1960, those holdings which passed their due dates were not redeposited. On the other hand, credit to financial institutions expanded from IL. 16 million in 1960 to IL. 46 million in 1961.

It is noteworthy that the decline in the balance of "special deposits" was not reflected in a withdrawal of funds from the banks. The parties concerned came to an arrangement whereby the provident funds utilized the deposits passing their due dates to buy approved debentures of Bitzur Ltd.,<sup>1</sup> which in turn de-

<sup>1</sup> An affiliate of the Histadrut holding company Hevrat Ovdim.

posed the proceeds in one of the large banks. A similar arrangement was made in respect of the "special deposits" of Gmul Ltd., which serves as an agent for the funds' investments. Although the balance of such deposits declined by IL.28 million, this sum was used by the funds to buy Gmul debentures, which were recognized by the Treasury as an "authorized investment". The abrogation of the "special deposits" arrangement<sup>1</sup> has therefore not led to any change so far in the destination of the investments, but it has added one more intermediary to the list of institutions already engaging in the investment of the savings of provident fund members. On the other hand, if we add to the bank deposits of the funds those of their investment agencies, we find that, unlike the previous three years, no growth took place in 1961 in the balance of such deposits.

Credit to private business enterprises rose noticeably in 1961, to IL. 37 million as against IL. 12 million in 1960. The increment consisted mainly of loans extended by Gmul to the Histadrut's commercial enterprises, which totalled IL.16 million, and an increase in the employers' liabilities, which went up to IL.14 million. Building contractors were responsible for about half the additional employers' debts.

Loans to households were double the 1960 figure, owing to a IL. 20 million growth in the balance of loans to members. It seems that, with the rise in prices in 1961 and the mounting expectation of devaluation, there was increased pressure by members for loans.

To sum up, the provident funds' investments, including those through Gmul Ltd., aggregated IL.129 million in 1961 as compared with IL.105 million the year before.

## 2. DEVELOPMENTS IN THE PROVIDENT FUNDS' BALANCE SHEET

As a result of the expansion of the funds' financial resources and their volume of loans and investments, their total assets reached IL.625 million in 1961 compared with IL.501 million at the end of 1960. The largest gain on the asset side was in securities, while deposits declined substantially; on the liability side, the pension fund showed the biggest growth.

### (a) *Assets*

The asset structure has undergone a marked change following the termination of the "special deposits" arrangement. The only category of "authorized investment" under the ordinances today is the purchase of approved securities, and consequently "special deposits" have contracted conspicuously, while securities have shown a large increase.

<sup>1</sup> A detailed discussion of the ordinances appeared in the Bank of Israel Annual Report for 1960.

TABLE XVIII-4  
*Assets and Liabilities of Provident Funds, 1958-61*

	End of 1958		End of 1959		End of 1960 <sup>a</sup>		End of 1961 <sup>b</sup>	
	IL. million	%	IL. million	%	IL. million	%	IL. million	%
<i>Assets</i>								
Cash and demand deposits	5.7	1.9	5.5	1.4	9.4	1.9	9.4	1.5
“Special deposits” in banks	17.2	5.6	41.3	10.4	68.6	13.7	51.0	8.2
“Special deposits” in Gmul	35.7	11.7	48.3	12.2	71.6	14.3	45.2	7.2
Other time deposits in banks	22.6	7.4	16.2	4.1	7.2	1.4	8.4	1.3
Other time deposits in Gmul	23.1	7.6	24.3	6.1	13.3	2.7	17.1	2.7
Securities	73.3	24.0	114.8	28.9	170.7	34.1	293.3	46.9
Loans to members	58.3	19.1	70.3	17.7	81.1	16.2	101.3	16.2
Employers' debts	41.2	13.5	44.3	11.2	44.6	8.9	59.0	9.4
Loans to business enterprises <sup>c</sup>	9.4	3.1	8.2	2.0	8.3	1.6	8.6	1.4
Real estate	12.1	4.0	15.3	3.9	17.0	3.4	21.8	3.5
Miscellaneous <sup>d</sup>	6.3	2.1	8.5	2.1	9.3	1.8	10.0	1.6
<i>Total</i>	304.9	100.0	397.0	100.0	501.1	100.0	625.1	100.0
<i>Liabilities</i>								
Pension funds	123.0	40.3	177.7	44.8	231.6	46.2	304.7	48.8
Provident funds	114.5	37.6	127.6	32.1	152.4	30.4	187.0	29.9
Severance funds	27.5	9.0	38.4	9.7	54.1	10.8	70.6	11.3
Various welfare funds <sup>e</sup>	18.9	6.2	26.1	6.6	32.0	6.4	34.0	5.4
Investment realization fund	0.8	0.3	3.1	0.8	3.7	0.7	3.0	0.5
Reserve funds	5.0	1.6	5.8	1.4	4.4	0.9	3.0	0.5
Balance of profit and loss account	2.6	0.9	3.3	0.8	4.3	0.9	3.8	0.6
Creditors <sup>f</sup>	12.6	4.1	15.0	3.8	18.6	3.7	19.0	3.0
<i>Total</i>	304.9	100.0	397.0	100.0	501.1	100.0	625.1	100.0

<sup>a</sup> Revised figures.<sup>b</sup> Estimate.<sup>c</sup> Histadrut enterprises.<sup>d</sup> Mainly insurance and interest owed.<sup>e</sup> Special aid, rehabilitation, sickness, paid holiday, etc.<sup>f</sup> Mainly holiday fund and past members.

SOURCE: For approved funds—Ministry of Finance, National Saving Commissioner's Office.

The latter development has been due not only to the conversion into debentures of deposits which passed their due dates, but primarily to the substantial growth of the funds' resources. The raising of the required rate of "authorized investment" from 65 to 75 per cent<sup>1</sup> has also led to additional purchases of debentures. As compared with an increase of IL.56 million in 1960, the funds expanded their security portfolio in 1961 by IL.122 million, to IL.293 million.<sup>2</sup> As a result, the relative share of securities in the funds' total assets went up from 34 per cent at the end of 1960 to 47 per cent at the end of 1961. The discrepancy between the percentage owned at the end of 1961 and the statutory rate was due to the fact that "special deposits" which have not yet passed their due dates are also regarded as "authorized investments". About 98 per cent of the funds' portfolio consists of approved securities.

As against an increase in securities, a marked decline occurred, as already mentioned, in "special deposits". The contraction of such deposits from IL.140 million at the end of 1960 to IL.96 million at the end of 1961 brought down the relative proportion of all time deposits in banks and Gmul Ltd. from 32 per cent at the end of 1960 to 19 per cent at the end of 1961.

The balance of loans to members climbed from IL.81 million at the end of 1960 to IL.101 million at the end of the following year, thus checking the downward trend in the relative weight of such loans which prevailed during the past few years—from 19 per cent at the end of 1958 to 16 per cent at the end of 1960, at which level it remained at the close of 1961.

Employers' liabilities also rose considerably in 1961, after the upward trend was halted in 1960, thus increasing the relative share of this item among all assets: From 13.5 per cent of the total at the end of 1958, it fell to 8.9 per cent at the end of 1960, but again swung upward in 1961, to 9.4 per cent.

#### (b) *Liabilities*

The relative share of pension funds continued to increase in 1961, reaching 48.8 per cent of total liabilities, as compared with 46.2 per cent at the end of 1960, 44.8 per cent at the end of 1959, and 40.3 per cent at the end of 1958. Correspondingly, there was a steady decline in the share of the provident funds, from 37.6 per cent at the end of 1958 to 29.9 per cent at the end of 1961.

The greater weight of the pension funds and the lower weight of the provident funds was due mainly to two factors:

(1) The conversion of provident funds into pension funds. As already indicated, this took place on only a limited scale in 1961.

<sup>1</sup> Of total assets, less employers' liabilities.

<sup>2</sup> This IL.122 million increase is high in relation to the total value of all debenture issues in 1961 (see Chapter XX). Evidently there is an upward bias in the figure for the provident funds, since it includes amounts which were earmarked for the purchase of debentures but which were actually expended for this purpose only at the beginning of 1962.

(2) The rate of contributions to the pension funds is double that for the provident funds. Furthermore, payments to members leaving the funds were relatively higher in respect of the provident funds than of the pension funds.

To sum up, in 1961 the pension funds were increased by IL.73 million, to IL. 305 million, as compared with IL. 232 million at the end of 1960. Over 90 per cent of this amount was held in the seven countrywide pension funds of the Histadrut; the majority of the remaining 380 funds were provident funds. More than 65 per cent of all provident fund assets were owned by the Histadrut funds.

In contrast to the growth of the pension funds, the relative importance of the provident funds, as stated, has diminished. This decline has been slowed down somewhat by the increase in the resources of the provident funds for the self-employed, which began to operate only at the end of 1957. Assets held by these funds went up from IL.7.4 million at the end of 1959 to IL.11.7 million at the end of 1960 and IL.15.5 million at the end of 1961.

## II. INSURANCE COMPANIES

### 1. MAIN DEVELOPMENT TRENDS

The following survey covers only those insurance companies which have been defined as such by the Superintendent of Insurance and are subject to his control.<sup>1</sup>

In spite of the large expansion which the insurance companies have experienced since 1957, in which year they instituted linked life insurance, the amount of insurance carried in Israel is still small in comparison with the more developed countries. This is partly due to the fact that the public is still not sufficiently aware of the importance of insurance, and partly to the fact that the provident and pension funds, which cover most of the hired personnel in the country, fulfill to some extent the function of life insurance companies. The existence of the National Insurance Institute also affects the amount of business handled through the insurance companies.

The Israel companies have increased their business—mainly life insurance—more rapidly than the foreign insurers operating in the country. This can be attributed to the smaller number of foreign firms selling life insurance, and to the fact that those which do handle such insurance have lagged behind in adopting the system of linked life insurance. This system, which is still somewhat of an innovation as far as Israel is concerned, was essential for encouraging life insurance in the country at a time when protracted inflation had led to stagnation in this branch.

<sup>1</sup> Excluded are the National Insurance Institute, mutual insurance funds, and insurance co-operative societies.

Under this plan, the insured can link the value of his policy either to the consumer price index or to the dollar. In past years the index was preferred—in 1959 premium income from such policies was more than double that from policies linked to the dollar. But with the mounting expectation of devaluation, a change took place in the relative size of the two, and in 1961 they were almost equal. Receipts from regular policies (unlinked) still accounted for about a third of total life insurance premium income in 1961.

Following the spread of linked life insurance in 1961, the companies also began to actively encourage pension insurance, with the aim of reaching the hundred thousand self-employed who are not covered through the provident funds. The income tax concessions allowed on such insurance are a potent factor in promoting its sale.

The insurance companies secure themselves through a system of re-insurance—most of them only in respect of general insurance, where the risk is greater. Re-insurance accounts for 20 per cent of the firms' total volume of business. About 75 per cent of the re-insurance is effected abroad, but in recent years the percentage placed locally has risen, and ten of Israel's largest firms have even established a company to engage solely in re-insurance.

TABLE XVIII-5

*Assets, Premium Receipts, and No. of Life Insurance Policies of Insurance Sector, and Self-Retention<sup>a</sup> of Israel Insurance Companies, 1956-61*

Year	Total assets at end of year		Total premium receipts <sup>b</sup>		No. of life insurance policies (thousands)		Self-retention as a percentage of total premium receipts	
	IL. million	Per cent increase over preceding year	IL. million	Per cent increase over preceding year	End of year	Per cent increase over preceding year	Annual average	Per cent increase over preceding year
1956	45.3	—	35.9	—	128	—	57.8	—
1957	55.3	22.1	43.2	20.3	149	16.4	59.4	2.8
1958	65.2	17.9	51.0	18.1	169	13.4	59.7	0.5
1959	78.8	20.8	59.2	18.0	187	10.7	61.8	3.5
1960	99.1	25.8	70.8	19.6	202	8.0	62.2	0.6
1961 <sup>c</sup>	124.1	25.2	85.3	20.5	220	8.9	64.4	3.5

<sup>a</sup> Self-retention is defined here as the difference between premiums collected by Israel companies and the amounts paid by them to insurance companies abroad for re-insurance.

<sup>b</sup> Premiums collected and registration fees from business in Israel and abroad, less premiums received for re-insurance from other insurance companies.

<sup>c</sup> Estimate.

SOURCE: Based on data from the Superintendent of Insurance.

The consolidated balance sheet of the insurance companies totalled IL.124 million in 1961, which was 22 per cent higher than in 1960. It includes all assets of Israel firms, held both in the country and abroad, as well as the Israel assets of foreign insurers operating here. The Government ordinances requiring the insurance companies to hold various securities in a certain ratio to premium income decisively influence the companies' investment program. For this reason, their asset structure has remained extremely stable. In 1959 the companies came to an agreement with the Israel Electric Corporation, under which they are investing in the latter's debentures 60 per cent of their linked life insurance funds—in an amount that will reach IL. 75 million—as a 35-year loan. As for the remaining 40 per cent, an agreement was reached with the Government for their investment, on similar terms, in an amount up to IL.50 million. The bulk of the increase in the companies' assets occurred in securities and in loans to policyholders.

On the liabilities side, the largest growth was in the life insurance fund, which is the main source for financing loans and purchasing securities. The credit granted by the insurance companies was channelled half to private businesses and half to households. In 1961 the balance of outstanding loans stood at IL. 34 million. Most of the securities were either Government debentures or bonds of Government companies carrying its guarantee, while only a very small part consisted of foreign securities, including those of an American insurance company in which Israel firms are partners.

## 2. THE ISRAEL INSURANCE COMPANIES

The Israel insurance companies are few in number—23 out of a total of 100 operating in the country—but they have aggregate assets of IL. 105 million, which is five times that of the foreign companies. About half the firms (the largest) deal in life insurance, while the others mainly handle various classes of general insurance, including health insurance (which is sold by two firms). One of the companies is Government-owned—the Israel Foreign Trade Risks Insurance Corporation—and while its volume of business is still small, it is developing rapidly. The only company of its type in Israel, it also provides insurance against political risks. It is guaranteed by the Government, and all its funds are deposited with the latter.

The Israel firms also handle business that is not subject to the control of the Superintendent of Insurance. In this category is the trust fund which the Dan and Egged bus cooperatives set up with the Binyan Insurance Company to cover their vehicles, after the companies had refused to provide regular insurance for their buses and passengers. The balance of this fund came to IL. 3 million in 1961. Similarly, the Hassneh Insurance Company runs a special agency, together with Zim, which provides marine insurance of types that

TABLE XVIII—6

*Assets and Liabilities of Israel Insurance Companies, 1959–61*

	1959		1960		1961 <sup>a</sup>	
	IL. million	%	IL. million	%	IL. million	%
<i>Assets</i>						
Securities	14.1	20.9	18.7	22.4	27.1	25.7
Loans	19.0	28.1	24.2	29.0	30.1	28.6
Immovable assets and investments in subsidiary companies	3.4	5.0	4.2	5.0	5.4	5.1
Time deposits for a period exceeding one year	2.3	3.4	3.3	4.0	4.5	4.3
Various debtors <sup>b</sup>	19.8	29.3	23.0	27.5	26.8	25.4
Demand deposits and other short-term deposits	9.0	13.3	10.1	12.1	11.5	10.9
<i>Total assets</i>	<i>67.6</i>	<i>100.0</i>	<i>83.5</i>	<i>100.0</i>	<i>105.4</i>	<i>100.0</i>
<i>Liabilities</i>						
Own capital	9.4	13.9	12.5	15.0	15.6	14.8
Life insurance fund	25.1	37.1	30.4	36.4	37.9	36.0
General insurance fund	6.6	9.8	7.6	9.1	8.7	8.3
Extraordinary risks fund	2.3	3.4	2.8	3.4	2.7	2.5
Deposits of other insurance companies	12.5	18.5	15.0	18.0	18.0	17.1
Pending or approved claims (mainly general insurance)	8.2	12.1	9.9	11.8	12.1	11.5
Various creditors	3.5	5.2	5.3	6.3	10.4	9.8
<i>Total liabilities</i>	<i>67.6</i>	<i>100.0</i>	<i>83.5</i>	<i>100.0</i>	<i>105.4</i>	<i>100.0</i>

<sup>a</sup> Estimate.<sup>b</sup> Mainly agents' balances and outstanding premiums.

SOURCE: Superintendent of Insurance, Ministry of Finance.

Hassneh itself does not underwrite. It does considerable business with foreign concerns abroad.

Most of the assets of the Israel insurance companies, including those held abroad, are concentrated in three items—securities, loans, and various debtors.

Securities make up 26 per cent of all assets; the majority of them are linked securities, largely those of Government companies issued under its guarantee.

Most loans to policyholders are granted for a period of two years—largely to businesses—and partly up to ten years—primarily mortgage loans to households. The majority of the loans are value-linked. Those extended to households have increased more rapidly than business loans—in direct proportion to the growth of premium income from life insurance, which is purchased exclusively by households.

The share of the Hevrat Ovdim enterprises in loans and securities that are not Government-guaranteed is substantial. These loans are granted by Hasneh, which belongs to Hevrat Ovdim (the Histadrut holding company) and accounts for about one-fourth of all assets owned by Israel insurance companies. Another distinguishing characteristic of this company is the fact that it is the only one that compensates policyholders who do not own linked life insurance for a decline in the value of money—this being given in the form of a grant, which during the past ten years amounted to approximately 20 per cent of its total payments to policyholders.

The third largest asset item is “various debtors”, which consists primarily of agents’ balances and outstanding premiums. In 1961 this item rose by 16 per cent, but its share of total assets dropped from 29 per cent in 1959 to 25 per cent in 1961. Most of the outstanding debts are in the general insurance branch, and the reason for this presumably lies in the competition prevailing between the different companies, one of the expressions of which is the failure to enforce the prompt collection of the sums due. The Superintendent of Insurance has brought pressure to bear on the companies to reduce the outstanding balance.

The largest liability item of the Israel companies is the life insurance fund, which comes under the category of household saving. Some 40 per cent of all life insurance premium income is accumulated in this fund annually. In 1961 the balance amounted to IL. 38 million, which represented about 36 per cent of the companies’ total liabilities. The second largest item is own capital, which came to IL. 16 million in 1961. The increase in own capital was partly due to the regulations issued by the Superintendent of Insurance requiring the maintenance of a certain proportion between own capital and total liabilities. About two-thirds of this item consisted of share capital, and one-third free reserves originating from profits.

Deposits of other insurance companies also accounted for a considerable percentage of total liabilities. Intra-sector transactions consisted half of re-insurance and half of current transactions in general insurance.

### 3. FOREIGN INSURANCE COMPANIES OPERATING IN ISRAEL

Foreign insurance companies doing business in Israel had aggregate assets of IL. 19 million in 1961, of which IL. 7 million was in securities. Although these companies are not subject to the insurance regulations, about 60 per cent of their security portfolio consists of Government securities. In fact they practically hold Government securities only, whereas in respect of the Israel companies the share comes to a mere 20 per cent.

The foreign companies operate primarily in two fields: marine insurance and insurance against property and fire losses. Nevertheless, half their outstanding loans (which aggregated IL. 4 million) had been granted to households on life insurance policies, while the other half had been granted to business enterprises.

The foreign companies' demand deposits totalled IL.3 million; this is a large amount in relation to their total assets, and it can be attributed to the fact that most of their business is in general insurance, which requires the holding of a larger percentage of liquid assets than life insurance.

The premium income of the foreign companies from general and marine insurance totalled IL. 15 million in 1961, or 22 per cent of total premium income in these branches. In the life insurance branch their share came to 15 per cent.

TABLE XVIII - 7

*Investment by Foreign Insurance Companies in Israel, 1959-61  
(IL. million)*

	1959		1960 <sup>a</sup>		1961 <sup>b</sup>	
	IL. million	%	IL. million	%	IL. million	%
Securities	5.0	44.6	6.1	39.1	7.3	39.0
Other loans	2.2	19.7	3.1	19.9	3.8	20.3
Immovable assets	0.2	1.8	0.1	0.7	0.1	0.5
Various debtors	2.5	22.3	3.6	23.0	4.2	22.5
Demand deposits and cash held with banks, and various short-term deposits	1.3	11.6	2.7	17.3	3.3	17.7
<i>Total investment</i>	11.2	100.0	15.6	100.0	18.7	100.0

<sup>a</sup> Revised figures.

<sup>b</sup> Estimate.

SOURCE: Superintendent of Insurance, Ministry of Finance.

On the face of it, they incurred a higher rate of loss on motor vehicle insurance than the local companies, but it must be noted that the latter cover their losses through re-insurance abroad, whereas it is likely that in respect of the foreign insurers, which are branches of overseas companies, re-insurance is executed *en bloc* by the main offices. Claims paid by foreign companies in the general and marine branches aggregated IL. 8 million in 1961, i.e. about 27 per cent of all such claims paid by the insurance companies in Israel. This rate is in itself some indication that these companies earned a smaller profit than the Israel firms, since, as already stated, their premium income from general and marine insurance constituted only 22 per cent of total income from these branches.

#### 4. MONEY FLOWS

Insurance business expanded by 30 per cent in 1961, with the growth taking place in every phase thereof. Receipts from life insurance accounted for 20 per cent of total premium income, which is a higher rate than in 1960 when it came to 17 per cent. Transactions within the insurance sector itself reached sizeable proportions, especially because of the re-insurance executed between the companies; business transacted abroad was also extensive because of re-insurance, which encompassed a large part of all such transactions.

The make-up of the "balance of payments" is different from that in the previous report, in that premium payments accumulated in the life insurance fund are defined here as household saving rather than transfer payments.

Re-insurance abroad caused a larger deficit in Israel's international transactions in 1961 than in 1960.<sup>1</sup> As compared with IL. 29 million in transfer payments abroad, receipts from overseas totalled IL. 23 million. These transactions were nearly all conducted by Israel companies. Premium payments to overseas insurers exceeded receipts from the settlement of claims.

##### (a) *Receipts*

The receipts of the insurance companies totalled IL. 135 million in 1961. The most striking change was the lower share of income from general insurance, compared with an increase in that of income from life insurance, which totalled IL. 17 million. About 40 per cent of these receipts accumulated in the life insurance fund. The larger income from life insurance stemmed not only from an increase in the number of policyholders, but also from the change-

<sup>1</sup> Transactions executed abroad include those by branches of Israel companies. The Migdal Insurance Company has only two branches—in Great Britain and Holland—which are still of modest size. Also included in such transactions are transfers abroad by branches of foreign companies operating in Israel.

over from ordinary insurance to linked insurance, which involves larger premium payments.

Income in the general insurance branch included a high percentage of registration fees—about IL. 8 million out of IL. 68 million. The fees are intended to cover part of the companies' current expenses. About 20 per cent of the income from this class of insurance is derived from households—mainly comprehensive household insurance covering theft, fire, etc., and to some extent motor vehicle insurance.

Receipts from abroad totalled IL.29 million in 1961; of this amount, IL.23 million was on current account, mainly on account of re-insurance that had been executed by Israel firms, as well as paid claims and re-insurance executed by foreign companies in Israel (the last item totalled approximately IL.3 million in 1961). The figure also includes income earned by overseas branches of Israel companies, which came to under IL.1 million. Overseas financial transactions increased considerably in 1961, by IL.3 million. This stemmed from the purchase by foreign companies of securities issued by local concerns—primarily those of a subsidiary of a foreign company and of an Israel company with branches abroad. This item also includes the increase in deposits of foreign companies held with their Israel branches.

The insurance companies' own capital was also enlarged in 1961 through the sale of shares on the market, to the tune of approximately IL.2.5 million.

#### *(b) Payments*

About 75 per cent of the insurance companies' total payments were connected with non-financial transactions. These included the settlement of claims, which went up by IL.7 million in 1961, to IL.34 million. The large majority of these payments went to businesses and only a small part to households. Besides the actual sums paid, there was a large volume of pending claims.

Commission to agents, interest, and other current expenses constituted about 30 per cent of total payments—which was somewhat lower than the rate in 1960 but still very high. There was a large increase in 1961 in transfer payments abroad, in the main on account of re-insurance by Israel companies. About 80 per cent of such transfers are returned in the form of paid claims or re-insurance of foreign companies operating in Israel.

Most of the financial transactions are in securities, which rose by approximately IL.6 million in 1961. Of this amount, some IL.4 million was in Government-guaranteed securities, chiefly those of the Israel Electric Corporation, and about IL. 2.5 million in securities of the public sector, mainly the Government.

The increase in loans to financial and banking institutions consisted primarily of an increase in demand deposits held with banks, which came to nearly IL. 1.5 million, and a IL. 1 million growth in time deposits; the remainder consisted mainly of deposits earmarked for the granting of loans and other deposits in financial institutions.

TABLE XVIII-8

*The "Balance of Payments" of the Insurance Sector, 1960-61*  
(IL. million)

Receipts	1960	1961 <sup>b</sup>	Increase or decrease (-) from 1960 to 1961	Payments	1960 <sup>a</sup>	1961 <sup>b</sup>	Increase or decrease (-) from 1960 to 1961
<i>Transactions in real assets</i>							
Income from premiums and registration fees in Israel	62.9	76.7	13.8	Claims paid and settlement expenses in Israel	27.0	34.1	7.1
Income from interest and commissions in Israel	4.7	5.9	1.2	Commissions	17.0	20.6	3.6
Transfers from abroad (on account of re-insurance and premiums)	19.1	22.9	3.8	Current expenses	12.7	16.2	3.5
				Transfer payments abroad (mainly on account of re-insurance)	23.1	28.5	5.4
				<i>Investments in immovable assets</i>			
<i>Total</i>	86.7	105.5	18.8	<i>Total</i>	80.9	100.6	19.7

*Transaction in financial assets*

From financial institutions	—	0.8	0.8	Net loans through security purchases and other credit:			
From business enterprises	1.6	1.3	-0.3	To public sector and Government companies	5.5	6.7	1.2
From provident funds	0.2	0.2	—	To banks	1.9	2.8	0.9
From households	7.8	12.7	4.9	To financial institutions	0.3	1.2	0.9
From the rest of the world	0.8	2.8	2.0	To private business enterprises <sup>a</sup>	4.8	5.1	0.3
				To households and non-profit institutions	4.0	5.3	1.3
<i>Total</i>	10.4	17.8	7.4	<i>Total</i>	16.5	21.1	4.6

*Transactions within the sector*

Receipts from other companies on account of re-insurance	10.1	12.2	2.1	Payments to other companies on account of re-insurance	10.1	12.2	2.1
				Net balance of deposits for re-insurance etc.	-0.3	1.6	1.9
<i>Grand total</i>	107.2	135.5	28.3	<i>Grand total</i>	107.2	135.5	28.3

<sup>a</sup> Revised figures.<sup>b</sup> Estimate.<sup>c</sup> Including outstanding premiums.

Loans to private businesses included the sums owed by agents on account of premiums and loans extended to businesses carrying insurance. Formerly such loans had increased more rapidly than those to households, but with the growth of life insurance the picture has changed.

Loans to households were extended mainly on life insurance policies, and to some extent against mortgages. The amount of outstanding premiums was negligible.