

CHAPTER XVIII

THE FINANCIAL ACTIVITIES OF PROVIDENT FUNDS AND INSURANCE COMPANIES

I. PROVIDENT FUNDS¹

1. ACCUMULATION AND SAVING

THE RAPID ACCUMULATION of assets by the provident funds continued during 1962. Annual accumulation reached IL 169 million, compared with IL 130 million in 1961, bringing the funds' total assets up to IL 800 million. The latter figure does not include the revaluation of assets due to devaluation. At the date of devaluation, close to 70 per cent of the funds' assets were linked either to the consumer price index or the dollar, and as a result of the alteration of the exchange rate and the rise in the cost of living, their value rose considerably, reaching nearly IL 1,000 million by the end of 1962. However, most of the provident funds have not yet revalued their assets, and therefore the data in this chapter do not include the revaluation increment.

Devaluation also produced a change in the composition of the funds' assets, with the weight of linked assets rising. But this is not reflected in the balance sheets of the funds which have still not carried out a revaluation. Moreover, the funds are now acquiring (in the case of new issues) only index-linked bonds, as the issue of dollar-linked bonds was discontinued after the devaluation.

The large-scale accumulation² represents a considerable part of household saving.³ It includes the funds' receipts—which derive mainly from employer and employee contributions, and to a smaller extent from investment income and realized capital gains—less payments to members leaving the funds and current expenditures. Contributions rose from IL 139 million in 1961 to IL 174 million in 1962, i.e. by IL 35 million or 25 per cent, compared with a 22 per cent advance in 1961. The increase stemmed chiefly from two sources: the 12 per cent rise in average monthly wages per employee, and the increase in membership following an 8 per cent rise in the number of employees. Contri-

¹ This survey includes both provident funds which have been approved for tax concessions and those which have not been approved; the former constitute about 95 per cent of the total number of funds.

² Excluding the revaluation increment.

³ See Table XIX-5 in Chapter XIX, "Saving".

Table XVIII-1
ASSETS AND ANNUAL ACCUMULATION OF
PROVIDENT FUNDS, 1957-62

(IL million)

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	631	130	25.9
1962 ^a	800	169	26.7

^a Does not include revaluation of assets.

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

butions to the funds for self-employed also grew in consequence of an increase in membership.

Payments to withdrawing members, which include pension, provident, and severance payments and other social benefits, went up by about IL 12 million, to IL 54 million. These payments still constitute only a small part of the an-

Table XVIII-2
ANNUAL ACCUMULATION OF PROVIDENT FUNDS, BY COMPONENT, 1958-62

(IL million)

	1958	1959	1960	1961 ^a	1962 ^b
Employee and employer contributions	78.9	97.2	114.0	139.4	174.0
Income from interest on investments and rent	20.0	22.9	28.0	32.5	39.5
Realized capital gains	1.2	5.1	5.2	9.5	19.0
<i>Less:</i>					
Payments to members leaving the funds ^c	20.4	25.0	34.7	41.7	53.5
Current expenses	6.8	8.1	8.4	9.3	10.5
Total accumulation	72.9	92.1	104.1	130.4	168.5

^a Revised figures.

^b Estimate.

^c Pension, retirement, and severance pay and other social benefits.

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

nual contributions to the funds, but their weight is on the increase, having risen from 25 per cent in 1958 and 1959 to 30 per cent in 1960 and 1961, and 31 per cent in 1962. Current expenditure rose only slightly in 1962.

Investment income rose by IL 7 million, compared with a IL 5 million gain in the previous year, and reached IL 40 million. There was a marked growth in realized capital gains, which amounted to IL 20 million in 1962, as against IL 10 million in 1961. The increment derived primarily from the alteration of the exchange rate, as dollar-linked bonds which reached maturity were redeemed at the new rate. In addition, a larger number of bonds were redeemed.

This combination of factors resulted, as stated, in a greater annual accumulation—IL 169 million compared with IL 130 million in 1961. Net saving of households through the funds, i.e. the annual accumulation less the increase in loans outstanding and realized capital gains, advanced by a smaller amount—IL 121 million as against IL 99 million in 1961. Outstanding loans to members rose by IL 29 million (compared with a IL 21 million increment in 1961), and reached IL 131 million.

Members' demand for loans was greater in 1962 for two reasons: the price rise during the year, which was more rapid than in 1961, and the desire to enjoy the benefits of early repayment of mortgages. However, this increased demand was not fully reflected in the loans granted, because of the regulations which restrict credit to members to 25 per cent of the funds' assets (excluding employers' debts). Furthermore, in the country-wide pension funds, where contact with the member is less intimate, the permitted loan quota was not fully exploited.

The intensified demand for loans just at a time of rising prices was due to the fact that, in contrast to the usual practice as regards medium-term loans, these loans are not linked and are granted at an interest rate generally not exceeding 6 per cent.

In July 1962 the National Saving Commissioner issued a regulation ordering that members withdrawing from the funds were to be paid the linkage differentials due on their contributions, less outstanding loans received from the funds. This regulation therefore has the effect of making part of the loans to members more expensive. After devaluation there were complaints that members who leave a fund with the right to a lump-sum benefit but without pension rights do not recover the full value of their savings, as they are not linked, despite the fact that the funds' investments are for the most part linked. Accordingly, the Commissioner issued the above-mentioned regulation, after agreement with the Histadrut: it obligates the approved funds to revalue their assets annually, and to pay linkage differentials to a member withdrawing from the fund without pension rights. The linkage differentials are calculated on an annual basis, on the amount accumulated to the member's credit, less the balance of his debt to the fund at the end of the year. In effect, this

implies an indirect linkage of loans to members. The total differential standing at the member's credit at the date of leaving consists of the annual net imputations; hence the greater the sums borrowed by the member for a period in excess of one year, the smaller will be the amount due on account of linkage differentials. Members of pension funds who do not intend to leave the fund before retirement age are not affected by this increase in the cost of loans, since the monthly pension they will receive is related to their last salary.

In 1962, as in 1961, the role of the provident funds as instruments of saving at a time of inflation was of marked importance. Saving through the funds is of a contractual nature, and in practice is linked to the nominal wage. The price rise which accompanied devaluation in 1962, and which was greater than that of the preceding years, brought in its train a general rise in wages, and consequently contributions to the funds rose considerably. However, as pointed out, the price rise also operated in the opposite direction, in that it increased members' demand for loans.

It must be stressed that we refer here to saving which permits the shifting of resources from consumption to investment, and that there is no restriction of aggregate demand, since such household saving is now channelled to financing the investment of various sectors of the economy.

2. MONEY FLOWS, BY SECTOR

(a) *Receipts*

Total receipts of the funds reached IL 175 million in 1962, compared with IL 130 million in 1961.¹ The greater part of this amount consists of the surplus of contributions over payments, while the funds' profits account for the balance. Employers' contributions, which constitute about two-thirds of the total contribution, actually come under the category of household saving, since from the point of view of the employer they are part of the wage bill. The funds' profits, which accrue from investments with members' deposits, must also be considered as household receipts. Thus 95 per cent of the funds' receipts are derived from households—IL 165 million in 1962, compared with IL 122 million in 1961. Receipts from business firms came to IL 10 million in 1962; these are employers' contributions to central severance funds, which do not belong to employees, for the most part being administered by banks.²

¹ The difference between these figures and those of Table XVIII-2 is due to the fact that part of the profits of Gmul Investment Co. Ltd. are not transferred to the funds.

² The distinction between employers' contributions to employees' funds and those to the central severance funds is discussed in the Bank of Israel Annual Report for 1961, p. 354.

(b) *Payments*

The funds' investments, including those through Gmul Ltd., amounted to IL 175 million in 1962, as against IL 130 million the year before. The sectorial distribution of these investments depends chiefly on Government regulations.

Close to 40 per cent of the investments were directed to financial and banking institutions, the amount being IL 67 million as compared with IL 47 million in 1961. The amount that went to financial institutions, principally through the purchase of bonds, was similar to that of the preceding year—IL 50 million;¹ the increment of IL 20 million went entirely to the banking institutions. This increase came about despite the fact that recognition of "special deposits" as an "authorized investment" was withdrawn; it is attributable to the special arrangement² whereby 50 per cent of the funds' "authorized investments" are made in debentures of Histadrut-owned companies. Under this arrangement, the funds increased their investments in banking institutions through subsidiary companies and by purchasing debentures in an amount exceeding the decrease in "special deposits". The abrogation of the recognition of "special deposits" therefore did not lead to any actual change in the destination of the funds' investments.

There was a striking increase in the share of the public sector, mainly on account of a marked rise in purchases of National Institution bonds. Credit granted to the public sector came to IL 42 million in 1962, compared with IL 14 million in 1961.

Credit granted to private business enterprises amounted to IL 40 million in 1962, the same as in 1961, but there were changes in its composition. The outstanding debt of private employers³ rose by IL 15 million, compared with a rise of IL 9 million the previous year, while the purchase of securities issued by private enterprises declined from IL 14 million in 1961 to IL 8 million.

New loans to households and non-profit institutions remained virtually constant at IL 25 million, but here too there was a change in composition: loans to members came to IL 29 million as against IL 21 million in 1961, while outstanding loans from Gmul Ltd. to non-profit institutions declined by IL 6 million—compared with a slight increase in the preceding year.

¹ This amount does not include the funds' IL 28 million investment in debentures of Bitzur Ltd., since the proceeds are deposited by the latter with the Workers' Bank; this investment must be considered as the funds' investment in banking institutions. Also excluded is the IL 26 million net credit granted by the funds to Gmul Ltd., since this company serves as their investment agent.

² This arrangement is discussed in the Bank of Israel Annual Report for 1961, p. 356.

³ Including Histadrut enterprises.

3. DEVELOPMENTS IN THE FUNDS' BALANCE SHEET

As a result of the increase in the funds' financial resources and in their investments and loans, the consolidated balance sheet for the end of 1962 stood at IL 800 million, compared with IL 631 million at the end of 1961. On the asset side, most of the increase was in securities, while there was a considerable decline in deposits; on the liability side, most of the rise was in the pension fund.

(a) *Assets*

As stated, the structure of the funds' assets is largely connected with Ministry of Finance regulations governing the funds' investments. The funds are not permitted to trade on the Stock Exchange, except for small amounts and this subject to various restrictions.¹

The principal increase on the asset side, as indicated, was in securities, which rose from IL 297 million at the end of 1961 to IL 451 million at the end of 1962. As a result, the share of this item in total assets went up from 47 to 56 per cent during the period reviewed.

The contraction of "special deposits" which began in 1961 (after the withdrawal of their recognition as an "authorized investment") continued in 1962. They declined from IL 96 million at the end of 1961 to IL 73 million at the end of 1962, so that the proportion of time deposits in banks and Gmul Ltd. dropped from 19 per cent of total assets to 12 per cent.

Outstanding loans to members rose from IL 102 million at the end of 1961 to IL 131 million at the end of 1962, but their share in total assets was 16 per cent at both dates. It must be emphasized that this figure refers to the share of loans in total assets, while the 25 per cent ceiling for loans permitted under the regulations refers to assets other than employers' debts.² Furthermore, the figure of 16 per cent is an average for all provident funds, including those for self-employed and the central severance funds, which do not give loans to members at all, as well as the central pension funds where, as already indicated, the permitted loan quota was not fully exploited.

Employers' liabilities grew from IL 57 million at the end of 1961 to IL 75 million at the end of 1962, i.e. by IL 18 million, compared with a rise of IL 13

¹ Funds operating under Ministry of Finance regulations are permitted to purchase securities on the Stock Exchange which come under the category of "authorized investment", on two conditions: the securities must be approved (in other words, mainly bonds), and the amount of the purchase must not exceed the amount of new issues purchased by the funds and subsequently sold by them on the Stock Exchange. In addition, the provident funds are permitted to purchase securities on the Stock Exchange, at their own discretion, out of the 25 per cent of unrestricted funds from which loans to members are made, provided the amount does not exceed 10 per cent of the total funds available.

² Employers' debts arise through the lag in the payment of their contributions.

Table XVIII-4

ASSETS AND LIABILITIES OF PROVIDENT FUNDS, 1959-62

(End of year)

	1959		1960		1961 ^a		1962 ^b	
	IL million	%	IL million	%	IL million	%	IL million	%
Assets								
Cash and demand deposits	5.5	1.4	9.4	1.9	9.2	1.5	8.6	1.1
"Special deposits" in banks	41.3	10.4	68.6	13.7	51.0	8.1	40.2	5.0
"Special deposits" in Gmul Ltd.	48.3	12.2	71.6	14.3	45.2	7.1	32.6	4.1
Other time deposits in banks	16.2	4.1	7.2	1.4	8.4	1.3	6.7	0.8
Other time deposits in Gmul	24.3	6.1	13.3	2.7	17.1	2.7	12.9	1.6
Securities	114.8	28.9	170.7	34.1	297.4	47.0	451.2	56.4
Loans to members	70.3	17.7	81.1	16.2	102.2	16.2	131.1	16.4
Employers' debts	44.3	11.2	44.6	8.9	57.2	9.1	74.7	9.3
Loans to business enterprises ^c	8.2	2.0	8.3	1.6	8.7	1.4	6.0	0.8
Real estate	15.3	3.9	17.0	3.4	22.3	3.5	23.0	2.9
Miscellaneous ^d	8.5	2.1	9.3	1.8	12.8	2.0	13.0	1.6
Total	397.0	100.0	501.1	100.0	631.5	100.0	800.0	100.0
Liabilities								
Pension funds	177.7	44.8	231.6	46.2	298.7	47.3	382.8	47.8
Provident funds	127.6	32.1	152.4	30.4	185.6	29.4	227.8	28.5
Severance funds	38.4	9.7	54.1	10.8	70.4	11.2	88.3	11.0
Various welfare funds ^e	26.1	6.6	32.0	6.4	38.2	6.0	46.9	5.9
Investment realization fund	3.1	0.8	3.7	0.7	5.7	0.9	10.5	1.3
Reserve funds	5.8	1.4	4.4	0.9	4.8	0.8	8.2	1.0
Balance of profit and loss account	3.3	0.8	4.3	0.9	8.5	1.3	13.5	1.7
Creditors ^f	15.0	3.8	18.6	3.7	19.6	3.1	22.0	2.8
Total	397.0	100.0	501.1	100.0	631.5	100.0	800.0	100.0

^a Revised figures.^b Estimate.^c Histadrut enterprises.^d Mainly insurance and interest owed.^e Special aid, rehabilitation, sickness, paid holiday, etc.^f Mainly holiday funds and past members.

Source: For approved funds—Ministry of Finance, National Saving Commissioner.

million in the preceding year. However, the share of this item too did not change, being 9 per cent for both 1961 and 1962.

(b) *Liabilities*

In 1962 the share of pension funds in total liabilities rose slightly to 47.8 per cent, thus continuing the upward trend apparent since 1958. Correspondingly, the decline in provident funds also continued, the share of this item standing at 28.5 per cent at the end of 1962.

In 1962 the share of pension funds in total liabilities rose slightly to 47.8 funds are primarily due to the fact that the rate of contributions to the former is double that to the latter. In previous years, the transition from the provident fund to the pension system also had an effect. Furthermore, payments to members leaving the funds was relatively higher in the provident than in the pension funds. As a result, the pension funds rose by IL 84 million in 1962, reaching IL 383 million, as against IL 299 million at the end of 1961. The decline in provident funds was slowed down somewhat by the growth of the funds for self-employed, which had begun to operate only at the end of 1957. The latter's assets rose from IL 15.5 million at the end of 1961 to IL 24 million at the end of 1962, following an increase in membership to approximately 32,000. The majority of self-employed persons still do not save through these funds, nor are they covered in the various life insurance schemes. The funds for employees also have not yet realized their full potential: about 70,000 civil servants and employees of various public institutions and a similar number of unorganized employees belong to no provident fund whatever.

II. INSURANCE COMPANIES¹

1. MAIN DEVELOPMENTS

The consolidated balance sheet of the insurance companies rose by IL 36 million in 1962 and totalled IL 163 million at the end of the year. This amount includes a IL 6 million increment due to the revaluation of assets and the life insurance fund after devaluation. Exclusive of the revaluation increment, the increase came to IL 30 million, or 24 per cent, compared with IL 28 million, or 28 per cent, in 1961. About 70 per cent of all assets are concentrated in the five biggest Israel insurance companies.

Premium receipts² showed a marked increase of IL 115 million (33 per cent), compared with IL 86 million (22 per cent) in 1961. Approximately 75 per cent

¹ Including both Israel companies and branches of foreign companies operating in Israel; the Government insurance company Yovel is not included here, but in Chapter VII, "Public Sector Operations".

² Excluding receipts from local insurance companies on account of reinsurance.

of total premium income was from general insurance, about 20 per cent from life insurance, and the rest from marine insurance. Premium receipts of Israel companies came to IL 82 million, or 70 per cent of the total. Close to 40 per cent of these receipts were transferred abroad as reinsurance, the self-retention thus being 60 per cent.

Claims paid, less the participation of reinsurers abroad, came to about IL 25 million in 1962. The bulk of these claims were in the general insurance branch. Agents' commissions and current expenses, which account for a large percentage of total payments, rose from IL 34 million in 1961 to IL 44 million in 1962; the latter figure is equal to about 40 per cent of premium income.

Current expenses came to IL 23 million, and commissions to IL 21 million; these outlays were also connected mainly with general insurance business.

Of the IL 36 million increase in the consolidated balance sheet in 1962, IL 18 million was in the life insurance fund;¹ of this, IL 6 million derived from the revaluation of the 35 per cent of life insurance that was value-linked at the time of devaluation. The share of life insurance in the additional assets was greater than its share in total receipts and payments, and the converse is true for general insurance; this is because the ratio of claims payments and expenses to premium income is smaller in the life insurance branch than in general insurance. Life insurance premiums came to IL 20 million in 1962, as against IL 15 million in 1961 and IL 10 million in 1960. This increase stemmed from the marked rise in the number of life insurance policies.² The number of policies rose by 70,000 in 1962 and 50,000 in 1961, compared with an annual growth of 20,000 in previous years. The average value of new policies was about IL 10,000. There were 320,000 policies in force at the end of 1962.³

The appreciable growth in the number of policies was due to several reasons: an intensified publicity campaign over the last two years, by the companies and the Government alike; the greater attractiveness, especially in the light of devaluation, of linked insurance schemes, which safeguard the value of long-term saving; and the tax concessions assured those saving through life insurance schemes. Nevertheless, this form of saving has not yet achieved the importance, compared with other forms of personal saving, that it has in Western countries, since in Israel the provident funds play a predominant role in this sphere, covering most employees and some self-employed.

¹ The increase in the various insurance funds, which leads to an expansion of assets, is net of amounts transferred to reinsurers in Israel and abroad, i.e. it includes only the self-retention of the local firms.

² New policies net of policies redeemed.

³ The number of policies does not represent the total number of persons insured, because many persons carry more than one policy; nevertheless, it may be assumed that the large increase was to no small extent due to an increase in the number of persons insured.

Table XVIII-5

**ASSETS, PREMIUM RECEIPTS, AND NO. OF LIFE INSURANCE
POLICIES OF THE INSURANCE SECTOR, 1956-62**

Year	Total assets at end of year		Total premium receipts ^a		No. of life insurance policies	
	IL million	Per cent increase over preceding year	IL million	Per cent increase over preceding year	Thousands	Per cent increase over preceding year
1956	45.3	—	35.9	—	128	—
1957	55.3	22.1	43.2	20.3	149	16.4
1958	65.2	17.9	51.0	18.1	169	13.4
1959	78.8	20.8	56.6	11.0	187	10.7
1960	99.1	25.8	70.9	25.2	200	7.0
1961 ^b	126.9	28.1	86.4	21.9	252	26.0
1962 ^c	162.7 ^d	28.2	114.7	32.7	320	27.8

^a Premium receipts and registration fees from business in Israel and abroad, less premiums.

^b Revised figures.

^c Estimate.

^d Including IL 6 million revaluation increment.

SOURCE: Superintendent of Insurance, Ministry of Finance.

Table XVIII-6

**ACCUMULATION OF LIFE INSURANCE FUND OF INSURANCE SECTOR,^a
1959-62**

(IL million)

	1959	1960	1961	1962 ^b
Premiums and registration fees	8.9	10.4	14.5	19.0
Imputed interest	2.0	2.3	3.3	3.9
Revaluation increment	—	—	—	6.0
Less:				
Claims paid and settlement expenses	3.4	3.8	3.8	4.6
Imputed current expenses and commissions	2.6	3.1	4.2	6.1
Profit on insurance business	0.3	0.5	0.6	0.7
Accumulation in life insurance fund ^c	4.6	5.3	9.2	17.5

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

^b Estimate.

^c Including accumulation in extraordinary risks fund—life insurance and life insurance claims pending.

Claims paid, commissions, and current expenses in the life insurance branch came to IL 11 million, compared with IL 9 million in 1961. In the last two years there was a relatively large increase in expenditure following the considerable rise in the number of policies, especially since 60 per cent of the first year's premiums are paid out as commission to agents. The accumulation in the life insurance fund (excluding the revaluation increment) came to IL 12 million, as against IL 9 million in 1961. Household saving through life insurance, i.e. the accumulation less the increase in the households' liabilities to insurance companies, amounted in 1962, as in 1961, to IL 6 million; this was a negligible sum compared with household saving through provident funds, which came to IL 120 million in 1962, and was lower than saving through self-employed provident funds, which aggregated IL 9 million.

2. MONEY FLOWS

Transfer transactions, i.e. premium receipts and claims payments in the general and marine insurance branches, account for the bulk of the insurance companies' business, being several times greater than their financial transactions. Life insurance premium receipts and claims payments have here been included among financial transactions, since the addition to the life insurance fund actually represents the acquisition of financial assets by households, in contrast to the increment to the general insurance fund, which is an asset not of households but of the insurance companies.

Total transfer and real receipts came to IL 132 million in 1962, compared with IL 100 million the year before. Transfer receipts from domestic sectors amounted to IL 97 million and IL 72 million, respectively. Receipts from abroad, mainly from reinsurers for settling local claims, rose from IL 22 million in 1961 to IL 27 million in 1962. Interest receipts went up from IL 6 million to IL 7 million.

Total transfer and real payments rose from IL 95 million in 1961 to IL 127 million in 1962. Transfer payments to domestic sectors amounted to about IL 50 million, compared with IL 32 million in 1961. Payments abroad, mainly on account of reinsurance, rose from IL 27 million to IL 32 million. Current expenses and commission were, as stated, IL 44 million.

Transactions in financial claims are more restricted in scope. Receipts—mostly life insurance premiums from households—expanded from IL 14 million in 1961 to IL 21 million in 1962.

Payments include credit granted by insurance companies to various sectors, either in the form of loans or deposits, or as purchases of securities. Such credit rose from IL 19 million in 1961 to IL 27 million in 1962.

Credit to the public sector and to public sector companies did not change, standing at IL 10 million in both years. Credit to households, mostly as loans on life insurance policies, rose from IL 3 million to IL 6 million.

3. BALANCE SHEET CHANGES

(a) *Israel companies*

Assets: At the end of 1962 the Israel insurance companies had aggregate assets of IL 138 million, compared with IL 107 million at the end of the preceding year. The asset structure is affected to no small extent by Government regulations, but the insurance companies still have more freedom of action than the provident funds. At least 20 per cent of the life insurance fund and 35 per cent of paid-up capital must be held in Government or Government-guaranteed securities. Total loans to policyholders are limited to 40 per cent of the life insurance fund plus paid-up capital.

Companies dealing in life insurance have a different asset structure than those handling only general insurance. As regards the former, investments are mainly long-term, mostly in Israel Electric Corporation and Government bonds, in accordance with an arrangement provided for in the Government ordinances concerning insurance companies. Loans to policyholders are also larger than in the case of companies dealing in general insurance only. On the other hand, the nature of general insurance, with its greater degree of uncertainty, entails a more liquid asset structure. Although the companies insure themselves against risk through reinsurance and by holding equity capital and insurance funds as reserves, they must nevertheless keep an adequate proportion of liquid assets so as to be able to meet unforeseeable claims.

Securities constitute the largest asset item of all Israel insurance companies. After having risen steadily over the last few years, in 1962 it accounted for 30 per cent of all assets (including the revaluation increment); it totalled IL 40 million (or IL 34 million excluding the revaluation increment), compared with IL 27 million at the end of 1961. Most of the securities are, as stated, Israel Electric Corporation and public sector bonds.

Loans outstanding rose from IL 29 million at the end of 1961 to IL 36 million at the end of 1962. The majority of these are loans to households and business enterprises, mostly against policies.

The share of liquid assets¹ has ranged between 35 and 40 per cent in recent years; for companies dealing in both life and general insurance, the figure has ranged between 33 and 38 per cent, while in firms dealing only in general insurance, it amounts to 50 per cent of all assets, because of the need to ensure adequate funds for pending claims—an item which is almost non-existent in life insurance business—and for unforeseeable claims.

Among the liquid assets, "sundry debtors" has accounted for 20 to 30 per cent of all assets of Israel companies. This item consists mainly of agents' balances and outstanding premiums; this can apparently be attributed to the keen competition prevailing in the insurance sector, one sign of which is

¹ Sundry debtors, cash, and demand and other short-term deposits with banks.

Table XVIII-7

"BALANCE OF PAYMENTS" OF THE INSURANCE SECTOR,* 1960-62

(IL million)

Receipts	1960	1961 ^b	1962 ^c	Payments	1960	1961 ^b	1962 ^c
Transfers and real transactions^d							
Transfers from domestic sectors, mainly premium receipts and registration fees in Israel from general insurance business	60.2	71.9	97.1	Transfers to domestic sectors, mainly general insurance claims paid in Israel	26.1	32.1	48.9
Income from interest in Israel	4.7	6.0	7.4	Commission on general and marine insurance, mainly to agents	15.2	16.6	20.6
Transfers from abroad, mainly on account of reinsurance	18.7	22.1	27.3	Current expenses	14.1	17.0	23.2
				Transfers to rest of the world, mainly on account of re- insurance	21.7	27.4	32.0
				Investment in real estate	1.1	2.3	2.7
Total transfers and real transactions	83.6	100.0	131.8	Total transfers and real transactions	78.2	95.4	127.4

Transactions in financial claims,^d by sector

From households	7.9	9.7	13.4	Credit (loans, securities, and deposits):			
From business enterprises	1.7	0.8	2.4				
From provident funds and financial and banking institutions	0.2	1.4	1.2	To public sector and public sector companies	5.4	9.7	10.1
From the rest of the world	—	1.9	4.1	To banks and financial institutions	3.0	3.7	6.4
				To business enterprises	4.6	3.8	5.8
				To households and non-profit institutions	4.7	3.8	6.2
				To the rest of the world	-0.8	-1.9	-1.4
Total financial transactions	9.8	13.8	21.1	Total financial transactions	16.9	19.1	27.1
Intra-sector transactions							
Receipts from other insurance companies on account of reinsurance in Israel	10.1	10.0	10.5	Payments on account of reinsurance in Israel	10.1	10.0	10.5
Change in net balance of intra-sector transactions	1.7	0.7	1.6				
Total payments	105.2	124.5	165.0	Total payments	105.2	124.5	165.0

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

^b Revised figures.

^c Estimate; does not include revaluation increment.

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

Table XVIII-8
ASSETS AND LIABILITIES OF ISRAEL INSURANCE COMPANIES, 1959-62

	1959		1960		1961		1962 ^a	
	IL million	%	IL million	%	IL million	%	IL million	%
Assets								
Securities	14.1	20.9	18.7	22.4	26.7	25.0	39.7 ^b	28.8
Loans	19.0	28.1	24.2	29.0	29.3	27.5	36.1	26.2
Real estate and investment in subsidiaries	3.4	5.0	4.2	5.0	7.5	7.0	9.1	6.6
Bank deposits for periods exceeding one year	2.3	3.4	3.3	4.0	4.8	4.5	6.0	4.4
Sundry debtors ^c	19.8	29.3	23.0	27.5	28.4	26.6	32.4	23.5
Cash and demand and other short-term deposits	9.0	13.3	10.1	12.1	9.9	9.4	14.4	10.5
Total assets	67.6	100.0	83.5	100.0	106.6	100.0	137.7^b	100.0
Liabilities								
Equity capital	9.4	13.9	12.5	15.0	19.1	17.9	23.8	17.3
Life insurance fund	25.1	37.1	30.0	35.9	38.3	35.9	55.2 ^b	40.1
General insurance fund	6.6	9.8	7.9	9.5	9.2	8.6	12.4	9.0
Extraordinary risks fund	2.3	3.4	2.8	3.4	3.5	3.3	4.0	2.9
Deposits of reinsurers	6.1	9.2	7.1	8.5	8.4	7.9	10.7	7.8
Pending or approved claims (mainly general insurance)	8.2	12.2	9.9	11.8	13.0	12.2	16.0	11.7
Current liabilities	9.7	14.4	13.3	15.9	15.1	14.2	15.6	11.2
Total liabilities	67.6	100.0	83.5	100.0	106.6	100.0	137.7^b	100.0

^a Estimate.

^b Including IL 6 million revaluation increment.

^c Mainly agents' balances and outstanding premiums.

SOURCE: Superintendent of Insurance, Ministry of Finance.

the lack of insistence on prompt payment of the amounts due. This asset is, of course, less liquid than cash or demand deposits, but since the lag in premium receipts is short and fairly consistent, the item may be considered liquid. Cash and demand deposits constituted about 10 per cent of all assets.

Liabilities: Equity capital of Israel companies has risen steadily in recent years and at the end of 1962 amounted to IL 24 million, or more than 17 per cent of all liabilities.

The life insurance fund is the principal liability item in the consolidated balance sheet. In recent years it has accounted for 36 to 37 per cent of total liabilities (excluding the revaluation increment in 1962). At the end of 1962 the fund amounted to IL 55 million; excluding the revaluation increment, the figure was IL 49 million, compared with IL 38 million in 1961.

The share of the general insurance fund has hardly changed, amounting to 9 per cent of all assets; it stood at IL 12 million at the end of 1962, as against IL 9 million at the end of 1961.

(b) *Foreign insurance companies operating in Israel*

Total assets of foreign companies operating in Israel came to IL 25 million at the end of 1962, compared with IL 20 million at the end of 1961. About half of this amount was invested in securities, mainly Government and those

Table XVIII-9

ASSETS OF FOREIGN INSURANCE COMPANIES OPERATING IN ISRAEL, 1959-62^a

	1959		1960		1961 ^a		1962 ^b	
	IL million	%	IL million	%	IL million	%	IL million	%
Securities	5.0	44.6	6.1	39.1	9.6	47.3	11.3	45.2
Loans	2.2	19.7	3.1	19.9	3.8	18.7	5.2	20.8
Real estate	0.2	1.8	0.1	0.7	0.2	1.0	0.2	0.8
Sundry debtors	2.5	22.3	3.6	23.0	3.9	19.2	5.3	21.2
Cash and demand and other short-term deposits in banks	1.3	11.6	2.7	17.3	2.8	13.8	3.0	12.0
Total assets in Israel	11.2	100.0	15.6	100.0	20.3	100.0	25.0	100.0

^a Revised figures.

^b Estimate.

SOURCE: Superintendent of Insurance, Ministry of Finance.

of financial institutions. Outstanding loans to policyholders totalled IL 5 million. The share of securities in total assets is higher, and that of loans lower, than in the case of Israel companies, since the foreign firms deal principally in general insurance, in which fewer loans are granted for periods exceeding one year. As in the Israel companies, liquid assets constituted about one-third of all assets held in the country.