

CHAPTER XVIII

PROVIDENT FUNDS AND INSURANCE COMPANIES

I. PROVIDENT FUNDS¹

1. ACCUMULATION AND SAVING

IN 1963 THE ACCUMULATION of the provident funds continued at a rapid rate, although somewhat more slowly than in the previous year. The figure reached IL 203 million as compared with IL 180 million in 1962—an increase of 23.8 per cent as against 28.7 per cent in 1962;² this brought the funds' total assets up to IL 1,052 million at the end of 1963. The latter figure includes only a partial revaluation of assets following the devaluation of 1962. At the time of devaluation, close to 70 per cent of the funds' assets were linked either to

Table XVIII-1

ASSETS AND ANNUAL ACCUMULATION OF PROVIDENT FUNDS, 1958-63 (IL million)

| Year | Assets at end of year | Annual accumulation | Per cent increase in total assets |
|-------------------|--------------------------|------------------------|--------------------------------------|
| 1958 | 305 | 73 | 31.4 |
| 1959 | 397 | 92 | 30.2 |
| 1960 | 501 | 104 | 26.2 |
| 1961 | 631 | 130 | 25.9 |
| 1962 ^a | 811 | 180 | 28.7 |
| 1962 ^b | 849 | 218 | 34.7 |
| 1963 | 1,052 | 203 | 23.8 |

^a Excluding revaluation of assets.

^b Including revaluation of assets due to the devaluation.

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

¹ This survey includes both provident funds which have been approved for tax concessions and those which have not been approved; the former account for about 98 per cent of aggregate assets.

² Excluding the revaluation increment.

the consumer price index or to the dollar; however, most of the funds, including the largest ones, have not yet revalued their assets. The total appreciation of the funds' assets is estimated at IL 200 million, but the revaluation increment actually recorded so far does not exceed IL 40 million.

The slackening in the rate of accumulation over the last several years has mainly been due to the marked slowing down in the growth of the funds' membership, despite the fact that the rate of increase in the number of employees in the country has not declined. In addition, the changeover of the funds from a system of provident payments to one of pensions, which reached a peak in 1959 and in most cases involved an increase in the employers' contributions, in effect came to an end some time ago.

Notwithstanding the deceleration, the accumulation in 1963 was still of considerable magnitude, and accounted for close to 30 per cent of the total increase in households' financial assets,¹ and thus for a large part of their saving as well. The importance of this lies in the fact that saving through the funds is of a contractual nature and encompasses the overwhelming majority of employees, excluding those in the Civil Service who are covered by a budgetary pension scheme. It is the existence of these two saving schemes, together with National Insurance, that explains the relatively limited amount of household saving through insurance companies.

Accumulation² represents the difference between the funds' receipts—which originate mainly in employers' and employees' contributions, and to a lesser extent in income from investments and realized capital gains—and payments to members leaving the funds and current expenses. Contributions to the funds grew from IL 177 million in 1962 to IL 216 million in 1963, an increase of IL 39 million or 22 per cent, as compared with an advance of 27 per cent in 1962. Most of the growth in contributions stemmed from two sources: the increase of approximately 11 per cent in average monthly earnings per employee and, to a smaller degree, a rise in membership following a 6 per cent increase in the number of employees in 1963. Contributions to the funds for self-employed likewise expanded following an increase of about 12 per cent in their membership.

At present, employers' contributions to the employees' funds are more than double those of the employees themselves, compared with a ratio of 1.7:1 in 1958. This growth in the share of employers' contributions has mainly been due to the aforementioned changeover from a system of provident payments to one of pensions.

Payments to withdrawing members, which include pension, provident, and severance payments and other social benefits, increased in 1963 by IL 14 million, to IL 69 million. Such payments still represent only a relatively small share

¹ See Chapter XIX.

² Excluding the revaluation increment.

Table XVIII-2

ANNUAL ACCUMULATION OF PROVIDENT FUNDS, 1958-63

(IL million)

| | 1958 | 1959 | 1960 | 1961 | 1962 ^a | 1963 ^b |
|---|-------------|-------------|--------------|--------------|-------------------|-------------------|
| Employees' and employers' contributions | 78.9 | 97.2 | 114.0 | 139.4 | 177.2 | 216.2 |
| Income from interest on investments and rent | 20.2 | 22.9 | 28.0 | 32.5 | 47.2 | 55.0 |
| Realized capital gains | 1.2 | 5.1 | 5.2 | 9.5 | 19.5 | 13.6 |
| Less: | | | | | | |
| Payments to members and to those leaving the funds ^c | 20.4 | 25.0 | 34.7 | 41.7 | 53.0 | 68.6 |
| Current expenses | 6.8 | 8.1 | 8.4 | 9.3 | 11.0 | 13.0 |
| Total accumulation | 72.9 | 92.1 | 104.1 | 130.4 | 179.9 | 203.2 |

^a Revised figures.^b Estimate.^c Pension, provident, and severance payments and other social benefits.

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

of the annual contribution to the funds, but their importance has been increasing constantly—from 25 per cent of total contributions in 1958 and 1959 to 30 per cent in 1960-62 and 31.5 per cent in 1963. Current expenses amounted to IL 13 million during the year reviewed.

Income from investments rose by IL 8 million in 1963, compared with a IL 15 million increase in 1962,¹ and totalled about IL 55 million. Capital gains, the overwhelming proportion of which were in the form of linkage differentials, amounted to IL 14 million, as against IL 20 million in 1962.²

This combination of factors resulted, as stated, in a greater annual accumulation—IL 203 million compared with IL 180 million in 1962. Net saving of households through the funds, i.e. the annual accumulation less the increase in members' outstanding loans and realized capital gains, advanced by a lesser amount—IL 164 million, compared with IL 134 million in 1962. Outstanding loans to members rose by IL 26 million, as against IL 26.5 million in 1962, and reached IL 155 million at the end of the year reviewed.

Credit to members was limited by Treasury regulations to a total of 25 per cent of the funds' assets, excluding employers' debts. At the end of October

¹ The relatively large increase in income in 1962 was due to the fact that the interest on investments was linked; in recording interest income, linked-interest differentials are also included.

² Insofar as debentures are revalued, the linkage differentials received at the time of redemption are not recorded as a capital gain.

1963, the limitation was further tightened with the publication of a directive requiring the funds that have been approved for tax concessions to invest 80 per cent of their assets in "approved investments". Thus the percentage of assets authorized for loans to members was decreased from 25 to 20 per cent. Actually, local provident funds reached the full authorized loan quota some time ago; in the remaining funds, the most important of which are the country-wide pension funds, the authorized loan quota has not been fully exploited, for reasons connected with the structure of the funds.

As of July 1962, loans to members became relatively more expensive as a result of the regulation requiring the funds to pay withdrawing members the linkage differentials due on their contributions, less outstanding loans received from the funds. According to this regulation, approved funds are obligated to pay the withdrawing member, who is not entitled to pension rights, linkage differentials calculated annually on the sum accumulated to his credit, less the balance of his debt to the fund at the end of the year. In effect, this regulation represents an indirect linkage of loans to members, since 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 upon reaching retirement.

2. MONEY FLOWS, BY SECTOR¹

(a) *Receipts*

Total net receipts of the funds reached IL 206 million in 1963, compared with IL 180 million in 1962.² Most of this amount consisted of household saving in the form of contributions to the funds, which was partially offset by negative saving by other households (negative only in relation to saving through the funds), arising from payments to current members and members leaving the funds. As noted above, in 1963 contributions amounted to IL 216 million and payments to IL 69 million. Profits from the funds' investments constituted only a relatively small part of their total receipts.

Employers' contributions, which comprise about two-thirds of the total contribution, really come under the category of household saving, since they actually increase the total assets accumulating to the credit of households, and from the point of view of the employers they are part of the wage bill. The funds' profits, which accrue from investments with members' deposits, must also be considered as receipts from households, since their accounts are credited therewith. Thus nearly 93 per cent of the funds' receipts in 1963 derived from households—IL 191 million, compared with IL 167 million in 1962. Receipts from

¹ The discussion in this section does not include the increment from the revaluation of assets.

² The difference between these sums and the annual accumulation, as shown in Table XVIII-2, is due to the fact that part of the profits of Gmul Investment Co. Ltd. are not transferred to the funds.

Table XVIII-3

"BALANCE OF PAYMENTS" OF PROVIDENT FUNDS AND GMUL LTD., 1960-63

(IL million)

| Receipts | 1960 | 1961 | 1962 ^a | 1963 ^b | | Payments | 1960 | 1961 | 1962 ^a | 1963 ^b | |
|--|-------|-------|-------------------|-------------------|-------|--|-------|-------|-------------------|-------------------|-------|
| | | | | IL m. | % | | | | | IL m. | % |
| From households (including employers' contributions) | 96.7 | 122.2 | 167.0 | 191.4 | 92.8 | Loans (securities and other credit) To public sector ^d and public sector companies To financial and banking institutions ^e To households and non- profit institutions To private business ^f Real estate investments | | | | | |
| From private business | 8.7 | 8.1 | 13.1 | 14.8 | 7.2 | | 31.4 | 13.7 | 56.7 | 66.9 | 32.4 |
| | | | | | | | 51.3 | 47.3 | 56.6 | 69.1 | 33.5 |
| | | | | | | | 8.9 | 24.0 | 25.6 | 26.8 | 13.0 |
| | | | | | | | 12.1 | 40.0 | 36.7 | 35.1 | 17.0 |
| | | | | | | 1.7 | 5.3 | 4.5 | 8.3 | 4.1 | |
| Total ^c | 105.4 | 130.3 | 180.1 | 206.2 | 100.0 | Total | 105.4 | 130.3 | 180.1 | 206.2 | 100.0 |

^a Revised figures; excluding revaluation of assets.^b Estimate; excluding revaluation of assets.^c The small discrepancy between total receipts shown in this table and the annual accumulation in Table XVIII-2 is due to the fact that part of Gmul's profits are not transferred to the funds.^d Government, National Institutions, and local authorities.^e Excluding the funds' deposits with Gmul, which are shown in this table as investments in the public sector, private business, and nonprofit institutions.^f Mainly Histadrut enterprises.

business firms totalled IL 15 million in 1963; these are employers' contributions to central severance pay funds, which do not belong to employees, for the most part being administered by a number of banks.¹

(b) *Payments*

Total investments by the funds, including those made through Gmul Ltd., reached IL 206 million in 1963, compared with IL 180 million in 1962. The sectorial distribution of these investments is determined mainly by Government regulations.

Close to 35 per cent of the total investments in 1963 were directed to financial and banking institutions. Investments in these institutions, which consist mainly of bank deposits and linked debentures of financial institutions, aggregated IL 69 million in 1963, compared with IL 57 million in 1962. This increment of IL 12 million resulted from larger purchases of debentures of financial institutions.²

There was a further rise in the proportion invested in the public sector, mainly because of a large increase in purchases of National Institution bonds. Credit granted to the public sector reached IL 67 million, as against IL 57 million in 1962.

Credits to private business amounted to IL 35 million, about the same as in 1962.

Net new loans to households and nonprofit institutions also remained virtually constant at IL 27 million, of which IL 26 million represented loans to members.

3. BALANCE SHEET DEVELOPMENTS³

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 1963 stood at IL 1,052 million, compared with IL 849 million at the end of 1962. These figures include only a partial asset revaluation, in the amount of IL 38 million. On the asset side, most of the increase was in securities, while there was a continued marked decline in deposits; on the liability side, most of the rise was in the pension fund.

¹ The distinction between employers' contributions to employees' funds and those to the central severance pay funds is discussed in the Bank of Israel Annual Report for 1961, p. 354.

² Investments in financial institutions do not include those in debentures of Bitzur Ltd. (IL 36 million in 1963), since the proceeds are deposited by the latter with the Workers' Bank; hence these must be considered as investments of the funds in banking institutions. Also excluded is the IL 48 million net credit granted by the funds to Gmul Ltd., since this company really serves as their investment agent.

³ In order to permit a comparison with previous years, this survey of the funds' balance sheet does not include the revaluation increment.

(a) *Assets*

As stated above, the structure of the funds' assets is largely connected with Ministry of Finance regulations governing the funds' investments. At the end of October 1963 the percentage of "authorized investments" required by the regulations was raised from 75 to 80 per cent of the total funds available, excluding employers' obligations.

The principal increase was in securities—from IL 462 million at the end of 1962 to IL 651 million at the end of 1963. As a result, the share of this item in total assets went up from 57 per cent at the end of 1962 to 64 per cent at the end of 1963.

There was a further contraction of "special deposits", which began in 1961 following the withdrawal of their recognition as an "authorized investment". They decreased from IL 77 million at the end of 1962 to IL 39 million at the end of 1963, thereby reducing the proportion of time deposits in banks and in Gmul from 12 per cent of total assets to 6 per cent.

Outstanding loans to members rose from IL 129 million at the end of 1962 to IL 155 million at the end of 1963, although their share of total assets declined slightly, from 16 to 15 per cent.

This percentage rate refers to total assets, while the 20 per cent ceiling for loans permitted under the regulations refers to assets excluding employers' debts. Furthermore, the figure of 15–16 per cent is an average for all funds, including not only provident funds where the maximum loan limit was reached, but also funds for the self-employed and the central severance pay 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' obligations grew from IL 73 million at the end of 1962 to IL 85 million at the end of 1963, an increase of IL 12 million, compared with a IL 15 million rise in 1962. However, the weight of this item as well practically did not change, remaining at about 9 per cent. These obligations are not linked and generally do not bear interest. At the beginning of 1964 the Ministry of Finance announced that a regulation would shortly be published requiring the employer to pay 9 per cent interest for a 90-day delay in payment, and for longer periods the interest would be converted into a fine which would not be recognized as a deductible expense for income tax purposes.

(b) *Liabilities*

In 1963 the pension fund expanded by IL 100 million, and reached IL 470 million, or 46 per cent of total liabilities. The provident fund increased by more than IL 50 million, and reached IL 295 million, or 29 per cent of total liabilities. Part of the increase in the provident fund resulted from the growth of the funds for the self-employed, whose assets went up from IL 22.7 million at the end of 1962 to IL 34.7 million at the end of 1963, while their membership expanded to 36,000.

Table XVIII-4

ASSETS AND LIABILITIES OF PROVIDENT FUNDS, 1960-63

(End of year)

| | 1960 | | 1961 | | 1962 ^a | | 1963 ^b | |
|--|--------------|--------------|--------------|--------------|-------------------|--------------|-------------------|--------------|
| | IL m. | % | IL m. | % | IL m. | % | IL m. | % |
| Assets | | | | | | | | |
| Cash and demand deposits | 9.4 | 1.9 | 9.2 | 1.5 | 7.6 | 1.1 | 9.2 | 0.9 |
| "Special deposits" in banks | 68.6 | 13.7 | 51.0 | 8.1 | 44.8 | 5.5 | 23.0 | 2.3 |
| "Special deposits" in Gmul | 71.6 | 14.3 | 45.2 | 7.1 | 32.6 | 4.0 | 16.1 | 1.6 |
| Other time deposits in banks | 7.2 | 1.4 | 8.4 | 1.3 | 8.4 | 1.0 | 7.7 | 0.8 |
| Other time deposits in Gmul | 13.3 | 2.7 | 17.1 | 2.7 | 12.9 | 1.6 | 14.8 | 1.5 |
| Securities, at cost | 170.7 | 34.1 | 297.4 | 47.0 | 462.3 | 57.0 | 651.2 | 64.2 |
| Loans to members | 81.1 | 16.2 | 102.2 | 16.2 | 128.7 | 15.9 | 154.6 | 15.2 |
| Employers' debts | 44.6 | 8.9 | 57.2 | 9.1 | 72.5 | 8.9 | 85.1 | 8.4 |
| Loans to business enterprises ^c | 8.3 | 1.6 | 8.7 | 1.4 | 6.3 | 0.8 | 6.0 | 0.6 |
| Real estate | 17.0 | 3.4 | 22.3 | 3.5 | 26.8 | 3.3 | 35.1 | 3.5 |
| Miscellaneous ^d | 9.3 | 1.8 | 12.8 | 2.0 | 8.5 | 1.0 | 11.8 | 1.2 |
| Total assets | 501.1 | 100.0 | 631.5 | 100.0 | 811.4 | 100.0 | 1,014.6 | 100.0 |
| Revaluation increment | — | — | — | — | 37.8 | — | 37.8 | — |
| Grand total | — | — | — | — | 849.2 | — | 1,052.4 | — |

Liabilities

| | | | | | | | | |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------|--------------|
| Pension fund | 231.6 | 46.2 | 298.7 | 47.3 | 372.8 | 45.9 | 470.5 | 46.4 |
| Provident fund | 152.4 | 30.4 | 185.6 | 29.4 | 241.9 | 29.8 | 295.0 | 29.0 |
| Severance fund | 54.1 | 10.8 | 70.4 | 11.2 | 94.3 | 11.6 | 118.0 | 11.6 |
| Various welfare funds ^a | 32.0 | 6.4 | 38.2 | 6.0 | 47.0 | 5.8 | 58.0 | 5.7 |
| Investment realization fund | 3.7 | 0.7 | 5.7 | 0.9 | 12.1 | 1.5 | 17.5 | 1.7 |
| Reserve fund | 4.4 | 0.9 | 4.8 | 0.8 | 6.7 | 0.8 | 9.5 | 0.9 |
| Balance of profit and loss account | 4.3 | 0.9 | 8.5 | 1.3 | 10.7 | 1.3 | 13.5 | 1.3 |
| Creditors ^f | 18.6 | 3.7 | 19.6 | 3.1 | 25.9 | 3.2 | 32.6 | 3.2 |
| Total liabilities | 501.1 | 100.0 | 631.5 | 100.0 | 811.4 | 100.0 | 1,014.6 | 100.0 |
| Revaluation reserve | — | — | — | — | 37.8 | — | 37.8 | — |
| Grand total | — | — | — | — | 849.2 | — | 1,052.4 | — |

^a Revised figures.

^b Estimate.

^c Histadrut enterprises.

^d Mainly life 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.

II. INSURANCE COMPANIES¹

In 1963, as in previous years, the insurance companies continued to show rapid growth. Their consolidated balance sheet totalled IL 230 million, an increase of 29 per cent over 1962. Premium receipts amounted to IL 144.3 million, as against IL 116.3 million the year before. Of this amount, 21 per cent came from life insurance and 79 per cent from general insurance (including marine insurance).

The total number of insurers in 1963 reached 85,² of which 28 were Israeli and 57 foreign companies. The foreign companies dealt mainly in general insurance, and their share³ of total premium receipts in this branch (including marine insurance) came to approximately 30 per cent, a rate that has remained practically constant during the past six years. Only seven foreign companies handled life insurance, as compared with 15 Israeli companies. The latter accounted for 91 per cent of aggregate life insurance premium receipts in 1963. This predominant position is partly explained by the fact that the foreign companies do not offer linked life insurance.

1. LIFE INSURANCE

(a) *General developments*

The total value of life insurance in force in 1963 was IL 877 million, a growth of IL 246.6 million compared with 1962; of this increment, IL 158.2 million was linked to the cost-of-living index. The amount linked to the dollar decreased by IL 9.9 million, owing both to the surrender of policies and to a switch from dollar-linked policies to index-linked.⁴

The sum insured on nonlinked policies also rose substantially in 1963—by IL 98 million—and amounted to IL 408 million. This increase was mainly due to purchases of group insurance by institutions and enterprises on behalf of their employees. Such insurance is principally term insurance, which pays to the beneficiary a certain sum in case of the death of the insured within a specified period or before a specified age. It is essentially a form of risk insurance, like fire insurance, and since it does not include an element of saving, linkage has no relevance in this case.

¹ The insurance sector includes both Israeli companies and branches of foreign companies operating in Israel.

² Excluding 15 Lloyd's agents.

³ Including that of the Lloyd's agents.

⁴ After the devaluation of 1962 the Government stopped issuing dollar-linked bonds, and since then all new policies are linked exclusively to the consumer price index.

Table XVIII-5

AMOUNT INSURED AND NO. OF LIFE INSURANCE POLICIES,
1957-63

| | Total amount insured at end of year (IL m.) | No. of policies at end of year (thousands) | Amount of linked insurance (IL m.) | | Amount of nonlinked insurance (IL m.) | Ratio of linked insurance to total amount insured (%) |
|-------------------|---|--|------------------------------------|----------------------|---------------------------------------|---|
| | | | Linked to consumer price index | Linked to the dollar | | |
| 1957 | 171.4 | 148.7 | 7.2 | — | 164.2 | 4.2 |
| 1958 | 212.6 | 169.1 | 25.8 | 11.6 | 175.2 | 17.6 |
| 1959 | 256.0 | 187.5 | 59.3 | 28.7 | 168.0 | 34.3 |
| 1960 | 304.0 | 199.8 | 89.6 | 45.1 | 169.3 | 44.3 |
| 1961 | 406.5 | 252.2 | 128.0 | 73.6 | 204.9 | 49.6 |
| 1962 | 630.7 | 342.3 | 200.3 | 119.9 | 310.5 | 50.8 |
| 1963 ^a | 877.3 | 438.6 | 358.5 | 110.0 | 408.8 | 53.4 |

^a Estimate.

SOURCE: Ministry of Finance, Superintendent of Insurance.

(b) *Investment of linked-insurance funds*

At the end of 1963 the investment of the life insurance companies in linked debentures totalled IL 36.5 million, of which IL 26.3 million was in debentures of the Israel Electric Corp. (guaranteed by the Government) and the remainder in Government securities. New linked investments in 1963 amounted to IL 14.1 million—IL 8.3 million in Israel Electric Corp. debentures and IL 5.8 million in Government securities.

In order to enable the insurance companies to continue operating linked insurance schemes, the Knesset (Israel's parliament) passed a law authorizing the Government to issue for this purpose long-term linked debentures up to a total value of IL 100 million. Furthermore, a new contract will be signed in the near future between the life insurance companies and the Israel Electric Corp. in connection with the purchase of the latter's long-term linked debentures, up to a sum of IL 150 million.

(c) *Income and outgo of the life insurance branch¹*

1. *Income*

Income from life insurance of companies operating in Israel rose in 1963 by 37 per cent, and totalled IL 36.1 million compared with IL 26.4 million in

¹ Business transacted in Israel only; business transacted abroad by Israeli companies (net premium receipts from abroad amount to only 1 per cent of their premium receipts in Israel) is not included here.

Table XVIII-6

LIFE INSURANCE PREMIUM RECEIPTS, 1958-63

(IL million)

| Year | Premiums from linked policies ^a | | | Premiums from nonlinked policies | | | | | | Total premiums | |
|-------------------|--|-----------------------------|------------------------------------|----------------------------------|---|-------------------|---|-----------------|------------------------------------|-----------------|--------------------------------------|
| | Amount received | Increase over previous year | Per cent of total premium receipts | Israeli companies | | Foreign companies | | All companies | | Amount received | Per cent increase over previous year |
| | | | | Amount received | Increase or decrease (-) as against previous year | Amount received | Increase or decrease (-) as against previous year | Amount received | Per cent of total premium receipts | | |
| 1958 | 1.9 | — | 25.3 | 4.1 | — | 1.5 | — | 5.6 | 74.7 | 7.5 | — |
| 1959 | 4.4 | 2.5 | 47.8 | 3.2 | -0.9 | 1.6 | 0.1 | 4.8 | 52.2 | 9.2 | 22.7 |
| 1960 | 6.4 | 2.0 | 57.1 | 3.1 | -0.1 | 1.7 | 0.1 | 4.8 | 42.9 | 11.2 | 21.7 |
| 1961 | 10.6 | 4.2 | 68.8 | 2.8 | -0.3 | 2.0 | 0.3 | 4.8 | 31.2 | 15.4 | 37.5 |
| 1962 | 15.9 | 5.3 | 72.3 | 3.7 | 0.9 | 2.4 | 0.4 | 6.1 | 27.7 | 22.0 | 42.9 |
| 1963 ^b | 23.8 | 7.9 | 77.8 | 4.1 | 0.4 | 2.7 | 0.3 | 6.8 | 22.2 | 30.6 | 37.8 |

^a Israeli insurance companies only.^b Estimate.

SOURCE: Ministry of Finance, Superintendent of Insurance.

1962. Of this sum, 85 per cent came from premiums and the remainder from the investment of life insurance funds.

Premium receipts totalled IL 30.6 million in 1963, a rise of IL 8.6 million or 37.8 per cent over 1962. Of this increase, IL 7.9 million were linked premiums and only IL 0.7 million nonlinked. As a result, the share of linked premiums in 1963 grew to IL 23.8 million, or 77.8 per cent of total premium receipts, compared with 72.3 per cent in the previous year. Receipts from non-linked policies amounted to IL 6.8 million.

Profits from investments totalled IL 5.5 million in 1963, as compared with IL 4.4 million in 1962.

Table XVIII-7

**INCOME AND OUTGO OF LIFE INSURANCE COMPANIES
IN ISRAEL, 1960-63**
(IL million)

| | 1960 | 1961 | 1962 ^a | 1963 ^b |
|---|-------------|-------------|-------------------|-------------------|
| Income | | | | |
| Premiums | 11.2 | 15.4 | 22.0 | 30.6 |
| Interest | 2.3 | 3.3 | 4.4 | 5.5 |
| Total | 13.5 | 18.7 | 26.4 | 36.1 |
| Outgo | | | | |
| Benefits to policy- holders | 4.0 | 4.3 | 6.4 | 8.6 |
| Operating expenses | 3.2 | 4.2 | 6.1 | 8.5 |
| Gross profit of in- surance companies ^c | 0.8 | 0.9 | 1.6 | 1.9 |
| Accumulation through life insurance in Israel | 5.5 | 9.3 | 12.3 | 17.1 |
| Total | 13.5 | 18.7 | 26.4 | 36.1 |

^a Revised figures.

^b Estimate.

^c Including profits of reinsurers abroad.

SOURCE: Ministry of Finance, Superintendent of Insurance.

2. *Outgo*

Benefits paid to policyholders rose by IL 2.2 million in 1963, and totalled IL 8.6 million, or about 24 per cent of total income. This rather low ratio¹ was mainly due to the young age structure of the population and the appreciable growth of life insurance business over the past several years.

General expenses increased more or less proportionately to the rise in income, and came to IL 5.4 million, or about 15 per cent of total income. Payments of commission amounted to IL 3.1 million, as compared with IL 2.1 million in 1962—a growth of 47.6 per cent. This was due to the larger number of insurance policies, since 50–80 per cent of the first-year premiums (depending on the type of policy) are paid out to agents as commission.

(d) *Saving through life insurance*

In 1963 the life insurance funds rose by IL 18.1 million.² The increase in liabilities due to the linking of life insurance policies to the consumer price index comprised IL 1.0 million of this sum. Accumulation less linkage differentials therefore totalled IL 17.1 million. The balance of loans to households against policies rose by IL 1.2 million during the year. Household saving through life insurance,³ i.e. the accumulation less the increase in the households' debts to the insurance companies, thus stood at IL 15.9 million, compared with IL 11.2 million in 1962—a rise of 42 per cent.

2. GENERAL INSURANCE⁴

The rapid growth of general insurance business (including marine insurance) continued in 1963. Premium receipts⁵ of all the companies totalled IL 113.7 million, a rise of IL 19.4 million, or 20.6 per cent, over 1962.

Comprehensive (fire, burglary, etc.) and vehicle insurance were the main branches contributing to this growth.

Receipts from comprehensive insurance comprised about 40 per cent of total general insurance income (excluding marine insurance), and those from vehicle insurance about 38 per cent. The development of the vehicle insurance branch has been greatly influenced by the marked increase in the number of vehicles in recent years.

¹ In the United States, for example, the ratio was 36 per cent in 1962.

² The life insurance funds are defined here as the total liabilities of life insurance companies (in Israel and abroad) at the end of the year to their policyholders. Liabilities include the life insurance fund, extraordinary risks fund, and life insurance claims pending.

³ Premium receipts are considered as coming exclusively from households.

⁴ Including the Government insurance company Yuval, which was founded in 1962 in order to concentrate the handling of all Government insurance contracts in one company.

⁵ Including registration fees.

Table XVIII-10
ASSETS AND LIABILITIES OF ISRAELI INSURANCE COMPANIES, 1961-63

| | 1961 | | 1962 ^a | | 1963 ^b | | Increase over previous year | | | |
|--|--------------|--------------|-------------------|--------------|-------------------|--------------|-----------------------------|----------------------------|-------------|----------------------------|
| | | | | | | | 1962 | | 1963 | |
| | IL m. | % | IL m. | % | IL m. | % | IL m. | Per cent of total increase | IL m. | Per cent of total increase |
| Assets | | | | | | | | | | |
| Government or Government-guaranteed bonds | 19.3 | 18.1 | 33.4 | 21.3 | 48.4 | 23.6 | 14.1 | 28.1 | 15.0 | 30.9 |
| Other securities | 7.4 | 6.9 | 9.0 | 5.8 | 11.3 | 5.5 | 1.6 | 3.2 | 2.3 | 4.8 |
| Loans on policies or against mortgages | 9.2 | 8.6 | 9.8 | 6.3 | 10.7 | 5.2 | 0.6 | 1.2 | 0.9 | 1.8 |
| Other loans | 20.0 | 18.8 | 30.3 | 19.3 | 39.4 | 19.2 | 10.3 | 20.5 | 9.1 | 18.7 |
| Real estate and investments in subsidiaries | 7.5 | 7.0 | 12.4 | 7.9 | 16.1 | 7.8 | 4.9 | 9.8 | 3.7 | 7.6 |
| Long-term deposits | 6.7 | 6.3 | 7.4 | 4.7 | 8.6 | 4.2 | 0.7 | 1.4 | 1.2 | 2.5 |
| Outstanding premiums | 18.2 | 17.1 | 26.2 | 16.7 | 34.1 | 16.6 | 8.0 | 16.0 | 7.9 | 16.2 |
| Sundry debtors | 6.4 | 6.0 | 11.9 | 7.6 | 15.3 | 7.5 | 5.5 | 11.0 | 3.4 | 7.0 |
| Cash and demand deposits | 11.9 | 11.2 | 16.3 | 10.4 | 21.4 | 10.4 | 4.4 | 8.8 | 5.1 | 10.5 |
| Total assets | 106.6 | 100.0 | 156.7 | 100.0 | 205.3 | 100.0 | 50.1 | 100.0 | 48.6 | 100.0 |
| Liabilities | | | | | | | | | | |
| Paid-up share capital | 14.1 | 13.2 | 21.4 | 13.6 | 25.8 | 12.6 | 7.3 | 14.5 | 4.4 | 9.0 |
| Reserves | 5.0 | 4.7 | 9.8 | 6.3 | 16.4 | 8.0 | 4.8 | 9.6 | 6.6 | 13.6 |
| Life insurance fund | 38.2 | 35.8 | 55.8 | 35.6 | 72.2 | 35.2 | 17.6 | 35.1 | 16.4 | 33.7 |
| General insurance fund | 9.3 | 8.7 | 13.2 | 8.4 | 16.7 | 8.1 | 3.9 | 7.8 | 3.5 | 7.2 |
| Extraordinary risks fund | 3.5 | 3.3 | 4.5 | 2.9 | 5.6 | 2.7 | 1.0 | 2.0 | 1.1 | 2.3 |
| Deposits of reinsurers | 8.4 | 7.9 | 11.6 | 7.4 | 15.7 | 7.7 | 3.2 | 6.4 | 4.1 | 8.4 |
| Pending and approved claims (mainly general insurance) | 13.0 | 12.2 | 15.4 | 9.8 | 18.3 | 8.9 | 2.4 | 4.8 | 2.9 | 6.0 |
| Current liabilities | 15.1 | 14.2 | 25.0 | 16.0 | 34.6 | 16.8 | 9.9 | 19.8 | 9.6 | 19.8 |
| Total liabilities | 106.6 | 100.0 | 156.7 | 100.0 | 205.3 | 100.0 | 50.1 | 100.0 | 48.6 | 100.0 |

^a Revised figures; including revaluation differentials totalling IL 5.4 million.

^b Estimate.

SOURCE: Ministry of Finance, Superintendent of Insurance.

difference between premium receipts on the one hand and benefit payments and general expenses in the life insurance branch on the other is included under financial transactions, since it represents a change in the financial claims of the household sector against the insurance companies.

Receipts from transfers and real transactions totalled IL 166.9 million in 1963, as compared with IL 136.2 million the previous year. Domestic sectors accounted for 70 per cent of this amount, which consisted mainly of premium receipts and registration fees.

Receipts from the rest of the world rose by IL 9.3 million, and totalled IL 43.1 million. Commission and claim payments to Israeli companies from reinsurers abroad were the main items.

Total transfers and real payments reached IL 153.6 million, compared with IL 122.9 million in 1962. Of this sum, IL 107.2 million went to the domestic sectors in the form of payments, agents' commissions, and other expenses. Transfers to the rest of the world totalled IL 46.4 million, of which IL 39.0 million represented payments to foreign companies on account of reinsurance, and the remainder was mainly payments by Israeli companies for insurance business transacted abroad.

Transactions in financial claims remained at the 1962 level. Receipts totalled IL 29.4 million, of which households contributed IL 18.4 million, thus increasing their share of the total from 51 per cent in 1962 to 63 per cent in 1963. Most of the increment was on account of life insurance.

In 1963 the insurance sector had no receipts from the public sector, whereas in 1962 receipts from the Government totalled IL 3.0 million as a result of the establishment of the Yuval insurance company, all of whose shares are owned by the Government.

Payments on account of financial transactions totalled IL 45.2 million in 1963. The public sector and public sector companies together received credits amounting to IL 16.3 million, or 36 per cent of all net credit extended by insurance companies, as compared with IL 10.8 million (25 per cent) in 1962. Most of this credit was extended through the purchase of Israel Electric Corp. and Government bonds.

Net credit to the business sector totalled IL 19.6 million. New loans for various purposes reached IL 10.0 million; the remainder was "involuntary" credit in the form of outstanding premiums and sundry debtors.

4. BALANCE SHEET CHANGES

(a) *Israeli companies*

In 1963 the consolidated balance sheet of the Israeli insurance companies expanded by IL 48.6 million or 31 per cent, and totalled IL 205.3 million, as compared with IL 157.7 million in 1962.

Table XVIII-9
"BALANCE OF PAYMENTS" OF THE INSURANCE SECTOR,^a 1961-63
 (IL million)

| Receipts | 1961 ^b | 1962 ^b | 1963 ^c | Payments | 1961 ^b | 1962 ^b | 1963 ^c |
|--|-------------------|-------------------|-------------------|---|-------------------|-------------------|-------------------|
| Transfers and real transactions | | | | | | | |
| Transfers from domestic sectors, mainly premium receipts and registration fees in Israel from general insurance business | 72.1 | 95.6 | 117.9 | Transfers to domestic sectors, mainly general insurance claims paid in Israel | 28.7 | 44.9 | 55.4 |
| Interest and other income in Israel | 3.0 | 6.8 | 5.9 | Commission on general insurance (mainly to agents) | 19.6 | 24.7 | 30.2 |
| Transfers from abroad, mainly on account of reinsurance | 22.2 | 33.8 | 43.1 | Current expenses | 12.0 | 15.8 | 19.8 |
| | | | | Transfers abroad, mainly on account of reinsurance | 28.5 | 35.9 | 46.4 |
| Total transfers and real transactions | 97.3 | 136.2 | 166.9 | Investment in real estate | 1.9 | 1.6 | 1.8 |
| | | | | Total transfers and real transactions | 90.7 | 122.9 | 153.6 |
| Financial transactions,^d by sector | | | | | | | |
| From households | 8.9 | 14.1 | 18.4 | Credit (loans, purchase of securities, and deposits) | | | |
| From business enterprises | 0.5 | 7.6 | 5.7 | To public sector | 5.1 | 4.0 | 8.3 |
| From provident funds, banks, and financial institutions | 1.8 | 2.6 | 2.8 | To public sector companies | 2.8 | 6.8 | 8.0 |
| From the Government | — | 3.0 | — | To banks and financial institutions | 3.3 | 5.8 | 4.2 |
| From the rest of the world | 1.9 | 0.4 | 2.5 | To business enterprises | 6.9 | 20.1 | 19.6 |
| | | | | To households and nonprofit institutions | 2.0 | 6.3 | 5.1 |
| Total financial transactions | 13.1 | 27.7 | 29.4 | To the rest of the world | 0.6 | — | — |
| | | | | Total financial transactions | 20.7 | 43.0 | 45.2 |
| Intrasector transactions | | | | | | | |
| Receipts from other insurance companies on account of reinsurance in Israel | 6.7 | 7.4 | 8.4 | Payments on account of reinsurance in Israel | 6.7 | 7.4 | 8.4 |
| Change in net balance of intrasector transactions | 1.0 | 2.0 | 2.5 | | | | |
| Total receipts | 118.1 | 173.3 | 207.2 | Total payments | 118.1 | 173.3 | 207.2 |

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

^b Revised figures.

^c Estimate.

^d Includes transfers payments; the difference between the two

The share of the Israeli companies in the premium receipts totalled IL 80.1 million, or 70.4 per cent. Their transfers abroad on account of reinsurance amounted to approximately 48 per cent of their total receipts; the self-retention thus came to 52 per cent—about the same as in previous years. Payments of claims, including settlement expenses, rose by 18 per cent in 1963, and totalled IL 63 million. During the past four years the ratio between claims paid and premium receipts increased gradually, from 42.8 per cent in 1960 to 46.7 per cent in 1963. This can be attributed primarily to developments in the vehicle insurance branch.

Table XVIII-8

PREMIUM RECEIPTS FROM GENERAL (INCL. MARINE) INSURANCE^a AND SELF-RETENTION^b OF ISRAELI COMPANIES, 1959-63

| Year | All companies | | Israeli companies | | Self-retention of Israeli companies | |
|-------------------|---------------|--------------------------------------|-------------------|------------------------------------|-------------------------------------|------|
| | IL m. | Per cent increase over previous year | IL m. | Per cent of total premium receipts | IL m. | % |
| 1959 | 49.7 | — | 35.0 | 70.4 | 19.1 | 54.6 |
| 1960 | 59.6 | 19.9 | 41.9 | 70.3 | 22.6 | 53.9 |
| 1961 | 70.8 | 18.8 | 50.0 | 70.6 | 26.1 | 52.2 |
| 1962 | 94.3 | 33.2 | 66.3 | 70.3 | 35.0 | 52.8 |
| 1963 ^c | 113.7 | 20.6 | 80.1 | 70.4 | 42.1 | 52.5 |

^a Including registration fees; excluding reinsurance in Israel.

^b Self-retention is defined as the difference between total premium receipts of Israeli companies and the sums paid by them to reinsurers abroad.

^c Estimate.

SOURCE: Ministry of Finance, Superintendent of Insurance.

General expenses totalled IL 11.0 million, as compared with IL 9.5 million in 1962. Their ratio to total premium receipts remained unchanged at about 10 per cent. Commission payments of insurance companies operating in Israel amounted to IL 26.4 million in 1963, as against IL 21.9 million the year before. Operating expenses in the general insurance branch therefore totalled IL 37.4 million, or 32.8 per cent of premium income, compared with IL 31.4 million, or 33.3 per cent, in 1962.

3. MONEY FLOWS

Transfers and real transactions in the general insurance branch (including marine insurance) constitute the bulk of the insurance companies' business. The

Liabilities: The life insurance fund stood at IL 72.2 million—a rise of IL 16.4 million, or 33.7 per cent of the total balance sheet increment. Paid-up share capital increased by IL 4.4 million, and amounted to IL 25.8 million at the end of 1963. The reserve fund showed a marked rise of IL 6.6 million, and totalled IL 16.4 million. Of this increase, 66 per cent was due to the sale of security issues at a premium. Equity capital thus comprised 20.6 per cent of total liabilities in 1963.

Assets: Parallel to the increase in the life insurance fund, there was a rise on the asset side in Government-issued or Government-guaranteed bonds (the latter are primarily investments in the Israel Electric Corp.) amounting to IL 15.0 million, or 31 per cent of the total asset increment. This item thus stood at IL 48.4 million, or 23.6 per cent of total assets. The item “other loans”—chiefly to industry, agriculture, and commerce—advanced from IL 30.3 million in 1962 to IL 39.4 million in 1963, but its relative share remained unchanged. Outstanding premiums went up by IL 7.9 million—about the same as in the previous year—and amounted to IL 34.1 million, or 16.6 per cent of total assets. There was a further slight deterioration in the ratio between outstanding premiums and total premium receipts,¹ which came to 31.6 per cent as compared with 30.5 per cent in 1962. This high ratio is partly due to the intense competition in the insurance sector, one expression of which is the lack of insistence on prompt payment of the amounts due. This delay in payment increases general expenses; furthermore, in view of the repeated deferment of payments, outstanding premiums actually represent a form of credit granted by the companies to their customers without interest.

(b) *Foreign insurers operating in Israel*

Total assets invested in Israel of the 57 foreign companies amounted to IL 24.5 million at the end of 1963, compared with IL 21.9 million at the end of 1962.

Government bonds, which are held mainly by the companies dealing in life insurance, amounted to IL 4.6 million. Of the item “other securities”, 50 per cent represented securities of other insurance companies. Loans to industry and commerce amounted to IL 4.7 million, or 19.2 per cent of total assets.

Since most of the foreign companies' transactions are in the general insurance field, the items “outstanding premiums and sundry debtors” and “short-term deposits” are of considerable weight, amounting in 1963 to IL 8.1 million, or 33 per cent of total assets.

¹ Total premiums received by Israeli companies before reinsurance.

Table XVIII-11

ASSETS OF FOREIGN INSURANCE COMPANIES OPERATING IN ISRAEL, 1961-63

| | 1961 | | 1962 ^a | | 1963 | | Increase over previous year | | | |
|---|-------------|--------------|-------------------|--------------|-------------|--------------|-----------------------------|--------------|-------------------|--------------|
| | | | | | | | 1962 | | 1963 ^b | |
| | IL m. | % | IL m. | % | IL m. | % | IL m. | % | IL m. | % |
| Government or Government-guaranteed bonds | 4.5 | 26.0 | 4.4 | 20.1 | 4.6 | 18.8 | -0.1 | -2.0 | 0.2 | 7.7 |
| Other securities | 2.3 | 13.3 | 3.9 | 17.8 | 4.7 | 19.2 | 1.6 | 34.8 | 0.8 | 30.8 |
| Loans on policies or against mortgages | 2.2 | 12.7 | 2.3 | 10.5 | 2.3 | 9.4 | 0.1 | 2.1 | — | — |
| Other loans | 1.6 | 9.2 | 3.9 | 17.8 | 4.7 | 19.2 | 2.3 | 50.0 | 0.8 | 30.8 |
| Real estate | 0.1 | 0.6 | 0.1 | 0.5 | 0.1 | 0.4 | — | — | — | — |
| Outstanding premiums and sundry debtors | 3.8 | 22.0 | 4.4 | 20.1 | 5.1 | 20.8 | 0.6 | 13.0 | 0.7 | 26.9 |
| Cash and short-term bank deposits | 2.8 | 16.2 | 2.9 | 13.2 | 3.0 | 12.2 | 0.1 | 2.1 | 0.1 | 3.8 |
| Total assets in Israel | 17.3 | 100.0 | 21.9 | 100.0 | 24.5 | 100.0 | 4.6 | 100.0 | 2.6 | 100.0 |

^a Revised figures.^b Estimate.

SOURCE: Ministry of Finance, Superintendent of Insurance.