

## CHAPTER XVIII

# PROVIDENT FUNDS AND INSURANCE COMPANIES

### I. PROVIDENT FUNDS

#### 1. ACCUMULATION AND SAVING

IN 1964 THE ACCUMULATION of the provident funds<sup>1</sup> slowed down, continuing the downtrend which has persisted—with the exception of 1962—for the past seven years (see Table XVIII-1). The annual accumulation amounted to IL 246 million, representing an increase of 23.7 percent over 1963, when it came to IL 226 million, or 27.8 percent, more than in the previous year.

Despite the slower accumulation, the provident funds have experienced rapid growth in recent years: their assets, before revaluation, aggregated IL 1,283 million in 1964—four times the 1958 figure and double that of 1961. Some of the funds have not yet revalued their assets linked to the foreign exchange rate or the consumer price index. The total appreciation due to the devaluation of 1962 is estimated at roughly IL 200 million;<sup>2</sup> the amount actually recorded in the balance sheets at the end of 1964 came to only IL 82 million, while the increase in the value of assets not yet revalued at that date is estimated at another IL 80 million approximately.<sup>3</sup> The funds' total assets at the end of the year reviewed, including partial revaluation, amounted to IL 1,365 million, compared with IL 1,089 million in 1963.

Accumulation represents the difference between the fund's 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.

<sup>1</sup> Provident, pension, and severance pay funds. The survey covers both funds which have been approved for tax concessions and those which have not been approved (the latter account for about 1 percent of aggregate assets).

<sup>2</sup> At the time of devaluation close to 75 percent of the funds' assets were linked either to the consumer price index or to the dollar.

<sup>3</sup> The total appreciation of provident fund assets at the end of 1964 is estimated at approximately IL 165 million. The difference between this sum and the estimated IL 200 million on devaluation day stems from the fact that the funds have meanwhile sold part of their assets, realizing linkage profits thereon (see Table XVIII-2). In their reports the funds make no distinction between the revaluation of dollar-linked assets due to the devaluation and revaluation of assets linked to the consumer price index.

Table XVIII-1

ASSETS AND ANNUAL ACCUMULATION OF PROVIDENT FUNDS, 1958-64  
(IL million)

Year	Assets at end of year, excluding revaluation	Assets at end of year, including revaluation <sup>a</sup>	Annual accumulation <sup>b</sup>	Percent increase in total assets <sup>b</sup>
1958	305		73	31.4
1959	397		92	30.2
1960	501		104	26.2
1961	631		130	25.9
1962	811	849	180	28.5
1963	1,037	1,089	226	27.8
1964	1,283	1,365	246	23.7

<sup>a</sup> Only part of the provident funds revalued their assets.

<sup>b</sup> Excluding revaluation increments.

SOURCE: Ministry of Finance, National Saving Commissioner.

The accumulation in 1964 was only IL 20 million greater than in 1963; this compares with a rise of IL 46 million in 1963 and IL 50 million in 1962. The slackening of the rate of accumulation in 1964 was mainly due to the fact that the growth of income from investments and of realized capital gains, which in 1962 and 1963 had amounted to IL 25 million per annum, dropped to a little over IL 5 million during the year reviewed (see Table XVIII-2).

Contributions to the provident funds increased from IL 213 million in 1963 to IL 257 million—i.e. by IL 44 million or 21 percent, a similar rate as in the preceding year. Over two-thirds of all contributions to the funds came from employers. The increase in contributions stemmed from two sources: (a) a rise of 11.5 percent in average monthly earnings per employee; and (b) a 3.5 percent rise in membership (this was lower than the growth of total gainful employment, which came to approximately 5 percent).

Total provident fund membership stood at close to 505,000 in 1964. The increase in the number of employees joining the funds during the year was less than that in the general membership (2 percent). Whereas in 1963 about 78 percent of all employees in the country<sup>1</sup> belonged to the funds, the proportion dropped to 75 percent by the end of 1964.

Income from investments aggregated IL 71 million—a rise of some IL 1.1 million; this was less than in 1962 and 1963, which showed gains of IL 15 million and IL 12 million respectively. The decline was due to the reduced weight of deposits in banking institutions and Gmul Ltd. (the investment agent of the

<sup>1</sup> Out of a total of 600,000 employees in the economy, 450,000 are members of provident funds. (The largest single group not affiliated to the funds is the civil service, where a budgetary pension scheme is provided.)

**Table XVIII-2**  
**ANNUAL ACCUMULATION OF PROVIDENT FUNDS, 1961-64**  
(IL million)

	1961	1962	1963 <sup>a</sup>	1964 <sup>b</sup>
Employees' and employers' contributions	139.4	177.2	212.9	257.4
Income from interest on investments and rent	32.5	47.2	59.4	70.6
Realized capital gains	9.5	19.5	32.1	15.0
Less:				
Payments to members and to those leaving the funds <sup>c</sup>	41.7	53.0	65.6	80.7
Current expenses	9.3	11.0	13.0	15.0
Total accumulation	130.4	179.9	225.9	246.3

<sup>a</sup> Revised figures.

<sup>b</sup> Estimate.

<sup>c</sup> Pension, provident, and severance payments and other social benefits.

SOURCE: Ministry of Finance, National Saving Commissioner.

provident funds), the return on which is relatively high compared with other investments, as well as to the fact that in 1962 and 1963 interest on investments included linkage differentials.<sup>1</sup>

Realized capital gains amounted to IL 15 million in 1964, as against IL 32 million in 1963 and IL 20 million in 1962. Most of these sums consisted of linkage increments. Since part of the funds failed to revalue their assets, linkage increments received upon redemption or sale of debentures and other linked assets at their disposal were recorded as realized capital gains.<sup>2</sup> Thus devaluation profits were entered on the books from one to two years after the date on which they actually accrued.

Payments to present and withdrawing members totalled IL 81 million in 1964—an increase of IL 15 million, or 23 percent, over 1963. These payments consist of pension, provident, and severance payments and other social benefits.<sup>3</sup>

The proportion of such payments to total annual contributions went up from 25.5 percent in 1958 to 31.5 percent in 1964, reflecting the growth in the number of persons receiving pensions.

Despite the slower rate of accumulation, this still represents the biggest component in the growth of households' financial assets,<sup>4</sup> and hence of their saving

<sup>1</sup> Most funds made no distinction in their reports between interest income and linkage differentials thereon.

<sup>2</sup> Insofar as debentures were revalued, the linkage differentials received at the time of redemption were not recorded as capital gains.

<sup>3</sup> Such as payments from vacation, holiday, rehabilitation, sick leave, and other funds.

<sup>4</sup> See Table XIX-4, Chapter XIX, "Saving".

as well. The importance of saving through the provident funds, which is of a contractual nature, lies in the fact that it adds to the ranks of savers thousands of employees for whom this constitutes the sole or chief form of saving. Studies conducted in Israel have shown that where other forms of saving already exist, they are not replaced by the provident funds; in other words, the funds do not substitute for other forms of saving but complement them.<sup>1</sup> Compared with another major form of household saving, investment in housing, it possesses an additional advantage in that it permits the diversion of real resources from households to other sectors for investment purposes.

Net household saving through provident funds—defined as the annual accumulation less the increase in outstanding loans to members and realized capital gains—amounted to IL 209 million in 1964, as against IL 171 million in 1963 and IL 234 million in 1962. Net saving advanced at a higher rate than the annual accumulation, largely because the balance of outstanding members' loans increased more slowly than in the two preceding years—by about IL 22 million as against IL 23 million in 1963 and IL 26 million in 1962.

The share of outstanding members' loans in total provident fund assets decreased from 16 percent at the end of 1963 to 13.5 percent at the end of 1964 (see Table XVIII-4). Funds subject to Treasury regulations showed a still greater decline, from 18 percent of their total assets<sup>2</sup> to 15 percent. Under a directive issued in October 1963, funds approved for income tax concessions are required to invest 80 percent of their assets in "approved investments",<sup>3</sup> instead of 75 percent as previously stipulated. This regulation, which has brought down the proportion of members' loans in total provident fund assets, has thus helped to raise the rate of net household saving through the funds.

The return on members' loans has amounted in recent years to 4.5-5 percent. Most of these credits are not value-linked, and hence they are in great demand. The majority of the local funds have reached the maximum authorized credit limit; on the other hand, the country-wide funds, where contacts with individual members are less intimate, have only partially utilized the permitted loan quota.

As of June 1962, the funds are obligated to pay withdrawing members, who are not entitled to pensions, linkage differentials calculated annually on the

<sup>1</sup> This conclusion emerges from a study based on the saving survey for 1957/58. A similar study for 1963/64 is now under way.

<sup>2</sup> Total assets of the funds approved for tax concessions, less employers' debts.

<sup>3</sup> Approved investments include (a) securities issued or guaranteed by the Government, (b) other shares or debentures approved by the Minister of Finance, (c) securities acquired through rights issues in connection with an approved investment or through the conversion of approved debentures, (d) any investment in securities or real estate made prior to August 29, 1957, (e) sums deposited before February 23, 1961 in a banking institution for the purpose of an approved investment, until the terminal date of the deposit.

sums accumulated to their credit, less the balance of their debts to the funds at the end of the year. In effect, this regulation represents an indirect linkage of loans to members. This relative increase in the cost of credit does not affect members who do not withdraw prior to retirement, since their pension payments are calculated at a certain percentage of their last salary rather than according to the balance of contributions standing to their credit.

In May 1964 new regulations were issued on employers' debts, which stipulate that an employer who fails to discharge his debt on time (within 42 days of the payment of wages and salaries) must pay interest at 9 percent per annum for a 90-day delay, after which the interest is converted into a fine not deductible for income tax purposes. This regulation helps to correct a serious shortcoming in the funds' ability to safeguard the real value of their assets, since employers' debts, which as a rule were incurred not through any fault of their own, were not linked in many cases and frequently did not even carry interest. The charges on employers' liabilities thus increased from 3 percent in 1962 to 4.5 percent in 1964, while the proportion of such indebtedness in total provident fund assets decreased from 9 to 7 percent (see Table XVIII-4).<sup>1</sup>

## 2. MONEY FLOWS, BY SECTOR

### (a) *Receipts*

Total net receipts of the funds reached IL 250 million in 1964, compared with IL 229 million in 1963—an increase of IL 21 million. This sum is somewhat larger than the accumulation, as the “balance of payments” of this sub-sector includes Gmul Ltd., the investment agent of the funds, which does not distribute all its profits among the funds but retains part for augmenting its own resources.

The net receipts are composed of employers' and employees' contributions and profits from investments, less payments to present and withdrawing members and general expenses. Over 92 percent of total receipts derive from households (see Table XVIII-3), being employees' and employers' contributions to provident, pension, and severance pay funds (excluding central severance pay funds administered by a number of banks and insurance companies), and profits on investments. Employers' contributions are defined as household saving, since they add to the assets accumulating to the credit of households. The funds' profits are also considered receipts from households, as the investments are made with members' deposits.

Deposits in provident funds for self-employed are likewise included among

<sup>1</sup> It should be stressed that while the percentage of employers' debts in total provident fund assets declined on the average, there were increases in some of the country-wide pension funds.

Table XVIII-3

"BALANCE OF PAYMENTS" OF PROVIDENT FUNDS AND GMUL LTD., 1961-64<sup>a</sup>

(IL million)

Receipts	1961	1962	1963 <sup>b</sup>	1964 <sup>c</sup>		Payments	1961	1962	1963 <sup>b</sup>	1964 <sup>c</sup>	
				IL m.	%					IL m.	%
From households (including employers' contributions)	122.2	167.0	213.0	231.5	92.5	Loans (securities and other credit)					
From private business	8.1	13.1	16.2	18.8	7.5	To public sector and public sector companies	13.7	56.7	98.9	74.5	29.8
						To financial and banking institutions	47.3	56.6	62.3	107.9	43.1
						To households and non- profit institutions	24.0	25.6	23.9	24.6	9.8
						To private business	40.0	36.7	36.9	37.1	14.8
						Real estate investments	5.3	4.5	7.2	6.2	2.5
<b>Total<sup>d</sup></b>	<b>130.3</b>	<b>180.1</b>	<b>229.2</b>	<b>250.3</b>	<b>100.0</b>	<b>Total</b>	<b>130.3</b>	<b>180.1</b>	<b>229.2</b>	<b>250.3</b>	<b>100.0</b>

<sup>a</sup> Excluding revaluation of assets.<sup>b</sup> Revised figures.<sup>c</sup> Estimate.<sup>d</sup> The discrepancy between total receipts shown in this table and the annual accumulation in Table XVIII-2 stems from the fact that part of Gmul's profits are not transferred to the funds, but are used to augment its resources.

receipts from households. The membership of these funds consists of both self-employed and workers whose employers do not contribute on their behalf. Funds for the self-employed have developed rapidly in recent years. In 1964 they accounted for 11 percent of total provident fund membership, as compared with 7 percent in 1962, and their assets also increased relative to those of the other funds.

Some 8 percent of the funds' total net receipts in 1964 came from business firms; these were employers' contributions to central severance pay funds and the profits of such funds. The contributions represent the accumulation of the employers, as the burden of severance payments does not fall on the funds but on the employers, and the funds belong to them.

The Severance Pay Ordinance, 1963 has given new impetus to the central severance pay funds; whereas receipts from business firms constituted 6 percent of total net provident fund receipts in 1963, the proportion rose to 8 percent in 1964. The new law, following custom, provides for severance pay in the amount of the last monthly salary multiplied by the number of years of work in the case of permanent workers, and of fortnightly wages multiplied by the number of years of work in the case of daily workers.

A monthly employee accumulates severance pay rights at the rate of 8.33 percent of his salary, and a daily worker at the rate of 4.16 percent, while retroactivity is ensured in case of a rise in salary or wages. The employer is entitled to deduct these payments from his income for tax purposes, if they have been deposited in a special severance pay fund. This naturally gives the employer an incentive to save through a central severance pay fund.

#### (b) *Payments*

Total investments by the funds, including those made through Gmul Ltd., reached IL 250 million in 1964. The investment policy of the funds—the purchase of debentures and shares, deposits, and other credit—has largely been governed by Ministry of Finance regulations following the conclusion of an agreement between the Government and the Histadrut (General Federation of Labor). As in previous years, the provident funds continued to be the principal purchasers of new debenture issues, some of which were floated solely for their purposes. Since most of the funds' assets are in “approved investments”, the types of debentures issued during the year largely determine the sectorial distribution of their investments.

Some 43 percent of all provident fund investments in 1964 were made in financial and banking institutions. Investments in these institutions, most of which are in the form of bank deposits and linked debentures of financial institutions, aggregated IL 108 million in 1964, compared with IL 62 million

in 1963. A considerable portion was invested in debentures of Bitzur Ltd.,<sup>1</sup> and the rest in financial institution debentures.

Whereas in 1963 about 27 percent of total investments were made in financial institutions, in 1964 the figure came to 43 percent. This increase was at the expense of the remaining sectors, in which the funds' investments fell off considerably in both absolute and relative terms (see Table XVIII-3). The decline in credit granted to the public sector<sup>2</sup> was particularly striking—from 43 percent of total investments in 1963 to 30 percent in 1964, or from IL 99 million to IL 75 million.

Credits to private business amounted to IL 37 million in 1964, about the same amount as in each of the two preceding years. These consist mainly of loans granted by Gmul Ltd. and some of the countrywide provident funds to Histadrut enterprises.

Net new loans to households and nonprofit institutions remained virtually constant at IL 25 million, of which IL 22 million represented loans to members.

### 3. BALANCE SHEET DEVELOPMENTS

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 1964 stood at IL 1,365 million, compared with IL 1,089 million at the end of 1963. These figures include a partial asset revaluation, in the amount of IL 82 million and IL 52 million respectively.

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.

#### (a) *Assets*

The funds' asset structure, as already pointed out, is largely connected with Ministry of Finance regulations governing the funds' investments. In November 1964 the scope of "approved investments" was expanded by the inclusion of ordinary shares listed on the Stock Exchange among the approved securities. The funds were permitted to invest 5 percent of their assets<sup>3</sup> in such securities.

<sup>1</sup> Investments in debentures of Bitzur Ltd. totalled IL 47 million in 1964. This institution, a subsidiary of the Workers' Bank Ltd., was established with the object of raising funds for long-term loans to industry and agriculture. The proceeds from the sale of Bitzur debentures are deposited with the Workers' Bank, which grants the actual loans. Purchases of Bitzur debentures should therefore be considered as provident fund investment in banking institutions.

<sup>2</sup> The Government, local authorities, and the National Institutions, as well as public sector companies.

<sup>3</sup> Excluding employers' debts.

This new regulation, which authorizes the funds to enter the equity market, will presumably affect their securities portfolio and income earned thereon.

At the end of 1964 the funds' security holdings totalled IL 892 million (at cost, excluding revaluation increments), compared with IL 672 million at the end of 1963—an increase of IL 220 million. The weight of this item in total assets went up from 65 percent at the end of 1963 to 70 percent at the end of 1964, partly at the expense of "special deposits", which dropped from IL 39 million to IL 22 million. The contraction of "special deposits" followed a directive issued at the end of 1960, according to which such deposits with Gmul Ltd. and various banks are to be converted into approved securities upon reaching maturity. The proportion of "special deposits" has thus been reduced to 2 percent of total assets, in contrast to 28 percent in 1960.

Outstanding loans to members rose from IL 151 million at the end of 1963 to IL 173 million at the end of 1964. Their share of total assets, however, declined slightly, from 14.5 to 13.5 percent, and of assets subject to Treasury regulations, from 16 to 15 percent. As stated, the countrywide funds do not fully utilize the authorized quota available for nonapproved investments in the form of members' loans, and central severance pay funds generally offer no such credit at all. Hence the weight of outstanding members' loans in total assets, when taken as an average for all the funds, has not reached the permitted ceiling.

The decline in the share of members' loans between the end of 1963 and the end of 1964 is attributable to the raising, at the end of 1963, of the percentage of "approved investments" required by the regulations from 75 to 80 percent of total resources, and not of current accumulation alone. In consequence, the percentage of current accumulation diverted to "approved investments" in 1964 was greater than legally required, as the funds have to retroactively adjust their asset structure. The balance left over for members' loans was therefore lower.

#### (b) *Liabilities*

The pension fund expanded by IL 111 million in 1964, to reach IL 588 million, or 46 percent of total liabilities—the same rate as in 1963. The share of the provident and severance pay funds also remained constant. The provident fund was augmented by IL 68 million, to a total of IL 365 million, and the severance pay fund by IL 30 million, to IL 155 million.

While the severance pay and provident funds are split up over nearly 320 institutions, the pension funds are concentrated in 11 large institutions. Most of the latter are run on a countrywide basis,<sup>1</sup> and together they account for

<sup>1</sup> Gilead, Lapakid, Mivtahim, Magen, Nativ Construction Workers' Insurance Fund, Agricultural Workers' Insurance Fund, Central Pension Fund, as well as the pension funds of Egged, the Hebrew University, and Hadassah.

Table XVIII-4

## ASSETS AND LIABILITIES OF PROVIDENT FUNDS, 1961-64

	IL million				Percent			
	1961	1962	1963 <sup>a</sup>	1964 <sup>b</sup>	1961	1962	1963 <sup>a</sup>	1964 <sup>b</sup>
<b>Assets</b>								
Cash and demand deposits	9.2	7.6	7.9	9.0	1.5	1.1	0.8	0.7
"Special deposits" in banks	51.0	44.8	25.4	14.6	8.1	5.5	2.4	1.1
"Special deposits" in Gmul Ltd.	45.2	32.6	13.7	7.4	7.1	4.0	1.3	0.6
Other time deposits in banks	8.4	8.4	10.0	10.3	1.3	1.0	1.0	0.8
Other time deposits in Gmul Ltd.	17.1	12.9	17.2	13.7	2.7	1.6	1.6	1.1
Securities, at cost	297.4	462.3	671.9	891.8	47.0	57.0	64.8	69.5
Loans to members	102.2	128.7	151.3	173.2	16.2	15.9	14.6	13.5
Employers' debts	57.2	72.5	82.4	92.4	9.1	8.9	7.9	7.2
Loans to business enterprises <sup>c</sup>	8.7	6.3	6.0	6.4	1.4	0.8	0.6	0.5
Real estate	22.3	26.8	34.0	40.2	3.5	3.3	3.3	3.1
Miscellaneous <sup>d</sup>	12.8	8.5	17.4	24.5	2.0	1.0	1.7	1.9
<b>Total assets</b>	<b>631.5</b>	<b>811.4</b>	<b>1,037.2</b>	<b>1,283.5</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Revaluation increment	—	37.8	51.9	81.5	—	—	—	—
<b>Grand total</b>	<b>631.5</b>	<b>849.2</b>	<b>1,089.1</b>	<b>1,365.0</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Liabilities</b>								
Pension fund	298.7	372.8	476.3	587.7	47.3	45.9	46.0	45.8
Provident fund	185.6	241.9	297.0	364.7	29.4	29.8	28.6	28.4
Severance pay fund	70.4	94.3	125.5	155.3	11.2	11.6	12.1	12.1
Various social benefit funds <sup>e</sup>	38.2	47.0	65.4	82.1	6.0	5.8	6.3	6.4
Investment realization fund	5.7	12.1	20.0	29.6	0.9	1.5	1.9	2.3
Reserve fund	4.8	6.7	9.1	12.3	0.8	0.8	0.9	1.0
Balance of profit and loss account	8.5	10.7	12.3	13.3	1.3	1.3	1.2	1.0
Creditors <sup>f</sup>	19.6	25.9	31.6	38.5	3.1	3.2	3.0	3.0
<b>Total liabilities</b>	<b>631.5</b>	<b>811.4</b>	<b>1,037.2</b>	<b>1,283.5</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Revaluation increment	—	37.8	51.9	81.5	—	—	—	—
<b>Grand total</b>	<b>631.5</b>	<b>849.2</b>	<b>1,089.1</b>	<b>1,365.0</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

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

SOURCE: Ministry of Finance, National Saving Commissioner.

70 percent of total provident fund assets and a considerable share of the remaining funds—reserve, investment realization, and social benefit funds (e.g. special aid, holiday, vacation, rehabilitation, and sick leave). In 1964 these funds were increased by IL 29 million, to IL 124 million. Their weight in total provident fund liabilities went up from 8 percent in 1961 to 10 percent in 1964. This was partly due to the fact that they account for a large part of realized capital gains, which during the past three years were of considerable magnitude, and in part is ascribable to the collective agreements concluded recently between the employers and the country-wide funds, under which employers' contributions to the social benefit funds were raised. It should be noted that employers' contributions to some of the funds, such as vacation, holiday, sick leave, etc., actually represent the transfer of part of the employees' wages to the central fund.

## II. INSURANCE COMPANIES<sup>1</sup>

In 1964 the insurance companies operating in Israel continued to show rapid progress. Their consolidated balance sheet reached IL 304 million, an increase of 27 percent over 1963. Security investment—mostly from life insurance funds—rose by approximately 38 percent to stand at IL 101 million, about a third of total assets; the bulk of such investment was in Government bonds and Israel Electric Corp. debentures. The loan portfolio was IL 10.8 million higher than at the end of 1963, reaching nearly IL 65 million. About a quarter of the loans had been made on policies and secured by mortgages.

Life insurance funds, which constitute over a third of total liabilities, went up by some IL 23 million, and totalled approximately IL 111 million. Although the accumulation was somewhat more rapid than that of the provident funds, it still amounted to only some 10 percent of the latter. Life insurance has not yet become an important instrument for accumulating savings as it has in developed Western countries. Premium receipts<sup>2</sup> grew by 23 percent, and totalled approximately IL 178 million. Of this amount, 22 percent came from life insurance and 78 percent from general insurance.<sup>3</sup>

In 1964 there were 85 insurers operating in this country. Of these, 28 were Israeli and 57 foreign companies; there were also 15 Lloyd's agents. The foreign companies deal mainly in general insurance, their share of aggregate premium receipts in this branch amounting to a little over 25 percent. Only seven foreign companies handle nonlinked life insurance; their share of total premium receipts from this type of insurance comes to 10 percent. Of the 28 Israeli companies, 15 sell life insurance, including that on a linked basis.

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

<sup>2</sup> Including registration fees.

<sup>3</sup> Including marine insurance.

## 1. LIFE INSURANCE

### (a) *General developments*

The linked life insurance portfolio of the insurance companies (i.e. the aggregate sum of linked insurance policies in force) grew by IL 176 million, as in the previous year, to reach IL 552 million. Some 14,000 new index-linked policies were issued, as against 15,000 in 1963, bringing the total number up to about 65,000. The number of dollar-linked policies again decreased in 1964, continuing a trend which started after the devaluation of 1962 when the issue of such policies was discontinued. The decline was due both to the surrender of policies and to a switch from dollar-linked policies to index-linked.

The sum insured on nonlinked policies rose by IL 118 million, compared with IL 250 million in 1963, and amounted to IL 680 million. Purchases of group insurance by institutions and enterprises on behalf of their employees accounted for most of the increment. Such insurance is principally term insurance, which pays the beneficiary a certain sum in case of the death of the insured within a specified period. Unlike index-linked insurance, which contains an element of saving, nonlinked insurance is essentially a form of risk insurance, like general insurance (hence there is no point in comparing linked life insurance with non-linked insurance).

At the end of 1964 it was proposed to introduce a new life insurance plan with the object of encouraging saving among wider sections of the population. Under this scheme, the amount of the policy will be IL 5,000, linked to the consumer price index and payable to the insured within 12 years of the date of the policy, with the addition of a 20 percent premium by the Ministry of

Table XVIII-5  
LIFE INSURANCE IN FORCE, 1958-64  
(IL million)

Year	Total amount at end of year	Linked insurance		Nonlinked insurance	Ratio of linked insurance to total insurance (%)
		Linked to consumer price index	Linked to the dollar		
1958	212.6	25.8	11.6	175.2	17.6
1959	256.0	59.3	28.7	168.0	34.3
1960	304.0	89.6	45.1	169.3	44.3
1961	406.5	128.0	73.6	204.9	49.6
1962	632.3	201.0	119.3	312.0	50.7
1963	1,047.6	375.7	109.8	562.1	46.3
1964 <sup>a</sup>	1,326.7	552.0	94.2	680.5	48.7

<sup>a</sup> Estimate.

SOURCE: Ministry of Finance, Superintendent of Insurance.

Table XVIII-6  
LIFE INSURANCE PREMIUM RECEIPTS, 1959-64  
(IL million)

Year	Premiums from linked policies <sup>a</sup>			Premiums from nonlinked policies						Total premiums	
	Amount received	Increase over previous year	Percent of total premium receipts	Israeli companies		Foreign companies		All companies		Amount received	Percent increase over previous year
				Amount received	Increase or decrease (-) as against previous year	Amount received	Increase or decrease (-) as against previous year	Amount received	Percent of total premium receipts		
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	22.2	6.3	77.6	3.5	-0.2	2.9	0.5	6.4	22.4	28.6	30.0
1964 <sup>b</sup>	31.9	9.7	82.8	3.6	0.1	3.0	0.1	6.6	17.1	38.5	34.6

<sup>a</sup> Israeli insurance companies only.

<sup>b</sup> Estimate.

SOURCE: Ministry of Finance, Superintendent of Insurance.

Finance; on the other hand, premium payments will not be deductible on the income tax return. If the insured dies before the term of the insurance has expired, his heirs will receive IL 15,000, linked to the consumer price index.

(b) *Investment of linked insurance funds*

The companies selling life insurance are obligated by law to invest at least 20 percent of their life insurance funds and 35 percent of their paid-up share capital in Government or Government-guaranteed securities. By the end of 1964 the total investment of these companies in linked bonds came to nearly IL 52 million,<sup>1</sup> of which IL 35 million was in debentures of the Israel Electric Corp., and the rest in Government bonds. The increase in linked investments in 1964 totalled IL 15.4 million, including IL 8.7 million in Israel Electric Corp. debentures.

In April 1964 a new contract was signed between the 18 companies dealing in linked life insurance and the Israel Electric Corporation, according to which the companies undertook to invest up to IL 150 million in index-linked debentures bearing 6 percent interest, with a redemption period of 10 to 35 years and with repayment of capital and interest guaranteed by the Government. The companies agreed to invest 60 percent of their life insurance funds in Electric Corporation debentures.

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

1. *Income*

Income from life insurance of companies operating in Israel rose by 35 percent in 1964 to reach IL 47.9 million. Some 80 percent of this sum came from premium receipts, and the remainder from interest and commissions. The income account was also credited for the appreciation of investments made with life insurance funds.

Premium receipts rose by approximately 35 percent during the year, and totalled IL 38.5 million. The share of linked policies in total premium receipts continued upward, reaching 83 percent, while receipts from nonlinked policies remained at IL 6.6 million.

2. *Outgo*

Benefits paid to policyholders rose by 35 percent in 1964, to reach IL 10.8 million, or about 23 percent of the combined total of premium receipts and income from the investment of life insurance funds. Operating expenses were up IL 2.8 million, standing at IL 11 million, or 23 percent of such income. These expenses include commissions to agents, fees for medical examinations, and administrative expenses. Gross profit from life insurance business is estimated

<sup>1</sup> Excluding index-linkage increments.

**Table XVIII-7**  
**INCOME AND OUTGO OF LIFE INSURANCE COMPANIES**  
**IN ISRAEL, 1961-64**  
**(IL million)**

	1961	1962	1963 <sup>a</sup>	1964 <sup>b</sup>
<b>Income</b>				
Premiums	15.4	22.0	28.6	38.5
Interest	3.3	4.4	5.6	7.5
<b>Total</b>	<b>18.7</b>	<b>26.4</b>	<b>34.2</b>	<b>46.0</b>
Revaluation of investments	—	8.3	1.4	1.9
<b>Total income</b>	<b>18.7</b>	<b>34.7</b>	<b>35.6</b>	<b>47.9</b>
<b>Outgo</b>				
Benefits to policyholders	4.3	6.4	8.0	10.8
Operating expenses	4.2	6.1	8.2	11.0
Gross profit <sup>c</sup>	0.9	1.6	1.2	1.5
Accumulation	9.3	12.3	16.8	22.7
<b>Total</b>	<b>18.7</b>	<b>26.4</b>	<b>34.2</b>	<b>46.0</b>
Revaluation of investments	—	8.3	1.4	1.9
<b>Grand total</b>	<b>18.7</b>	<b>34.7</b>	<b>35.6</b>	<b>47.9</b>

<sup>a</sup> Revised figures.

<sup>b</sup> Estimate.

<sup>c</sup> Including profits of reinsurers abroad.

SOURCE: Ministry of Finance, Superintendent of Insurance.

at IL 1.5 million. Accumulation through life insurance was IL 6.4 million higher in 1964, amounting to IL 24.6 million; this brought up the life insurance fund to IL 111 million by the end of the year.

## 2. GENERAL INSURANCE<sup>1</sup>

In 1964 the expansion of general insurance business slowed down slightly compared with the two preceding years. Total premium receipts<sup>2</sup> from general insurance increased by 19 percent, as against 24 percent in 1963 and 33 percent in 1962, and totalled nearly IL 140 million. Most of the increment stemmed from comprehensive insurance (fire, theft, etc.) and motor vehicle insurance,

<sup>1</sup> Including marine insurance.

<sup>2</sup> Including registration fees.

which together constituted over three-fourths of total premium receipts in this branch.

In May 1964 premiums on automotive vehicle insurance were provisionally raised by 5 percent,<sup>1</sup> since the insurance companies contended that they were losing on this type of business. Such possible losses stemmed partly from the fact that the old rates were not fully implemented, considerable reductions being allowed for certain fleets of vehicles and preferred categories of insured. It should also be noted that the accounting distinction between profits and losses on different types of insurance is to a certain extent arbitrary, since in the majority of cases several types are sold together with large reductions being granted for vehicle insurance at the expense of profits on other insurance business.

The premium receipts of the Israeli companies from general insurance increased in 1964 by IL 13.5 million, to total IL 99 million. Of this sum, about IL 46 million was transferred abroad on account of reinsurance; the self-retention<sup>2</sup> of the local companies thus amounted to nearly IL 53 million, or some 53 percent of their total premium receipts from general insurance. Payment of claims to policyholders in Israel, including settlement expenses, rose

Table XVIII-8

**PREMIUM RECEIPTS FROM GENERAL (INCL. MARINE) INSURANCE<sup>a</sup> AND SELF-RETENTION OF ISRAELI COMPANIES, 1960-64**

Year	All companies		Israeli companies		Self-retention of Israeli companies	
	IL m.	Percent increase over previous year	IL m.	Percent of total premium receipts	IL m.	%
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	117.2	24.3	85.6	73.0	45.6	53.3
1964 <sup>b</sup>	139.4	18.9	99.1	71.1	52.6	53.1

<sup>a</sup> Including registration fees and marine insurance; excluding reinsurance in Israel.

<sup>b</sup> Estimate.

SOURCE: Ministry of Finance, Superintendent of Insurance.

<sup>1</sup> In January 1965 premium rates for motor vehicle insurance were raised by an additional 6 percent, so that the total increase was 11 percent. At the same time, minimum tariffs were laid down, as well as fixed additional charges for policyholders who had previously entered claims.

<sup>2</sup> The difference between total premium receipts of the Israeli companies and the amounts paid by them to foreign reinsurers.

by IL 15 million, to IL 69 million. Claim payments and claim settlement costs abroad amounted to approximately IL 6 million. General expenses totalled IL 13.4 million, or 9.6 percent of aggregate premium receipts. Commission payments and administrative expenses in Israel rose by IL 3 million, to stand at IL 29.3 million. Operating expenses in the general insurance branch thus amounted to IL 42.7 million, or 30.6 percent of total premium receipts, compared with 32.8 percent in 1963.

### 3. BALANCE SHEET DEVELOPMENTS

#### (a) *Israeli companies*

##### 1. *Assets*

The consolidated balance sheet of the Israeli insurance companies went up by 25.5 percent in 1964, and reached IL 258 million. Most of the increase was due to further purchases of Government and Government-guaranteed bonds<sup>1</sup> to a total of IL 21.4 million. The insurance companies are obligated to invest a certain proportion of their paid-up share capital and life insurances funds in such securities. Actually they invested much more than the required amount because of the above-mentioned agreement with the Electric Corporation for the investment of 60 percent of their life insurance funds in the latter's debentures. The share of Government and Government-guaranteed securities in total assets has risen steadily—from 18.1 percent at the end of 1961 to 27.6 percent at the end of 1964. The balance has reached IL 71.3 million, one-third of it in Government bonds and two-thirds in Government-guaranteed debentures.

Apart from investments in Government and Government-guaranteed bonds, Israeli insurance companies hold stocks and bonds of banks, investment companies, and other corporations in the amount of some IL 13 million. Total portfolio investment at the end of 1964 came to IL 84.5 million, or about a third of total assets.

The balance of loans granted by Israeli insurance companies went up in 1964 by IL 9.2 million, to reach IL 55.5 million or 21.5 percent of total assets. The relative share of loans in the balance sheet has declined in recent years owing to the arrangements for expanding investment in debentures. The loans break down into three categories: those against life insurance policies, constituting about 13 percent; mortgage loans, granted mainly to households, which amount to some 12 percent; and other loans to private businesses, financial institutions, local authorities, and the National Institutions, which account for about 75 percent of the total balance outstanding.

Investments in immovable property and subsidiary companies have moved up steadily from IL 7.5 million in 1961 to IL 24.2 million by 1964, increasing

<sup>1</sup> Debentures of the Israel Electric Corporation.

their share in total assets from 7 to 9.4 percent. A large part of these investments are recorded at book value, i.e. without revaluation.

Outstanding premiums were up 18 percent in 1963, to total IL 42.4 million, this item accounted for 16.4 percent of total assets of Israeli companies, as in previous years. Approximately 80 percent of the outstanding premiums were owed by insurance agents to the companies, while the remainder represented liabilities of the policyholders. The considerable size of this item, which actually constitutes a form of credit to clients and agents, can be ascribed to the intense competition prevailing in the insurance sector.

## 2. *Liabilities*

The various insurance funds, which are the largest component on the liabilities side of the consolidated balance sheet, aggregated IL 121.5 million at the end of 1964, or 47 percent of total liabilities. Their weight in the balance sheet has declined somewhat over the past five years.

In 1964 the life insurance fund went up by 31 percent, to IL 95.3 million. This fund represents the estimated amount of claims which will have to be paid to policyholders or beneficiaries at some future date, and is based on the life expectancy of the insured and the present value of the sums due. Household saving through insurance companies constitutes about 7 percent of total life insurance in force. In the last two years the rate dropped somewhat owing to the increase in insurance containing no element of saving.

The general insurance fund rose by 19.3 percent, to IL 19.2 million. The size of this fund is based on the estimated risk assumed by the insurance companies in connection with general insurance business. Its weight in total liabilities has dropped in recent years, from 9.5 percent in 1960 to 7.5 percent in 1964.

Equity capital expanded by 20 percent in 1964, and totalled IL 56.5 million—IL 38 million in paid-up share capital and IL 18.5 million in reserve funds. The relative share of equity capital has been moving up steadily, from 15 percent in 1960 to almost 22 percent in 1964. At the same time, it should be noted that only two out of the 28 Israeli insurance companies have listed their shares on the Tel Aviv Stock Exchange.

Pending and approved claims rose by 27 percent during the year reviewed, to reach IL 20 million, or close to 10 percent of total liabilities. Pending claims, which make up the bulk of this item, consist of the estimated sum of claims filed, mainly in the general insurance branch and whose exact size has not yet been finally determined. Approved claims represent payments which have been approved but not yet effected.

### (b) *Foreign insurers operating in Israel*

Total assets invested in Israel of the 57 foreign companies rose in 1964 by IL 12.8 million, to reach nearly IL 46 million. Investments in local securities

**Table XVIII-9**  
**ASSETS AND LIABILITIES OF ISRAELI INSURANCE COMPANIES, 1962-64**  
 (IL million)

	Amount			Percent of total			Increase or decrease (-) as against previous year			
	1962 <sup>a</sup>	1963 <sup>b</sup>	1964 <sup>c</sup>	1962 <sup>a</sup>	1963 <sup>b</sup>	1964 <sup>c</sup>	IL million		Percent	
							1963	1964	1963	1964
<b>Assets</b>										
Government or Government-guaranteed bonds	33.4	49.9	71.3	21.3	24.3	27.6	16.5	21.4	49.4	42.9
Other securities	9.0	11.2	13.2	5.8	5.4	5.2	2.2	2.0	24.4	17.9
Loans on policies or against mortgages	9.8	11.5	13.9	6.3	5.7	5.4	1.7	2.4	17.3	20.9
Other loans	30.3	34.8	41.6	19.3	16.9	16.1	4.5	6.8	14.9	19.5
Real estate and investments in subsidiaries	12.4	19.2	24.2	7.9	9.3	9.4	6.8	5.0	54.8	26.0
Long-term deposits	7.4	4.0	4.0	4.7	1.9	1.5	-3.4	—	-45.9	—
Outstanding premiums	26.2	35.9	42.4	16.7	17.5	16.4	9.7	6.5	37.0	18.1
Sundry debtors	11.9	16.4	21.8	7.6	8.0	8.4	4.5	5.4	37.8	32.9
Cash and demand deposits	16.3	22.7	25.7	10.4	11.0	10.0	6.4	3.0	39.3	13.2
<b>Total assets</b>	<b>156.7</b>	<b>205.6</b>	<b>258.1</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>48.9</b>	<b>52.5</b>	<b>31.2</b>	<b>25.5</b>
<b>Liabilities</b>										
Paid-up share capital	21.4	33.0	38.0	13.6	16.1	14.7	11.6	5.0	54.2	15.2
Reserves	9.8	14.0	18.5	6.3	6.8	7.2	4.2	4.5	42.9	32.1
Life insurance fund	55.8	72.9	95.3	35.6	35.5	36.9	17.1	22.4	30.6	30.7
General insurance fund	13.2	16.1	19.2	8.4	7.8	7.5	2.9	3.1	22.0	19.3
Extraordinary risks fund	4.5	5.6	7.0	2.9	2.7	2.7	1.1	1.4	24.4	25.0
Deposits of reinsurers	11.6	15.5	20.0	7.4	7.5	7.7	3.9	4.5	33.6	29.0
Pending and approved claims (mainly general insurance)	15.4	20.1	25.6	9.8	9.8	9.9	4.7	5.5	30.5	27.4
Current liabilities	25.0	28.4	34.5	16.0	13.8	13.4	3.4	6.1	13.6	21.5
<b>Total liabilities</b>	<b>156.7</b>	<b>205.6</b>	<b>258.1</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>48.9</b>	<b>52.5</b>	<b>31.2</b>	<b>25.5</b>

<sup>a</sup> Including IL 5.4 million in revaluation increments.

<sup>b</sup> Revised figures.

<sup>c</sup> Estimate.

SOURCE: Ministry of Finance, Superintendent of Insurance

Table XVIII-10

ASSETS OF FOREIGN INSURANCE COMPANIES OPERATING IN ISRAEL, 1962-64  
(IL million)

	Amount			Percent of total			Increase or decrease (-) as against previous year			
	1962	1963 <sup>a</sup>	1964 <sup>b</sup>	1962	1963 <sup>a</sup>	1964 <sup>b</sup>	IL million		Percent	
							1963	1964	1963	1964
Government or Government- guaranteed bonds	4.4	5.7	7.3	20.1	17.2	15.9	1.3	1.6	29.5	28.1
Other securities	3.9	6.8	9.4	17.8	20.5	20.5	2.9	2.6	74.4	38.2
Loans on policies or against mortgages	2.3	2.7	3.0	10.5	8.2	6.5	0.4	0.3	17.4	11.1
Other loans	3.9	5.1	6.4	17.8	15.4	14.0	1.2	1.3	30.8	25.5
Real estate	0.1	0.1	0.1	0.5	0.3	0.2	—	—	—	—
Outstanding premiums and sundry debtors	4.4	10.0	17.0	20.1	30.2	37.0	5.6	7.0	127.3	70.0
Cash and demand deposits	2.9	2.7	2.7	13.2	8.2	5.9	-0.2	—	-6.9	—
<b>Total assets</b>	<b>21.9</b>	<b>33.1</b>	<b>45.9</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>11.2</b>	<b>12.8</b>	<b>51.1</b>	<b>38.7</b>

<sup>a</sup> Revised figures.<sup>b</sup> Estimate.

SOURCE: Ministry of Finance, Superintendent of Insurance.

went up by IL 4.2 million, and totalled IL 16.7 million, or 36.4 percent of their assets in this country. The companies dealing in life insurance purchased Government and Government-guaranteed bonds in 1964; the remaining investments were made in shares of Israeli companies, including local insurance companies. The second largest item is outstanding premiums and sundry debtors; its weight is considerable—37 percent—since these companies operate mainly in the field of general insurance.

#### 4. MONEY FLOWS

Transfers and real transactions in the general insurance branch account for most of the Israeli insurance companies' business. The difference between premium receipts on the one hand and benefit payments in the life insurance branch, on the other is included under financial transactions (see Table XVIII-11), since it represents a change in the financial claims of the household sector against the insurance companies.

Receipts from transfers and real transactions amounted to IL 200 million in 1964, compared with IL 167 million in the previous year. 75 percent of these receipts—mainly premium receipts and registration fees for general insurance—came from local sources. Transfers from abroad, mainly for reinsurance, were up 24 percent, totalling approximately IL 50 million.

Payments on account of real transactions increased by 18 percent during the year, reaching IL 185 million. Of this sum, close to IL 130 million went to local sectors in the form of claim payments, agents' commissions, and other expenses. Transfers to the rest of the world totalled IL 55 million, of which some IL 47 million was on account of reinsurance, the rest being payments of Israeli companies for insurance business transacted abroad.

Receipts from transactions in financial claims rose only slightly in 1964, totalling IL 36 million. The small increase is explained by the fact that a considerable sum was received on account of share issues in 1963 whereas the amount received in 1964 was much less. Most of these receipts come from households, on account of life insurance; this sector accounted for 75 percent of all receipts on financial account.

Payments on account of financial transactions rose by IL 8 million, to total IL 58 million. The public sector, chiefly the Government and public sector companies (above all the Israel Electric Corporation), received IL 21.4 million in credits; this represented some 37 percent of aggregate credit granted by insurance companies in 1964. Most of this sum was extended as part of the linked investment of life insurance funds. Credit to private business amounted to IL 25 million, a large part of it to insurance agents.

**"BALANCE OF PAYMENTS" OF THE INSURANCE SECTOR,<sup>a</sup> 1962-64**  
(IL million)

Receipts	1962	1963 <sup>b</sup>	1964 <sup>c</sup>	Payments	1962	1963 <sup>b</sup>	1964 <sup>c</sup>
<b>Transfers and real transactions</b>							
Transfers from domestic sectors, mainly premium receipts and registration fees in Israel from general insurance business	95.6	120.1	142.4	Transfers to domestic sectors, mainly general insurance claims paid in Israel	44.9	53.7	69.2
Interest and other income in Israel	6.8	6.6	7.8	Commission on general insurance (mainly to agents)	24.7	30.7	34.0
Transfers from abroad, mainly on account of reinsurance	33.8	40.2	49.9	Current expenses	15.8	23.4	26.3
				Transfers abroad, mainly on account of reinsurance	35.9	46.0	54.9
				Investment in real estate	1.6	2.8	1.0
<b>Total transfers and real transactions</b>	<b>136.2</b>	<b>166.9</b>	<b>200.1</b>	<b>Total transfers and real transactions</b>	<b>122.9</b>	<b>156.6</b>	<b>185.4</b>
<b>Financial transactions,<sup>d</sup> by sector</b>							
From households	14.1	22.0	27.3	Credit (loans, purchase of securities, and deposits)			
From business enterprises	7.6	2.3	0.6	To public sector	4.0	9.4	12.7
From provident funds, banks, and financial institutions	2.6	3.0	0.3	To public sector companies	6.8	8.5	8.7
From the Government	3.0	—	—	To banks and financial institutions	5.8	1.9	2.8
From the rest of the world	0.4	7.7	8.0	To business enterprises	20.1	24.1	25.0
				To households and nonprofit institutions	6.3	6.5	9.0
				To the rest of the world	—	—	—
<b>Total financial transactions</b>	<b>27.7</b>	<b>35.0</b>	<b>36.2</b>	<b>Total financial transactions</b>	<b>43.0</b>	<b>50.4</b>	<b>58.2</b>
<b>Intrasector transactions</b>							
Receipts from other insurance companies on account of reinsurance in Israel	7.4	11.8	14.0	Payments on account of reinsurance in Israel	7.4	11.8	14.0
Errors and omissions	2.0	5.1	7.3				
<b>Total receipts</b>	<b>173.3</b>	<b>218.8</b>	<b>257.6</b>	<b>Total payments</b>	<b>173.3</b>	<b>218.8</b>	<b>257.6</b>

<sup>a</sup> Israeli insurance companies and foreign companies operating in Israel.

<sup>b</sup> Revised figures.

<sup>c</sup> Estimate.

<sup>d</sup> Premium receipts and claims paid on account of life insurance are not included in transfer payments; the difference between the two is included in financial transactions (mainly under households).