

## CHAPTER XVIII

# SOCIAL INSURANCE FUNDS AND INSURANCE COMPANIES

### 1. SOCIAL INSURANCE FUNDS

#### 1. MAIN DEVELOPMENTS

THE SOCIAL INSURANCE funds continued to expand rapidly in 1966, in spite of the economic slowdown and the growth of unemployment. Annual accumulation amounted to IL 320 million, a rise of 20 percent, as compared with IL 293 million and 22.5 percent respectively in 1965. The incremental accumulation in the year reviewed stemmed mainly from an 18.5 percent increase in employer and employee contributions, deriving from a similar increase in wages. Social insurance fund membership did not grow in 1966 (during the years 1961-65 membership went up by an average of 3 percent per annum); this was apparently connected with the stability in the number of gainfully employed in the economy.

No data are available on the number of unemployed fund members, but partial data derived from the funds' reports suggest that the unemployment rate varies between the different types of funds. This is apparently connected with differences in the sectorial affiliation of the insured by type of fund.

In addition to the increase in the funds' assets, their composition changed in line with the existing trend, the proportion invested in securities rising and that of other assets (deposits, loans, real estate, and sundry assets) falling. In the course of 1966 the funds' security portfolio expanded by IL 323 million, as compared with IL 225 million in each of the two preceding years. Part of this increase reflects the funding of employer debt,<sup>1</sup> which was also the main reason for the 20 percent decrease in this item in 1966. Other items whose weight in total assets declined are time deposits, which are not in the approved investment category, loans to members, and special deposits. The slower increase in members' loans was apparently connected in part with the reduction of purchases of homes and consumer durables, which are partly financed by such loans.

<sup>1</sup> See section 3(a) below.

## 2. ACCUMULATION AND SAVING

Total assets of the social insurance funds came to IL 1,916 million at the end of 1966, compared with IL 1,596 million at the end of 1965.<sup>1</sup> Accumulation thus amounted to IL 320 million, as against IL 293 million the year before. Accumulation represents the difference between fund receipts (employer and employee contributions, income from investments, and realized capital gains) and payments to active and withdrawing members and current expenses. The main item on the receipts side is contributions by employers and employees; this increased by 18.5 percent in 1966, compared with 23.5 percent in 1965. Despite the slower rate of growth, it was still fairly high taking into account the recession, mounting unemployment, and static membership, and is explained by the 19 percent rise in the economy's wage bill.

Table XVIII-1

**ASSETS AND ANNUAL ACCUMULATION OF SOCIAL INSURANCE FUNDS,  
1962-66**  
(IL million)

	Assets at end of year, excl. revaluation	Assets at end of year, incl. revaluation <sup>a</sup>	Percent increase in total assets <sup>b</sup>	Annual accumulation	Percent increase in accumulation
1962	811	849	28.5	180	38.5
1963	1,037	1,089	27.9	226	25.6
1964	1,303	1,423	25.7	266	17.7
1965	1,596	1,779	22.5	293	10.2
1966	1,916	2,116	20.0	320	9.2

<sup>a</sup> Not all of the funds revalued their assets.

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

SOURCE: Ministry of Finance, National Savings Authority.

Income from investments came to IL 120 million in 1966, an increase of 22 percent as compared with 19 percent in the previous year. The rise stemmed from the growth of aggregate fund assets, the average yield from investments remaining constant in the last two years.<sup>2</sup>

Realized capital gains totalled IL 28 million in 1966, as against IL 24 million in 1965 and IL 33 million in 1964. This change is not very meaningful *per se*, since profits from the revision of the exchange rate are not necessarily recorded at the date of accrual. The appreciation of assets as a result of value-linkage

<sup>1</sup> Calculated at nominal values. Revaluation increments amounted to some IL 200 million in 1966.

<sup>2</sup> The average annual yield from profit-earning assets was 6.5 percent in 1965 and 1966.

arrangements is much more significant, since it is on this that the capacity of the funds to meet their future liabilities largely depends. However, it was impossible to determine from the fund reports the exact amount accumulated as a result of value linkage.

**Table XVIII-2**  
**ANNUAL ACCUMULATION OF SOCIAL INSURANCE FUNDS, 1962-66**  
(IL million)

	1962	1963	1964	1965 <sup>a</sup>	1966 <sup>b</sup>
Employee and employer contributions	177.2	212.9	254.5	313.7	371.2
Interest and other income from investments	47.2	59.4	82.9	98.1	120.1
Realized capital gains	19.5	32.1	32.8	24.2	28.4
Less:					
Benefit payments <sup>c</sup> and withdrawals	53.0	65.6	88.1	120.1	170.1
Current expenses	11.0	13.0	16.1	22.9	29.6
<b>Total</b>	<b>179.9</b>	<b>225.8</b>	<b>266.0</b>	<b>293.0</b>	<b>320.0</b>

<sup>a</sup> Revised figures.

<sup>b</sup> Estimate.

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

SOURCE: Ministry of Finance, National Savings Authority.

Payments to active and withdrawing members rose appreciably in 1966, amounting to IL 170 million as against IL 120 million in the previous year. This 42 percent growth was due to increased pension, severance, and other provident payments to members who retired or were dismissed from their jobs. Pension payments rose both because the number of pensioners grew and because the rate of pension benefits is linked to the general wage level.

It should be noted that the ratio between payments to active and withdrawing members and income from investments continued upward, from 112 percent in 1962 and 122 percent in 1965 to 140 percent in 1966.

Net household saving through the funds rose from IL 213 million in 1965 to IL 247 million in 1966, or by 16 percent, compared with 11 percent in 1965. The household saving figure is obtained by subtracting from the annual accumulation the increase in outstanding loans to members, realized capital gains, and the incremental assets of central severance pay funds. The main reason for the faster growth during 1966 was the slower increase in loans to members.

### 3. BALANCE SHEET DEVELOPMENTS

#### (a) *Assets*

Investment in securities accounts for the overwhelming share of social insurance fund assets; the weight of this item has risen in recent years, and in 1966 it came to 75 percent of the total, compared with 57 percent in 1962 and 70 percent in 1965. Valued at purchase price, this item, amounted to IL 1,444 million by the end of the year—an increase of IL 323 million, as against IL 225 million in each of the two preceding years. Part of the increment stemmed from the conversion of IL 34 million of employer debt into bonds issued specially for this purpose.

Investments are largely governed by the existing regulations, which exempt the funds from income tax if, among other things, they invest 80 percent of their assets in approved investments. At present, these include Government and public company securities approved by the Minister of Finance. Other approved investments are special deposits made with various financial institutions before February 23, 1961 and which are converted into approved securities upon reaching maturity, and all investments in securities and real estate made before August 29, 1957. Approved deposits are gradually disappearing from the balance sheet of the social insurance funds as the old deposits reach maturity. Another item whose weight is declining is approved investment in real estate.

The two asset items next in importance to securities are loans to members and employer debt. Member loans totalled IL 214 million at the end of 1966, or 11 percent of aggregate assets. This compares with 12 percent at the end of 1965, and represents a continuation of the downward trend in the weight of this item. This development was partly due to the regulation issued at the end of 1963, which obligates the funds to increase their approved investments from 75 to 80 percent. Another factor in 1966 was, as mentioned, the smaller purchases of dwellings and consumer durables, with the consequent decline in demand for loans.

In 1966 there was an absolute decrease in employer debt to social insurance funds, an item whose weight had grown continuously in past years. The decrease was from IL 118 million at the end of 1965 to IL 94 million at the end of 1966; its weight in total fund assets also declined, from 7.5 percent in 1965 to 5.0 percent in 1966. Most of this debt is owed by a small number of employers, and the decrease was made possible by an arrangement with the Histadrut contracting firm Solel Boneh, with the consent of the Minister of Finance, which provided for special loans to this concern. These loans were made in the form of a bond issue which was recognized as an approved investment and purchased by the funds. Although total employer debt thus declined in absolute terms, the debt not covered by this arrangement continued to grow, by nearly IL 10 million in 1966. In fact, the funding of the debt took place only at the end of December 1966, and figures for the end of the third quarter of 1966 show an

**Table XVIII-3**  
**ASSETS AND LIABILITIES OF SOCIAL INSURANCE FUNDS, 1962-66**

	IL million					Percent				
	1962	1963	1964	1965 <sup>a</sup>	1966 <sup>b</sup>	1962	1963	1964	1965 <sup>a</sup>	1966 <sup>b</sup>
<b>Assets</b>										
Cash and demand deposits	7.6	7.9	5.2	11.7	14.1	0.9	0.8	0.4	0.7	0.7
Special deposits in banks	44.8	25.4	20.3	7.4	3.1	5.5	2.4	1.6	0.5	0.1
Other time deposits in banks	8.4	10.0	11.0	9.0	9.2	1.1	1.0	0.9	0.6	0.5
Deposits in Gmul Ltd.	45.5	35.9	32.1	22.6	19.0	5.6	3.5	2.5	1.4	1.0
Securities, at cost	462.3	671.9	896.5	1,121.0	1,444.1	57.0	64.8	68.7	70.2	75.4
Loans to members	125.2	144.5	163.3	191.8	214.5	15.4	13.9	12.5	12.0	11.2
Employer debt	72.5	82.4	95.3	118.3	94.2	8.9	7.9	7.3	7.4	4.9
Loans to business firms	9.8	12.8	18.0	21.8	28.2	1.2	1.2	1.4	1.4	1.5
Real estate	26.8	34.0	40.4	48.0	55.0	3.3	3.3	3.1	3.0	2.9
Miscellaneous <sup>c</sup>	8.5	12.4	21.1	44.6	34.6	1.1	1.2	1.6	2.8	1.8
<b>Total assets</b>	<b>811.4</b>	<b>1,037.2</b>	<b>1,303.2</b>	<b>1,596.2</b>	<b>1,916.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Revaluation increment	37.8	51.9	120.0	182.5	200.0	—	—	—	—	—
<b>Grand total</b>	<b>849.2</b>	<b>1,089.1</b>	<b>1,423.2</b>	<b>1,778.7</b>	<b>2,116.0</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Liabilities</b>										
Pension fund	372.8	476.3	607.0	778.8	955.0	46.0	46.0	46.5	48.8	49.8
Provident fund	241.9	297.0	354.4	385.3	435.0	29.8	28.6	27.2	24.1	22.7
Severance pay fund	94.3	125.5	163.9	204.1	250.0	11.6	12.1	12.6	12.8	13.0
Various social benefit funds <sup>d</sup>	47.0	65.4	89.9	121.7	145.0	5.8	6.3	6.9	7.6	7.6
Investment realization fund	12.1	20.0	29.7	38.5	50.0	1.5	1.9	2.3	2.4	2.6
Balance of profit and loss account and reserves	17.4	21.4	23.0	28.7	35.0	2.1	2.1	1.8	1.8	1.9
Creditors <sup>e</sup>	25.9	31.6	35.3	39.1	46.0	3.2	3.0	2.7	2.5	2.4
<b>Total liabilities</b>	<b>811.4</b>	<b>1,037.2</b>	<b>1,303.2</b>	<b>1,596.2</b>	<b>1,916.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Revaluation increment	37.8	51.9	120.0	182.5	200.0	—	—	—	—	—
<b>Grand total</b>	<b>849.2</b>	<b>1,089.1</b>	<b>1,423.2</b>	<b>1,778.7</b>	<b>2,116.0</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

<sup>a</sup> Revised figures.

<sup>b</sup> Estimate.

<sup>c</sup> Mainly life insurance and interest owned.

<sup>d</sup> Special aid, rehabilitation, sickness, etc.

<sup>e</sup> Mainly former members.

SOURCE: Ministry of Finance, National Savings Authority.

outstanding balance of IL 125 million. The return on the bonds is greater than the interest previously received by the funds on employer debt,<sup>1</sup> so that the funding operation has increased the average yield of their assets.

(b) *Liabilities*

Th liabilities of this subsector consist primarily of the three types of funds:

1. Pension funds: These provide a monthly pension to workers reaching retirement age, in accordance with the conditions specified by the fund to which the member belongs. The pension payment is defined in relation to the member's final salary, the number of years he worked, and the number of years he was a member of the fund. The payment is also linked to changes in the wage scale according to which the pensioner was paid before he retired.

2. Provident funds: This type of fund accumulates savings from employee and employer contributions. The amount saved by the employee, together with his share of the fund's profits on investments, is paid to the worker when he leaves his place of work.

Some of the provident funds, in particular those managed by pension funds, actually function as pension funds. A worker who leaves his job before retirement receives a lump-sum payment; if he reaches retirement age he is entitled to a monthly pension instead of a lump sum.

3. Severance pay funds: The object of accumulating money in this type of fund is to provide severance pay for the worker who is dismissed, or who resigns under circumstances that legally entitle him to receive severance pay. Contributions to severance pay funds are made only by the employer. (Included in this discussion are funds operated other than by business firms.)

The pension fund stood at IL 955 million at the end of 1966, compared with IL 779 million at the end of the previous year, and accounted for half of total social insurance fund liabilities. The provident fund totalled IL 435 million at the end of 1966, and its weight declined from 24 to 23 percent, continuing the slow downward trend which began in 1958. The share of the severance pay fund in total liabilities is on the rise, and amounted to 13 percent at the end of 1966 (IL 250 million). The increase in 1966 was somewhat slower—22 percent compared with an average annual growth of 27 percent during 1962–65; this was due to the increase in total severance payments to workers who were dismissed or left their jobs.

<sup>1</sup> According to the regulations of May 1964, an employer who fails to discharge his debt on time (within 42 days of the wage payment) must pay interest at 9 percent per annum for a 90-day delinquency, after which the interest is converted into a fine not deductible for income tax purposes. In actual fact, this regulation has not been enforced, and employers have often paid no interest at all on their accumulated debt.

**Table XVIII-4**  
**COMPOSITION OF SOCIAL INSURANCE FUNDS, 1962-66**  
 (percentages)

	1962	1963	1964	1965 <sup>a</sup>	1966 <sup>b</sup>
Pension fund	46.0	46.0	46.5	48.6	49.8
Provident fund	29.8	28.6	27.2	24.1	22.7
Severance pay fund	11.6	12.1	12.6	12.8	13.0
Other funds and liabilities	12.6	13.3	13.7	14.5	14.5
Total	100.0	100.0	100.0	100.0	100.0
Total—IL million	811	1,037	1,303	1,596	1,916

<sup>a</sup> Revised figures.

<sup>b</sup> Estimate.

These three funds accounted for 86 percent of total liabilities at the end of 1966. The remainder consisted of the following: social benefit funds<sup>1</sup>—7.5 percent; investment realization fund—6.5 percent; profit and loss account and creditors—6.5 percent. The last item came to IL 46 million and included sums accumulated to the credit of members withdrawing from the social insurance funds.

#### 4. MONEY FLOWS, BY SECTOR

##### (a) Receipts

Net receipts of the social insurance funds totalled IL 327 million in 1966, or IL 29 million more than in 1965. Net receipts (see Table XVIII-5) differ slightly from the total accumulation (see Table XVIII-2) in that it includes the receipts of Gmul Ltd., which acts as the central investment agency for social insurance funds. Part of the profits of Gmul Ltd. are used to increase its own resources and are not passed on to the funds.

Receipts consist of transfers from households and businesses. Over 90 percent of the receipts are defined as transfers from households, which include employee and employer contributions, contributions of the self-employed, and profits on fund investments.<sup>2</sup>

<sup>1</sup> For annual leave, sick leave, paid holidays, convalescence, etc. Contributions to such funds are in effect part of wages transferred by the employer to the central fund in order to cover the employee for various benefits set out in the labor contract.

<sup>2</sup> Employer contributions and profit on investments accrue to the credit of households and are therefore defined as household saving.

Transfers from business consist of employer contributions to central severance pay funds administered by certain banks and insurance companies. From the point of view of the employer, these contributions are financial assets, since he and not the fund is responsible for paying the severance compensation to employees.

Severance fund assets grew by 30 percent in 1966, much less than the 46 percent in 1965. This was due mainly to the increased volume of severance payments to dismissed employees. In addition, growth had been exceptionally rapid in 1964 and 1965, owing to the passing, in 1963, of the Severance Pay Law.

(b) *Payments*

Social insurance funds (including Gmul Ltd.) are the main purchasers of new domestic bond issues (in local currency).<sup>1</sup> In 1966 they took up IL 350 million of the IL 450 million in new issues (excluding the Government Short-Term Loan).

At the same time, it should be pointed out that the funds' investment policy is largely determined by the Government, through its regulations on approved investments and its approval of the issue of securities purchasable by the funds. Under an agreement between the Ministry of Finance and the Histadrut, the funds are authorized to make about half of their approved investment in debentures of Histadrut enterprises; most of the remainder is invested in other bonds.

The volume of credit granted to the public sector and to public sector companies<sup>2</sup> rose from IL 54 million in 1965 to IL 68 million. A large part of the increment must be ascribed to increased purchases of Government development bonds and Short-Term Loan certificates.

Credit extended to banking and financial institutions rose by about IL 40 million in both 1965 and 1966, and stood at IL 207 million at the end of 1966. The banks and financial institutions act as intermediaries between the social insurance funds and the institutions, businesses,<sup>3</sup> and farms which are the final recipients of the credit.

The reduction of employer debt resulted in a much smaller volume of credit being extended directly to the business sector<sup>4</sup>—a decrease of IL 23 million as compared with an increase of IL 10 million in 1965. Total credit given directly to business came to IL 9 million in 1966. This does not represent an actual decline: part of the employer debt was funded, the bonds being acquired by the social insurance funds from financial institutions, which lent the proceeds

<sup>1</sup> Some of these emissions are exclusively for social insurance funds.

<sup>2</sup> By way of loans, security purchases, and employer debt.

<sup>3</sup> Mostly Histadrut enterprises.

<sup>4</sup> Excluding credit given indirectly through banking and financial institutions.

Table XVIII-5

## "BALANCE OF PAYMENTS" OF SOCIAL INSURANCE FUNDS AND GMUL LTD., 1963-66

(IL million)

Receipts	1963	1964	1965	1966	Payments	1963	1964	1965	1966
From households (incl. employer contributions)	213.0	249.0	270.4	300.0	Loans				
From businesses	16.2	19.3	27.3	27.1	To public sector and public sector companies	88.9	84.0	54.2	67.5
					To financial and banking institutions	72.3	120.6	166.7	206.5
					To businesses	20.6	21.8	32.2	9.4
					To households and nonprofit institutions	40.2	35.5	37.0	36.2
					Real estate investment	7.2	6.4	7.6	7.5
Total	229.2	268.3	297.7	327.1	Total	229.2	268.3	297.7	327.1

to businesses. In other words, there was no actual debt redemption by business firms.

Credit to households and nonprofit institutions remained unchanged at IL 36 million. Of this sum, IL 23 million represents a net increase in loans to members.

## II. INSURANCE COMPANIES

In 1966 the expansion of insurance business slowed down, especially in the general insurance branch. In life insurance, the decline in the growth rate was more moderate; the deceleration occurred in linked life insurance, which has an element of saving, whereas in unlinked life insurance, where this element is missing and which is thus similar to general insurance, there was a substantial rise.

Premium receipts from linked and unlinked life insurance increased by 20 percent, as against 24 percent in 1965, and totalled nearly IL 60 million. The life insurance fund, representing household saving in the form of life insurance, grew by some IL 36 million, compared with IL 30 million in 1965, and reached IL 177 million. As in previous years, most of the accumulation was invested in Government and Israel Electric Corporation bonds. Unlike life insurance, general insurance grew much more slowly than in previous years: premium receipts from general insurance sold in Israel<sup>1</sup> rose by 12 percent, as against 24 percent in 1965, to stand at IL 192 million. There was a conspicuously slower growth in premium receipts from motor vehicle insurance—by as little as 10 percent in 1966 compared with approximately 35 percent the year before—although rates were raised by 5 percent.<sup>2</sup>

The insurance sector comprises 81 companies, 28 of them Israeli and 53 foreign, as well as 19 Lloyd's agents. The foreign companies and the Lloyd's agents deal mainly in general insurance, their share of aggregate premium receipts in this branch amounting to about 27 percent. Only six foreign companies sell life insurance; their share of total premium receipts from this type of business is relatively low. Eight large firms account for nearly 80 percent of the aggregate assets of the 28 Israeli companies.

### 1. LIFE INSURANCE

#### (a) *General developments*

In 1966 the life insurance portfolio<sup>3</sup> increased more rapidly than in the previous year, by 33 percent as against 27 percent, and totalled IL 2,515 million. Only part of the increment represented transactions with an element of saving.

<sup>1</sup> Less reinsurance in Israel.

<sup>2</sup> Premium rates had been raised by about 6 percent in each of the two preceding years.

<sup>3</sup> Including severance pay insurance, but excluding pension insurance.

The main growth took place in unlinked insurance policies—primarily insurance taken out for employees of institutions and enterprises. These group insurance schemes guarantee a lump-sum payment to the beneficiary in the case of death during the term of the policy. The term is limited and the insurance company is not obligated to extend it. Unlike linked insurance, which contains an element of saving, most unlinked insurance is essentially a form of risk insurance, like general insurance. The unlinked portfolio grew by 51 percent in 1966, as against 16 percent in 1965, to stand at IL 1,408 million, or 44 percent of the total life insurance in force.

In contrast to the striking increase in unlinked life insurance, the growth of linked life insurance business was more moderate—15 percent as against 40 percent in 1965, to a total of IL 1,107 million. About 14,000 linked life insurance policies were issued, with an aggregate value of IL 284 million, compared with 20,000 policies totalling IL 341 million in 1965. At the end of 1966 there were about 75,000 insured, compared with 68,000 at the end of 1965, and the average policy rose from IL 11,600 to IL 12,400.

**Table XVIII-6**  
**LIFE INSURANCE IN FORCE, 1960-66**  
(IL million)

Year	Total amount at end of year	Linked insurance		Unlinked insurance	Ratio of linked insurance to total insurance (%)
		Linked to consumer price index	Linked to the dollar		
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	1,048.5	375.7	109.8	563.0	46.3
1964	1,489.6	586.3	101.8	801.5	46.2
1965	1,888.9	863.4	96.1	929.4	50.8
1966 <sup>a</sup>	2,515.0	1,017.0	90.0	1,408.0	44.0

<sup>a</sup> Estimate.

SOURCE: Ministry of Finance, Superintendent of Insurance; Central Bureau of Statistics.

(b) *Investment of linked insurance funds*

Companies selling life insurance are obligated by law to invest at least 20 percent of their life insurance funds and not less than 35 percent of their paid-up share capital in Government or Government-guaranteed securities. In actual fact, however, they invest more than the required minimum in securities of this kind, owing to the agreements signed with the Israel Electric Corporation and the Government.

In 1966 some IL 30 million in linked life insurance funds were invested in these securities—about IL 16 million in Israel Electric Corporation bonds and IL 14 million in Government bonds; in 1965 investment totalled IL 26 million—IL 15 million in Electric Corporation and IL 11 million in Government bonds. These bonds, which bear 6 percent interest and are linked to the consumer price index, have very long maturities (up to 40 years), thus enabling the insurance companies to issue linked insurance policies for similar periods.

(c) *Income<sup>1</sup> and outgo of the life insurance branch*

Income of life insurance companies operating in Israel rose in 1966 to IL 71 million, or by about 20 percent, compared with 25 percent in 1965.

**Table XVIII-7**  
**INCOME AND OUTGO OF LIFE INSURANCE COMPANIES**  
**IN ISRAEL, 1963-66**  
(IL million)

	1963	1964	1965 <sup>a</sup>	1966 <sup>b</sup>
<b>Income</b>				
Premiums	30.4	40.4	50.2	60.2
Interest	5.6	6.8	8.7	10.4
Total	36.0	47.2	58.9	70.6
<b>Outgo</b>				
Benefits to policyholders	8.6	12.5	14.8	17.1
Operating expenses	9.2	12.4	15.3	18.2
Gross profit <sup>c</sup>	1.7	2.7	3.1	3.3
Total	19.5	27.6	33.2	38.6
Balance of income over outgo	16.5	19.6	25.7	32.0
Income from investment of life insurance funds	1.4	2.0	4.5	4.2
Annual accumulation (growth of the life insurance fund)	17.9	21.6	30.2	36.2

<sup>a</sup> Revised figures.

<sup>b</sup> Estimate.

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

SOURCE: Ministry of Finance, Superintendent of Insurance; Central Bureau of Statistics.

<sup>1</sup> From local transactions only.

Most of the income was from premium receipts, which grew by 20 percent to about 60 million. In 1965 premium income had grown by 25 percent to reach IL 50 million, i.e. growth was slower in 1966. This decline in the growth rate, however, conformed to the trend which set in several years ago. Life insurance premium receipts failed to increase as fast as the number and value of policies because of the substantial rise in unlinked insurance, premiums for which are relatively smaller than those for linked insurance.

In addition to the IL 71 million in premium and interest receipts, IL 4 million accrued from the appreciation of investments (see Table XVIII-7).

Benefits paid to policyholders rose by 15 percent, reaching IL 17 million, or 22 percent of total current income from life insurance business (premium receipts and income from investments). Current expenses are estimated at IL 18 million. These include commissions to agents, fees for medical examinations, and administrative expenses. Gross profit on life insurance business reached an estimated IL 3.3 million, much the same as in 1965 (IL 3.1 million); in view of the larger premium receipts, this indicates a slight decrease in profitability. It should be noted that life insurance is one of the most profitable classes of insurance, and the rate of profit on premium receipts<sup>1</sup> has been relatively stable during the past decade, ranging from 6 to 7 percent, whereas in other classes of insurance there have been losses or considerable fluctuations.

Annual accumulation plus the rise in the value of investments—mainly index-linkage differentials—came to some IL 36 million, an increase of 20 percent over 1965. This amount, as already noted, represents the saving of the household sector through life insurance.

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

Premium receipts<sup>3</sup> from general insurance totalled IL 192 million, a rise of 12 percent, as against 24 percent in 1965. The slower growth affected nearly all types of general insurance; it was particularly noticeable in the motor vehicle branch, where premium receipts advanced by 10 percent compared with 35 percent in 1965, and amounted to only IL 67 million, even though premium rates were raised by 5 percent.<sup>4</sup> The slowdown was apparently connected with the smaller percentage rise in the number of vehicles insured and a shift from comprehensive to cheaper compulsory insurance.

As in the previous year, Israeli companies transferred some 50 percent of their local premium receipts to foreign companies on account of reinsurance.

<sup>1</sup> Before deducting reinsurance abroad.

<sup>2</sup> Including marine insurance.

<sup>3</sup> Transactions in Israel, after deduction of reinsurance in Israel.

<sup>4</sup> See note <sup>2</sup>, p. 451.

Table XVIII-8

**PREMIUM RECEIPTS FROM GENERAL INSURANCE,<sup>a</sup>  
1962-66**

Year	IL million	Increase over preceding year	
		IL m.	%
1962	88.5	20.8	30.7
1963	109.2	20.7	23.4
1964	138.8	29.6	27.1
1965	172.4	33.6	24.2
1966 <sup>b</sup>	192.1	19.7	11.4

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

<sup>b</sup> Estimate.

SOURCE: Ministry of Finance, Superintendent of Insurance; Central Bureau of Statistics.

### 3. BALANCE SHEET DEVELOPMENTS

#### (a) *Israeli companies*

##### 1. *Assets*

The combined balance sheet of the Israeli insurance companies in 1966 went up by 24 percent to IL 391 million. As in previous years, the increase was mainly due to larger investments in Government and Government-guaranteed bonds, which grew by nearly IL 40 million, or 38 percent, to stand at IL 147 million, or about 38 percent of total assets. The proportion of other securities, mainly shares in financial institutions, continued to decline, probably because of the stock market slump. The weight of loans granted also continued to fall, from 15 percent of total assets in 1965 to 12 percent in 1966.

The expansion of outstanding premiums slowed down considerably. This item constitutes a form of credit to clients and particularly to agents, and the fact that it is granted reflects the competition prevailing in the insurance sector. Outstanding premiums grew by only 16 percent, as against 25 percent in 1965 and 26 percent in 1964. The slower rise was apparently connected with the pressure exerted by the Superintendent of Insurance to reduce this form of credit, which is liable to undermine the financial position of the insurance companies.<sup>1</sup>

<sup>1</sup> At the beginning of 1967 explicit instructions were issued to gradually reduce the amount of outstanding premiums.

Table XVIII-9

## ASSETS AND LIABILITIES OF ISRAELI INSURANCE COMPANIES, 1964-66

	IL million			Percent of total		
	1964	1965 <sup>a</sup>	1966 <sup>b</sup>	1964	1965 <sup>a</sup>	1966 <sup>b</sup>
<b>Assets</b>						
Government or Government-guaranteed bonds	75.4	106.7	147.2	29.1	33.8	37.6
Other securities	9.2	9.7	10.0	3.6	3.1	2.6
Loans on policies or against mortgages	11.5	12.9	14.7	4.4	4.1	3.8
Other loans	36.4	34.1	35.0	14.1	10.8	8.9
Real estate and investment in subsidiaries	24.5	26.7	34.5	9.5	8.5	8.8
Long-term deposits	4.7	4.6	5.0	1.8	1.5	1.3
Outstanding premiums	48.9	61.0	70.9	18.9	19.3	18.1
Sundry debtors	21.2	29.6	39.8	8.2	9.4	10.2
Cash and demand deposits	27.1	30.0	34.0	10.5	9.5	8.7
<b>Total assets</b>	<b>258.9</b>	<b>315.3</b>	<b>391.1</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Liabilities</b>						
Paid-up share capital	38.4	40.0	46.4	14.8	12.7	11.9
Reserves	14.6	19.8	23.0	5.6	6.3	5.9
Life insurance fund	92.5	119.7	148.9	35.7	38.0	38.1
General insurance fund	19.2	22.1	26.0	7.4	7.0	6.6
Extraordinary risks fund	7.2	9.6	11.0	2.8	3.0	2.8
Deposits of reinsurers	20.8	25.5	32.0	8.0	8.1	8.2
Pending and approved claims (general insurance)	26.7	33.3	44.9	10.3	10.6	11.5
Current liabilities	39.5	45.3	58.9	15.4	14.3	15.0
<b>Total liabilities</b>	<b>258.9</b>	<b>315.3</b>	<b>391.1</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

<sup>a</sup> Revised figures.

<sup>b</sup> Estimate.

SOURCE: Ministry of Finance, Superintendent of Insurance; Central Bureau of Statistics.

## 2. Liabilities

The life insurance fund<sup>1</sup> rose by 24 percent in 1966, reaching IL 155 million, or about 40 percent of total liabilities. This fund represents the accumulated saving of households in the form of insurance, and is equal to the estimated amount of claims which will have to be paid to policyholders or beneficiaries in

<sup>1</sup> Including the extraordinary risks fund.

the future, less estimated future premium receipts capitalized at a certain rate.<sup>1</sup>

The general insurance fund went up by about 19 percent to IL 31 million. The size of this fund is based on the estimated risk assumed by the insurance companies in connection with general insurance business.

Equity capital expanded by about 16 percent to IL 69.4 million. This increase can be partly attributed to the new directives issued by the Superintendent of Insurance which require equity capital to be gradually increased in accordance with the type of insurance handled.

(b) *Foreign insurers operating in Israel*

Total assets in Israel of the 53 foreign companies rose by 10 percent to IL 45.3 million. Most of the increase stemmed from the additional investment in Government and Government-guaranteed bonds of those companies which also sell life insurance. The foreign companies deal mainly in general insurance, which involves only a small investment in such securities. The weight of outstanding premiums is high in the case of foreign companies as compared with Israeli insurers, amounting to 37 percent of total assets at the end of 1966.

Table XVIII-10

ASSETS OF FOREIGN INSURANCE COMPANIES OPERATING IN ISRAEL, 1964-66

	IL million			Percent of total		
	1964	1965 <sup>a</sup>	1966 <sup>b</sup>	1964	1965 <sup>a</sup>	1966 <sup>b</sup>
Government or Government-guaranteed bonds	6.8	8.3	10.5	18.3	20.4	23.2
Other securities	6.3	4.6	4.3	16.9	11.2	9.5
Loans on policies or against mortgages	2.5	2.3	2.4	6.7	5.6	5.3
Other loans	6.3	7.1	7.0	16.9	17.4	15.4
Real estate	0.3	0.3	0.3	0.8	0.7	0.7
Outstanding premiums and sundry debtors	12.0	14.6	16.8	32.3	35.7	37.1
Cash and demand deposits	3.0	3.7	4.0	8.1	9.0	8.8
<b>Total assets</b>	<b>37.2</b>	<b>40.9</b>	<b>45.3</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

<sup>a</sup> Revised figures.

<sup>b</sup> Estimate.

SOURCE: Ministry of Finance, Superintendent of Insurance; Central Bureau of Statistics.

<sup>1</sup> Capitalized at 3 to 4 percent.

Table XVIII-11

"BALANCE OF PAYMENTS" OF THE INSURANCE SECTOR,<sup>a</sup> 1964-66

(IL million)

Receipts	1964	1965 <sup>b</sup>	1966 <sup>c</sup>	Payments	1964	1965 <sup>b</sup>	1966 <sup>c</sup>
<b>Transfers and real transactions</b>							
Transfers from domestic sectors, mainly premium receipts and registration fees from general insurance in Israel	154.2	190.8	213.7	Transfers to domestic sectors, mainly general insurance claims paid in Israel	68.3	91.6	105.3
Interest and other income in Israel	8.8	8.3	7.8	Commissions on general insurance (mainly to agents)	40.3	39.3	39.0
Transfers from abroad, mainly on account of reinsurance	52.4	64.6	75.6	Current expenses	29.8	44.6	54.0
				Transfers abroad, mainly on account of reinsurance	59.8	71.3	82.0
				Investment in real estate	3.4	1.8	3.0
<b>Total</b>	<b>215.4</b>	<b>263.7</b>	<b>297.1</b>	<b>Total</b>	<b>201.6</b>	<b>248.6</b>	<b>283.3</b>
<b>Financial transactions,<sup>d</sup> by sector</b>							
From households	23.2	31.0	39.0	Credit (loans, purchase of securities, and deposits)			
From private business	5.3	3.1	9.0	To the public sector	15.3	8.7	20.0
From social insurance funds, banks, and financial institutions	1.3	—	—	To public sector companies	9.4	24.9	22.7
From the Government	—	—	—	To banks and financial institutions	3.6	3.4	5.0
From the rest of the world	1.0	1.6	2.0	To private business	14.8	12.5	15.0
				To households and nonprofit institutions	5.6	3.3	5.0
				To the rest of the world	3.3	—	—
<b>Total</b>	<b>30.8</b>	<b>35.7</b>	<b>50.0</b>	<b>Total</b>	<b>52.0</b>	<b>52.8</b>	<b>67.7</b>
<b>Intrasector transactions</b>							
Receipts from other insurance companies on account of reinsurance in Israel	10.2	13.2	15.0	Payments on account of reinsurance in Israel	10.2	13.2	15.0
Errors and omissions, net	7.4	2.0	3.9				
<b>Total receipts</b>	<b>263.8</b>	<b>314.6</b>	<b>366.0</b>	<b>Total payments</b>	<b>263.8</b>	<b>314.6</b>	<b>366.0</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 transactions; the difference between the two is

#### 4. MONEY FLOWS

Receipts of the insurance sector from real transactions rose in 1966 to IL 297 million, or by 13 percent, as against 22 percent the year before. The slower increase was due to the smaller percentage rise in general insurance premium receipts, which form the bulk of such income. Payments—mostly of claims to policyholders and transfers to reinsurers abroad—also rose at a slower rate in 1966—by 14 percent approximately—and totalled IL 283.3 million.

Receipts from transactions in financial claims were up 14 percent to IL 50 million. These stemmed in the main from the increase in life insurance funds. Payments on account of financial transactions largely represent the investment of life insurance funds in Government and Government-guaranteed bonds, which came to IL 42.7 million. Other payments, consisting mainly of incremental outstanding credit to agents and clients, increased slightly more slowly in 1966. Total payments on account of financial transactions rose by 28 percent to IL 67.7 million.