

CHAPTER XVII

SOCIAL INSURANCE FUNDS AND INSURANCE COMPANIES

I. SOCIAL INSURANCE FUNDS

1. MAIN DEVELOPMENTS

SOCIAL INSURANCE fund receipts from employer and employee contributions continued to expand rapidly in 1969: the rise amounted to 23.6 percent, as compared with 19 percent in 1968 and a standstill in 1967, bringing the level up to IL 518 million. This acceleration reflected two opposing developments: on the one hand, the average pay of employees in the private sector rose more than in the previous year, and the funds administered by banks and insurance companies continued to expand strongly; on the other hand, the number of employees in the economy increased more slowly than in 1968.

The other component of the funds' receipts, "interest and other income from investments, linkage increments, and realized capital gains", went up by 13.6 percent, as compared with 20.1 percent in 1968, and reached IL 251 million.

Payments to current members and to those who left the funds rose by 16.2 percent to approximately IL 215 million. This was equivalent to 85.7 percent of the second revenue item mentioned above, and consequently the funds were able to meet all their liabilities from current profits.

Since the growth of the funds' receipts outpaced that in withdrawals and payments to current members, there was a large accumulation; this amounted to IL 526 million—an increase of 22 percent, coming on top of rises of 20 percent in 1968 and 3.5 percent in 1967. This accumulation (the difference between the funds' aggregate assets at the beginning and the end of the year, less the accumulation in the bank-administered severance pay funds and the increase in loans to households) represents household saving through the funds. Such saving grew by an appreciable 17.7 percent in 1969, as against 8.3 percent in 1968, and totalled IL 432 million.

Total assets of the social insurance funds (including Gmul Ltd., the funds' investment company) increased by about IL 526 million in 1969¹ to stand at IL 3,271 million. The assets consisted mainly of two items: long-term bond investments (63 percent) and loans and deposits (the weight of the latter in total assets moved up from 16 percent in 1968 to 21 percent).

¹ The identical increase in the funds' accumulation and total assets is purely coincidental.

Table XVII-1

FLOW-OF-FUNDS STATEMENT OF SOCIAL INSURANCE FUNDS AND GMUL LTD., 1968-69

(IL million)

Receipts	1968	1969	Percent annual change		Payments	1968	1969	Percent annual change	
			1968	1969				1968	1969
Nonfinancial transactions									
Employer and employee contributions	419	518	19.0	23.6	Pension payments	70	101	32.6	44.3
Interest and other income from investments, linkage differentials, and realized capital gains	221	251	20.1	13.6	Provident and severance payments ^a	65	62	-12.2	-4.6
					Social benefits	50	52	25.0	4.0
					Total benefit payments	185	215	17.8	16.2
					Purchases				
					On current account	27	28	0.0	3.7
					On capital account	7	12	16.7	71.4
Total	640	769	19.4	20.2	Total payments on real account	219	255	15.3	16.4
Financial transactions									
					Public sector and public sector companies	106	206	-1.9	94.3
					Households	26	44	—	69.2
					Other sectors	289	264	22.5	-8.7
					Total	421	514	21.7	22.0
Total receipts	640	769	19.4	20.2	Total payments	640	769	19.4	20.2

^a Includes employer and employee contributions refunded.

The social insurance funds are an important factor in the capital market, especially as regards new domestic bond issues in Israeli currency. This is because they are bound by Government regulations to invest a large part of their assets in approved bonds. In 1969 purchases of such securities by the subsector (excluding Gmul) added up to IL 431.6 million, representing 54 percent of all new issues.¹

Net credit (purchases of securities and loans) extended by the funds was, at IL 514 million, up 22 percent from 1968. The allocation of credit is largely determined by the Government, and in 1969 it went to the public sector and public companies (IL 206 million), households (IL 44 million), and others (IL 264 million).

2. FLOW OF FUNDS

(a) *Receipts*

Social insurance fund receipts derive from two principal sources: employer and employee contributions and profits from investments, consisting of interest, dividends, linkage differentials, and realized capital gains. In 1969 receipts aggregated IL 769 million, a rise of 20.2 percent, compared with 19.4 percent in 1968.

The leading item—employer and employee contributions—reached IL 518 million in 1969, an advance of 23.6 percent as against 19 percent in 1968. This rapid expansion is attributable to the rise in average wages in the private sector,² especially in those branches with a high rate of pension and provident fund membership, as well as to the marked growth of the funds for self-employed administered by banks and insurance companies—their assets went up by one-third during the year, compared with the 18 percent increase recorded for all social insurance funds. The expansionary effect of these factors outweighed the influence of the slower rise in employment, which depressed the rate of growth in employer and employee contributions.

The second component of the funds' receipts—profits from investments, linkage differentials, and realized capital gains—stood at IL 251 million in 1969; this was 13.6 percent higher than in 1968, when growth came to 20.1 percent. This item is subject to sharp fluctuations, because of the erratic trend in linkage increments and realized capital gains.

(b) *Payments*

Payments to current members and to those withdrawing from the funds fall into three main categories:

¹ Excluding the Absorption and Defense Loans and the Government Short-Term Loan.

² The public sector is irrelevant as far as contributions to the funds are concerned, since employees in this sector are covered by budgetary pension schemes.

1. Monthly pensions to members who have retired or to their survivors, in accordance with fund regulations.

2. Social benefits, which are in effect paid by employers through central pension funds, for such purposes as paid sick leave, convalescence, holidays, etc. This arrangement is found in branches with a high degree of labor mobility, and its purpose is to safeguard the social benefit rights of workers changing their place of employment. The funds actually act merely as agents for the transfer of contributions, but since part of the sums collected from employers is not paid to employees for various reasons—chiefly because of difficulties in locating them or because of the waiving of rights—this helps to augment the funds' asset accumulation.

3. Payments to members withdrawing from the funds after leaving their jobs. These consist mainly of provident payments out of accumulated monthly employer and employee contributions, plus profits and linkage differentials, as well as severance payments.

Total payments to members and to those who left the funds amounted to IL 215 million in 1969, compared with IL 185 million the year before.¹ About 47 percent of the sum represented pensions and payments to members withdrawing from the pension funds; in fact, all of the incremental payments in 1969 were in this item, which went up from IL 70 million in 1968 to nearly IL 100 million. This increase was due mainly to the larger number of persons eligible for monthly payments. Pension payments did not rise during the year, since the consumer price index held virtually steady and there was an insignificant increase in official wage rates (including wage drift) in the various sectors of the economy.²

Provident and severance payments declined by about IL 3 million to IL 62 million. This drop was presumably connected with the high level of employment, which resulted in a smaller number of dismissals.

Social benefit payments went up by only IL 2 million and amounted to IL 52 million.

Total payments to members and to those who left the funds were equivalent to 85.7 percent of total receipts from profits, linkage differentials, and realized capital gains—a proportion similar to that in each of the two preceding years (84 percent in 1968 and 85 percent in 1967). This indicates that the social insurance funds are still at a stage where all employer and employee contributions are being accumulated, while payments are being made out of current income alone.

Current expenses went up by IL 1 million to IL 28 million, continuing the virtual stability of the last few years despite the expansion of the funds' operations.

¹ Public sector budgetary pension payments are not included here.

² Pension annuities are linked both to the consumer price index and to basic wage rates.

(c) *Household saving*

Household saving through social insurance funds accounts for much of the total growth of financial assets held by private individuals.¹ This is a contractual saving, and it is determined mainly by labor agreements; hence it is not affected in the short run by changes in the propensity to save. Only in a few social insurance funds—provident and pension funds for the self-employed and certain funds for employees where membership is voluntary—is saving of a somewhat different character. But even though membership in this group of funds is voluntary, members display a strong tendency to keep up their contributions in order not to forfeit accumulated rights.

Table XVII-2

HOUSEHOLD SAVING THROUGH SOCIAL INSURANCE FUNDS, 1967-69

(IL million)

	1967	1968	1969
(1) Total accumulation	360	432	526
(2) Less: Accumulation in central severance pay funds ^a	23	39	50
(3) Accumulation of households (1-2)	337	393	476
(4) Less: Increase in loans to households	-2	26	44
(5) Household saving through social insurance funds (3-4)	339	367	432
(6) Percent increase in saving	12.3	8.3	17.7

^a The severance pay rights accumulated in the pension funds have not been deducted, as they constitute household and not employer saving.

Household saving through the funds is defined as the total accumulation of the social insurance fund subsector after deducting the growth of the central severance pay funds, which represents employers' saving, and the growth in outstanding loans to households. Such saving reached IL 432 million in 1969, a rise of 17.7 percent as compared with only 8.3 percent in the previous year. The increase is attributable primarily to the faster rate of accumulation (see item 3 in Table XVII-2), and to a lesser extent to the slower increase in loans to households in comparison with 1968.

The growth of household saving through the funds was more rapid than that of either total private sector saving or liquid saving—a fact underscoring the importance of contractual saving at a time when the overall propensity to save is declining.

¹ See Chapter IV, Table IV-5.

3. BALANCE SHEET DEVELOPMENTS

The nominal value of assets owned by the social insurance funds subsector (including Gmul Ltd.¹) reached IL 3,271 million² at the end of 1969—an increase of 19.2 percent, compared with 18.7 percent the year before. These strong rises in the last two years arrested the falling trend in the balance sheet growth which began in 1963. As in 1968, the accelerated expansion of the funds' assets in the year reviewed can be credited to the schemes administered by banks and insurance companies, which increased their assets by 33.3 percent, as compared with 18 percent in the pension funds and 8.1 percent in the other funds.

Table XVII-3

GROWTH OF SOCIAL INSURANCE FUND ASSETS,^a BY TYPE OF FUND, 1968-69
(IL million)

	1968	1969	Percent annual increase	
			1968	1969
Pensions funds	1,832	2,162	15.5	18.0
Funds administered by banks and insurance companies	327	436	32.9	33.3
Central severance pay funds	170	217	29.8	27.6
Funds for the self-employed	157	219	36.5	39.5
Other funds	520	562	19.8	8.1
Total	2,649	3,160	18.2	18.0

^a Excluding Gmul Ltd.

(a) *Assets*

The relative shares of the various social insurance fund assets are determined by Treasury regulations, and funds wishing to enjoy income tax concessions must adhere to them.³ These regulations obligate the funds to invest 80 percent of their assets in recognized investments,⁴ which consist of approved bonds and approved deposits for loan purposes. The balance of the assets may be invested at the funds' own discretion in loans to members, the purchase of shares and real estate, etc.

¹ Gmul Ltd. was established to serve as the investment agent for some of the social insurance funds. In order to present a more significant picture of the use of the subsector's resources, we have combined the balance sheet for Gmul with that of the funds, after eliminating transactions between the two so as to avoid double-counting.

² Excluding approximately IL 370 million in revaluation increments.

³ All social insurance funds surveyed in this chapter are approved funds and hence must adhere to these regulations.

⁴ Some of the severance pay funds are required to invest 100 percent.

Table XVII-4
COMBINED BALANCE SHEET OF SOCIAL INSURANCE FUNDS
AND GMUL LTD., 1968-69^a

	IL million		Percent	
	1968 ^b	1969	1968 ^b	1969
Assets				
Securities	1,809	2,061	66	63
Loans and deposits	445	668	16	21
Loans to members	255	299	9	9
Employer debt	69	64	3	2
Real estate	70	80	3	2
Other assets	97	90	3	3
Total	2,745	3,271	100	100
Liabilities				
Pension fund ^c	1,633	1,880	59	58
Provident fund ^c	583	720	21	22
Severance pay fund ^c	399	472	14	14
Social benefit funds	73	98	3	3
Creditors, deposits earmarked				
for loans, and other accounts	40	83	2	3
Governments deposits	17	18	1	0
Total	2,745	3,271	100	100

^a Excluding IL 370 million in revaluation increments.

^b Liabilities have been reclassified.

^c Including sums earmarked for this fund but presently recorded under other liability items by some of the institutions in this subsector.

SOURCE: Ministry of Finance, National Savings Commissioner.

Security holdings of the social insurance funds amounted at the end of 1969 to IL 2,061 million, representing 63 percent of their aggregate assets, as compared with 66 percent in the preceding year. Loans and deposits rose to IL 668 million, or 21 percent of aggregate assets, as against 16 percent in 1968. This change in the funds' asset structure, however, essentially reflected a change in the form of financial intermediation rather than in the relative profitability of granting loans. In common with other sectors receiving Government development budget financing, some of Gmul's borrowers were exempted from payment of linkage differentials, this being assumed by the Government in exchange for the payment of a premium. This arrangement enabled the social insurance funds to make certain loans directly to borrowers without the intermediate step of purchasing value-linked securities of various financial institutions.

Outstanding loans to members expanded by IL 44 million during the year reviewed and reached IL 299 million, but their weight in the balance sheet held

steady at 9 percent. Another asset, employer debt, dropped by IL 5 million, depressing its weight to a mere 2 percent. This item has been shrinking since 1966 owing to constant pressure exerted by the Treasury through the income tax regulations. An employer who fails to discharge his debt on time (i.e. within 42 days of the wage payment) must pay interest for every day he is delinquent; for a delinquency of up to 90 days the interest is recognized as a deductible expense, but after 90 days it is converted into a fine and cannot be deducted for income tax purposes. Moreover, the National Savings Commissioner uses his authority to recommend that a social insurance fund not be exempted from payment of income tax on its profits if its employer debt exceeds the permissible limit, and not to recognize employee contributions to the fund as a deductible expense for income tax purposes. This pressure induces employees to urge their employers to pay their debt to the fund within the period specified by the regulations. In 1969 one of the large firms funded part of its debt, converting a short-term liability into a long-term bond liability, so that the total employer debt to the social insurance funds did not decrease by as much as shown in the balance sheet.

(b) *Liabilities*

The liabilities of the social insurance funds consist of three main 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 and the number of years he worked; it is also linked to changes in the wage scale according to which the worker was paid before he retired.

2. Provident funds: This type of fund accumulates savings from employer and employee contributions. The amount saved by the employee, together with his share of the profits on fund investments, is paid back to him when he leaves his employment, in accordance with the conditions specified by the fund.

3. Severance pay funds: The object of accumulating money in this type of fund is to provide severance pay to the worker who is dismissed or who resigns in circumstances that legally entitle him to severance pay. Contributions to the severance pay fund are made only by the employer, who may administer the fund either by himself or through a central severance pay fund. Funds administered other than by business firms are also included in this survey. There are likewise comprehensive pension plans, under which employers make contributions on account of severance pay in addition to their regular contributions toward retirement savings; the worker receives severance pay from the fund, if he is entitled to it, upon leaving his place of work before retirement age. If he reaches retirement age, he receives a pension but no severance pay.

Besides these three main types of social insurance funds, there are various

social benefit plans administered mainly by the Central Pension Funds of the Histadrut (General Federation of Labor).

Deposits with the social benefit funds rose by IL 25 million in the year reviewed and reached IL 98 million, but their weight in the subsector's total liabilities remained unchanged at 3 percent. This growth is explained by the increased employment in sectors, mainly industry and construction, where the existing labor agreements provide that part of the fringe benefits be paid to employees through the social insurance funds, and also by the continued transfer of contributions to the various social benefit funds. Contributions to severance pay funds increased by IL 73 million during the year, bringing the balance up to IL 472 million; their weight in total liabilities, however, remained unchanged at 14 percent.

4. FINANCIAL TRANSACTIONS

Because of the Treasury regulations requiring the social insurance funds to invest most of their assets in bonds acquired at source (90 percent of them long-term), they have become the principal customer for new domestic issues. In 1969 they bought bonds for IL 431.6 million, compared with IL 427 million in 1968, and in both years they took 54 percent of total new issues.¹ Of the amount purchased in 1969, IL 85.9 million was in bonds issued by Gmul; net of these securities, the figure came to IL 345.7 million. However, Gmul's gross purchases totalled about IL 4 million, so that gross purchases by the social insurance funds and Gmul together added up to some IL 350 million. Table XVII-4 shows that the net change in the securities portfolio (which consists primarily of bonds and to a lesser extent of shares) was IL 252 million; thus it follows that roughly IL 100 million of the purchases in 1969 can be attributed to the need to reinvest sums received from redemptions.²

The funds' investment policy is largely determined by the Government, which approves the issue of securities purchasable by the funds. Under an agreement between the Ministry of Finance and the Histadrut, the social insurance funds administered by the latter are authorized to make about half of their approved investments in bonds of Histadrut enterprises, such as Bitzur and Gmul. Out of IL 432 million in gross purchases of bonds, some IL 203 million worth (about 47 percent) were issued by these firms. However, not all of the resources they mobilized were directed by the Histadrut; in fact, in 1969 they deposited a larger share of their funds with the Accountant General, after the latter had agreed to insure part of the credit which they provide against a rise in the consumer price index (see section 3[a] above).

Social insurance funds administered by banks tend to make their approved

¹ Excluding the Absorption and Defense Loans and the Government Short-Term Loan.

² The amount redeemed in 1969 was double that of the previous year.

bond investments in subsidiary or affiliated companies. Out of the total amount purchased, IL 109 million (approximately 25 percent) was in bonds falling into this category; some of them were also acquired by funds administered other than by banks. The identity of the issuing body does not affect the funds' receipts, but only the profitability of the bank subsidiaries.

The total amount of long-term credit (including securities) and short-term loans supplied by the funds in 1969 was, at IL 514 million, up IL 93 million or 22 percent—about the same rate of growth as in 1968.

Because social insurance fund credits are granted through various financial intermediaries, and sometimes by more than one intermediary, it is difficult to trace their final destination. Table XVII-1 shows that IL 206 million went to the public sector and public sector companies (mainly the Government), IL 44 million to households (loans to fund members), while the remaining IL 264 million was granted to business, nonprofit institutions, and others.

II. INSURANCE COMPANIES¹

The rapid expansion of insurance business, which began in the latter part of 1967 with the recovery of the economy from the recession, carried over through 1969.

With the continuation of the growth of economic activity in the year reviewed, premium receipts on general insurance policies rose by about IL 70 million, as against IL 54 million in 1968 and IL 2 million in 1967, and totalled approximately IL 328 million.² The exceptional increase in 1969 in the number of private cars and the upward revision of cargo insurance rates accounted for the faster rise of premium receipts compared with 1968.

Premium income from linked and unlinked life insurance went up by about IL 22 million, as compared with some IL 10 million in 1968 and IL 6.5 million in 1967, and amounted to approximately IL 101 million. The life insurance fund expanded in line with the growth of premium receipts and reached approximately IL 60 million, compared with IL 45 million and IL 44 million in 1968 and 1967 respectively.

The share of foreign companies in both life and general insurance business

¹ The insurance sector surveyed in this chapter comprises 29 Israeli companies—which account for about three-fourths of all general insurance business and about 90 percent of all life insurance business—as well as 50 branches of foreign insurance firms and 19 Lloyd's agents. Some of the foreign insurers who hold permits to operate in Israel have actually been inactive for the past several years.

² Less reinsurance in Israel. Data for 1969 are estimates based on reports received from only part of the insurance companies, and hence they are liable to change.

continued to decline, and apparently there was also a drop in the portion of general insurance business reinsured abroad.

The increase in the liabilities of Israeli insurance companies—which is largely a function of the increase in the life insurance fund and to some degree also of the volume of general insurance business—totalled about IL 120 million, compared with roughly IL 104 million in 1968 and IL 71 million in 1967. The expansion of the companies' securities portfolio (which consists overwhelmingly of Government and Government-guaranteed bonds) accounted for about 50 percent of total asset growth, as compared with some 56 percent in 1968. On the other hand, outstanding loans and premiums and long-term deposits accounted for about 33 percent of the incremental assets, compared with approximately 23 percent in 1968. This development was presumably a result of the heavier demand for insurance company credit in 1969.

1. LIFE INSURANCE

(a) *General developments*

Endowment and whole-life insurance in force increased during the year reviewed by about IL 409 million net,¹ as compared with approximately IL 294 million in 1968, and totalled nearly IL 2,286 million. Whereas in 1968 about 73 percent of the net increment was in insurance value-linked to the consumer price index and only 27 percent in unlinked insurance, in 1969 the proportion of linked insurance reached 82 percent. This reflected the growing propensity of the public to link its savings.

About 20,000 linked life policies² were issued in 1969, as compared with 15,000 in 1968 and 11,800 in 1967. The average size of the policies continued upward in the year reviewed, reaching nearly IL 22,500 as against IL 21,300 in 1968.

While endowment and whole-life insurance are mostly linked, pure risk insurance is mainly unlinked. The latter expanded by about IL 522 million net, as compared with some IL 430 million in 1968, and totalled nearly IL 2,395 million. However, the share of linked policies in the total increase in this type of insurance also went up (from about 18 percent in 1968 to 23 percent).

The dollar-linked life portfolio shrank further in 1969 (no dollar-linked life policies have been issued since 1962, while many policies have meanwhile lapsed or been surrendered).

The net increase in 1969 in the life insurance portfolio³ (linked and un-

¹ The gross increase, less the estimated value of policies lapsed or surrendered.

² This is also the number of linked endowment and whole-life insurance policies, since in Israel index-linked pure risk insurance can be purchased only as a rider to a linked endowment or whole-life policy.

³ Including severance pay insurance but excluding pension insurance.

Table XVII-5
LIFE INSURANCE IN FORCE, 1962-69
(IL million)

	Total amount at end of year	Linked insurance		Unlinked insurance	Percentage of linked insurance
		Linked to consumer price index	Linked to the dollar		
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	2,524.4	1,093.9	90.8	1,339.7	46.9
1967	3,026.9	1,233.9	99.0	1,694.0	44.0
1968 ^a	3,749.6	1,553.5	93.0	2,103.1	43.9
1969 ^b	4,681.0	2,019.0	86.0	2,576.0	45.0

^a Revised data.

^b Estimate.

SOURCE: Commissioner of Insurance, Ministry of Finance.

linked) of insurers in Israel totalled approximately IL 931 million, as compared with about IL 723 million in 1968 and IL 503 million in 1967.

(b) *Investment of linked funds*

Under existing regulations insurance companies must hold against their liabilities on account of linked life insurance assets with matching terms, with the exception of 7.5 percent, which they may hold in cash, outstanding premiums (as stipulated in the regulations concerning the collection of premiums),¹ and other current assets, in accordance with their balance sheet position.

As to the composition of the assets subject to linkage, insurance companies may grant policyholders loans up to the cash surrender value of their policies without any limitation; of the balance, they may invest up to 20 percent in securities approved by the Commissioner of Insurance and up to 20 percent in linked loans against bank guarantees, while the remainder² must be invested in Government or Government-guaranteed bonds. Because of the relative profitability of this type of investment, the companies actually purchase more bonds than legally required. The agreements signed by the insurance companies with the

¹ Insurance companies are required to appropriate to a special reserve profits in an amount equal to outstanding premiums in excess of the authorized limit. This, of course, reduces the amount of profits available for distribution to shareholders.

² At least 60 percent of total assets subject to linkage, net of outstanding loans granted up to the cash surrender value of the policies.

Israel Electric Corporation and the Government assure the purchase by insurance companies of index-linked bonds, which bear interest of 5.8–6 percent p.a. and have maturities of up to 40 years. Purchases of such bonds by the insurance companies added up to about IL 43 million in 1969, compared with IL 39 million in each of the two preceding years.

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

Income of the companies operating in Israel from life insurance business increased in 1969 by about IL 26 million, as against approximately IL 12 million in 1968 and IL 8 million in 1967, and totalled some IL 120 million.

Premium receipts, the leading income item, were up by some 28 percent, compared with roughly 14 percent in 1968 and 10 percent in 1967, and reached nearly IL 101 million. In addition to premium receipts, the life insurance business account was credited with about IL 19 million in interest income and another IL 6 million in capital gains on fund investments.

Claims paid to policyholders totalled nearly IL 33 million, as against IL 25.3 million in 1968, and amounted to 33 percent of premium receipts.

The net increase in the life insurance fund, plus the increment from the revaluation of investments, amounted to about IL 60 million, as against ap-

Table XVII-6

INCOME AND OUTGO OF LIFE INSURANCE COMPANIES IN ISRAEL, 1966-69

(IL million)

	1966	1967	1968 ^a	1969 ^b
Income				
Premiums	62.2	68.7	78.6	101.0
Interest	10.9	12.8	15.3	19.0
Total	73.1	81.5	93.9	120.0
Outgo				
Benefits to policyholders	17.0	24.0	25.3	33.3
Operating expenses	17.7	17.8	20.7	26.5
Gross profit ^c	3.1	3.1	5.9	6.5
Total	37.8	44.9	51.9	66.3
Balance of income over outgo	35.3	36.6	42.0	53.7
Income from investment of life insurance funds	5.5	7.8	2.6	6.0
Annual accumulation (growth of the life insurance fund)	40.8	44.4	44.6	59.7

^a Revised data.

^b Estimate.

^c Including profits of reinsurers abroad.

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

proximately IL 45 million in 1968 and IL 44 million in 1967. The small difference in net accumulation between 1967 and 1968 does not correctly reflect the 1968 growth of the companies' life insurance business, since the increment from the revaluation of investments was IL 5 million greater in 1967 than in 1968 (see Table XVII-6).

2. GENERAL INSURANCE

The continued growth of economic activity left its mark on general insurance transactions as well. Premium receipts expanded by about IL 70 million, as

Table XVII-7
PREMIUM RECEIPTS FROM GENERAL INSURANCE,^a 1964-69
 (IL million)

	Total	Annual increase	
		IL m.	%
1964	138.8	29.6	27.1
1965	172.4	33.6	24.2
1966	202.7	30.3	17.5
1967	204.8	2.1	1.0
1968 ^b	258.3	53.5	26.1
1969 ^c	328.3	70.0	27.1

^a Including registration fees and marine insurance; excluding reinsurance in Israel and receipts from abroad.

^b Revised data.

^c Estimate.

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

against some IL 54 million in 1968 and IL 2 million in 1967, and reached approximately IL 328 million. Part of the growth in 1969 was not connected with the higher level of economic activity, but with the unprecedented increase in the number of private vehicles¹ and the upward revision of cargo insurance rates.

As in previous years, the growth of general insurance business was much higher among the Israeli companies than among foreign insurers, including Lloyd's agents; this further depressed the share of foreign insurers in total insurance business in Israel.

It also appears that there was a slight drop in the portion of general insurance transactions of Israeli companies reinsured abroad.

¹ Income from motor vehicle insurance accounts for about 40 percent of total general insurance receipts in Israel.

3. BALANCE SHEET DEVELOPMENTS

The combined balance sheet of Israeli companies expanded in 1969 by about IL 120 million, as against approximately IL 104 million in 1968 and IL 71 million in 1967, and totalled nearly IL 685 million. The increase in the life and general insurance funds explains approximately 51 percent of the total growth of liabilities (including stockholders' equity), as contrasted with 48 percent in 1968.

The life insurance fund, which represents the accumulated savings of households through insurance companies, rose by about IL 53 million, as against IL 39 million in 1968, and totalled approximately IL 288 million. The size of this fund is theoretically equal to the present value of all claims which it is estimated will have to be paid to policyholders in the future according to actuarial calculations, less the present value of estimated future premium receipts and

Table XVII-8

ASSETS AND LIABILITIES OF ISRAELI INSURANCE COMPANIES, 1967-69

	IL million			Percent		
	1967	1968 ^a	1969 ^b	1967	1968 ^a	1969 ^b
Assets						
Government or Government-guaranteed bonds	186.5	241.0	} 321.0	40.4	42.6	} 46.9
Other securities	15.8	19.9		3.4	3.5	
Loans on policies	13.6	15.7	17.5	2.9	2.8	2.5
Other loans	32.3	31.9	43.5	7.0	5.6	6.3
Long-term deposits	13.2	24.8	35.0	3.0	4.4	5.1
Real estate and investment in subsidiaries	37.9	41.2	47.0	8.2	7.3	6.9
Outstanding premiums	73.5	84.0	100.0	15.9	14.9	14.6
Sundry debtors	47.0	55.7	} 121.0	10.2	9.9	} 17.7
Cash and demand deposits	41.6	51.1		9.0	9.0	
Total assets	461.4	565.3	685.0	100.0	100.0	100.0
Liabilities						
Paid-up share capital	46.9	50.2	} 103.0	10.2	8.9	} 15.0
Reserves	26.3	37.8		5.7	6.7	
Life insurance fund	195.4	234.7	287.5	42.3	41.5	42.0
General insurance fund	25.7	36.5	45.0	5.6	6.5	6.6
Extraordinary risks fund	15.8	20.9	25.0	3.4	3.7	3.6
Deposits of reinsurers	40.4	52.4	62.0	8.8	9.3	9.1
Pending and approved claims (general and life insurance)	49.3	59.1	72.0	10.7	10.5	10.5
Current liabilities	61.6	73.7	90.5	13.3	12.9	13.2
Total liabilities	461.4	565.3	685.0	100.0	100.0	100.0

^a Revised figures.

^b Estimate (based on preliminary data submitted by part of the Israeli insurance companies).

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

other anticipated income. The general insurance fund—allocations to which are based on the estimated outstanding risk assumed by insurance companies in connection with general insurance business—increased, along with the expansion of general insurance business, by about IL 9 million and totalled approximately IL 45 million.

The strong growth of insurance business in 1969 was also reflected in various other liability items, such as the extraordinary risks fund, deposits of reinsurers, etc. (see Table XII-8). The securities portfolio of the insurance companies (which consists overwhelmingly of Government and Government-guaranteed bonds) expanded by about IL 60 million, as against some IL 59 million in 1968, despite the fact that the life insurance fund grew by nearly IL 14 million more than in the previous year. Together with the big increase in outstanding loans and deposits for loan purposes, this may suggest the existence in 1968 of heavier demand pressure for insurance company credits.

The rapid expansion of insurance business was accompanied by a pronounced growth in outstanding premiums, the second largest asset item. The increase came to about IL 16 million, as against approximately IL 11 million in 1968 and IL 2 million in 1967. Nevertheless, the weight of this item in the balance sheet apparently held steady at about 15 percent.

4. FLOW OF FUNDS¹

Receipts of the insurance sector from real transactions increased by approximately 29 percent, as compared with about 26 percent in 1968 and 4.3 percent in 1967, and totalled nearly IL 525 million. The appreciable growth of the last two years is explained by the much larger volume of general insurance business, which accounts for the bulk of such income. Payments on real account, which consist mostly of claim payments to policyholders, commissions to agents, and transfers to reinsurers abroad, went up by about 35 percent (as against 19 percent in 1968) to stand at approximately IL 486 million.

Receipts from transactions in financial claims (the largest part of which originates in life insurance business) rose from about IL 50 million in 1968 to IL 75 million in 1969, while payments on financial account reached nearly IL 118 million. As in 1968, the weight of credit to businesses and households in these payments continued to rise; in absolute terms, the amount of such credit came to almost IL 40 million, as compared with IL 22.3 million in 1968 and IL 0.5 million in 1967.

¹ The data cited here are estimates based on preliminary information received from a small number of the insurance companies, and most likely they will later be revised.

Table XVII-9
FLOW-OF-FUNDS STATEMENT OF THE INSURANCE SECTOR,^a 1967-69
 (IL million)

Receipts	1967	1968 ^b	1969 ^c	Payments	1967	1968 ^b	1969 ^c
Transfers and real transactions							
Transfers from domestic sectors, mainly premium receipts and registration fees from general insurance in Israel	225.8	285.0	360.0	Transfers to domestic sectors, mainly general insurance claims paid in Israel	95.4	115.6	170.0
Interest and other income in Israel	18.7	19.1	25.0	Commissions on general insurance (mainly to agents)	47.9	59.4	77.0
Transfers from abroad, mainly on account of reinsurance	77.7	103.1	140.0	Current expenses	54.5	62.3	70.0
				Transfers abroad, mainly on account of reinsurance	101.8	121.1	167.0
				Investment in real estate	3.8	1.6	2.0
Total	322.2	407.2	525.0	Total	303.4	360.0	486.0
Financial transactions,^d by sector							
From households	48.5	46.2	70.0	Credit (loans, purchase of securities, and deposits)			
From private business	3.6	6.5	5.0	To the public sector	8.1	40.0	} 58.0
From the rest of the world	—	-2.9	—	To public sector companies	34.3	17.9	
				To banks and financial institutions	21.2	22.2	20.0
				To private business	-0.3	16.1	25.0
				To households and nonprofit institutions	0.8	6.2	15.0
				To the rest of the world	4.0	—	—
Total	52.1	49.8	75.0	Total	68.1	102.4	118.0
Intrasector transactions							
Receipts from other insurance companies on account of reinsurance in Israel	17.2	19.3	37.0	Payments on account of reinsurance in Israel	17.2	19.3	37.0
Errors and omissions, net	-2.8	5.4	4.0				
Total receipts	388.7	481.7	641.0	Total payments	388.7	481.7	641.0

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

^b Revised figures.

^c Estimates based on preliminary data submitted by part of the insurance sector; most likely they will later be revised.

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