

CHAPTER XVI

SOCIAL INSURANCE FUNDS AND INSURANCE COMPANIES

I. SOCIAL INSURANCE FUNDS¹

1. MAIN DEVELOPMENTS

SOCIAL INSURANCE FUND receipts soared 42 percent in 1972, compared with 35 percent the year before, and totalled IL 1,732 million. The faster rise resulted primarily from the accelerated growth of provident scheme contributions—a trend that began in 1971 and carried over through the year reviewed, when for the first time these schemes headed the list of such receipts, with a figure of IL 474 million. Next came pension schemes, with IL 365 million; severance pay schemes—IL 173 million; and social benefit schemes—IL 160 million. In contrast, current income and realized capital gains on the subsector's financial asset portfolio grew more sluggishly than in the previous year and totalled IL 560 million.

Payments on real account also rose more rapidly in 1972, by 38 percent as against 15 percent the year before, but because of the disparity in absolute magnitudes and the lower rate of increase, the subsector enjoyed a much larger accumulation in the year reviewed. Its balance sheet expanded by 28 percent, as against 19 percent in 1971, and reached IL 5,735 million; the addition of IL 1,481 million in linkage differentials brings the figure up to IL 7,216 million.

Household saving through the funds—i.e. the nominal growth of the household sector's assets in the funds during the year—shot up from IL 892 million in 1971 to IL 1,591 million. But the amount of liquidity absorbed through the funds also rose steeply, from IL 619 million in 1971 to IL 1,185 million. This was equivalent to 5.1 percent of gross disposable private income from domestic sources (less compulsory loans), compared with 3.4 percent in 1971.

Pension scheme contributions, changes in which depend primarily on wage and employment developments in branches providing such coverage and to only a slight degree on changes in the propensity to save and in the demand for financial assets, grew relatively little. In contrast, contributions to the provident

¹ In this chapter the term "fund" designates the legal entity which accumulates employee and employer contributions in one or more different types of schemes or plans, such as provident, pension, severance pay, etc. In the case of the bank-administered funds, since they each operate a single scheme, the two terms are sometimes used interchangeably.

schemes soared 73 percent, about the same as in the previous year, and totalled IL 474 million. This conspicuous upswing, which has been concentrated in the bank-administered funds, is explained by a number of factors: (1) the stronger demand for financial assets in general and those linked to the cost-of-living index in particular, which has contributed to the recent increase in voluntary saving; (2) the fact that membership in the bank-administered funds is open to the general public, whereas the company funds have a limited potential membership; (3) the growing tendency to partially capitalize the noncontributory pensions and to transfer to bank-administered funds; (4) the tendency of the self-employed to step up their contributions to the increased ceiling recognized for income tax purposes; (5) the growing practice of employees covered by the noncontributory pension plans to take advantage of their credits and deductions; and (6) the payment of part of the wage and salary increments in the form of higher provident scheme contributions.

As a result of these developments, the weight of the bank-run provident funds rose from 8.9 percent of the subsector's total assets at the end of 1969 to 17.3 percent at the end of 1972. It is obvious, therefore, that voluntary saving through the provident funds is assuming increasing importance, enlarging the individual's array of investment outlets in high-yield, low-liquidity assets. The net yield averages 10 percent or more, plus linkage differentials, but the investment is usually blocked for a period of ten years from the time contributions start.

Severance pay schemes also experienced a more vigorous expansion in 1972, due to the wage and salary increases and in particular the growth of business profits, which enabled employers to step up their contributions to this risk insurance-business saving scheme. Social benefit schemes also expanded more rapidly in the year reviewed. While contributions here are essentially transfer payments, because of the difficulties encountered in tracking down employees and the fact that some waive their rights, not all of the sums collected are paid to employees, and the funds' assets are accordingly augmented.

Pension payments grew to about the same extent as in 1971, although the wage and salary hikes awarded this year and the "aging" of the fund membership should have resulted in a bigger increase. The reason for this development is that many workers eligible for retirement continued working.

Provident payments soared 87 percent, as against 17 percent the year before, owing to the "aging" of the bank-administered fund membership and the resulting increase in the number of members eligible to withdraw their money, as well as the shift from company to bank-administered funds. Severance and social benefit payments were virtually the same as in 1972.

Examination of the subsector's resource uses shows an increase in the weight of security investment in the balance sheet. This was due partly to the continued adjustment of the portfolio in compliance with the 1970 regulation raising the proportion of recognized investments, but even more to the growing share of the bank-administered funds in the subsector's balance sheet; the latter develop-

ment is explained by the fact that these funds utilize only a small percentage of their resources for providing loans to members, while the bulk is placed in securities (though not necessarily recognized investments).

Purchases of newly issued bonds totalled IL 1,270 million, compared with IL 870 million in 1971; the funds' securities portfolio expanded by IL 1,160 million (net), as against IL 590 million in 1971. There was apparently a larger investment in the year reviewed in shares and convertible bonds, but this item accounted for only a tiny fraction of total assets.

2. RECEIPTS AND PAYMENTS²

(a) *Receipts*³

Social insurance fund receipts on real account derive from two main sources: (1) employer, employee, and other contributions; and (2) current income from investments (dividends and interest) and realized capital gains (mostly linkage differentials on principal and interest).

Employer and employee contributions are made to four types of schemes: pension, provident, severance pay, and social benefit and mutual insurance. From the aspect of the volume of contributions, their ranking (listed above) remained unchanged until 1972. But after several years of rapid growth, provident schemes overtook the pension schemes in 1972, their receipts from this source totalling respectively IL 474 million (a rise of 73 percent from 1971) and IL 365 million (up 18 percent). Severance pay and social benefit schemes maintained their relative positions, with IL 173 million and IL 160 million respectively, following an accelerated expansion (47.9 and 52.4 percent respectively, compared with 23.2 and 43.8 percent in 1971—see Table XVI-1). Since pension scheme coverage is provided for in collective labor agreements, changes in the volume of contributions are by and large a function of changes in the firms' total wage bill and number of employees, and only to a minor degree reflect changes in the propensity to save or in the relative profitability of this type of saving.⁴ Since employees' earnings went up by an average of 15-17 percent (as in 1971), and since the labor force expanded only very slightly, contributions to the pension schemes could not be expected to go up by more than the 18 percent actually posted. It is interesting to note that an additional source of contributions appeared in 1972: in one of the company funds an actuarial deficit turned into a cash deficit, and consequently the firm had to step up its contributions over and above its current commitments in order to finance payments to pensioners.

² For a description of the structure of the social insurance funds and their investments, see Bank of Israel, *Annual Report 1971*, pp. 377-79.

³ On the nature of the receipts and payments data, see note ^a to Table XVI-1.

⁴ Assuming the constancy of the contribution rates for employers and employees—an assumption that has held in recent years.

Table XVI-1
FLOW-OF-FUNDS STATEMENT OF SOCIAL INSURANCE FUNDS,^a 1970-72
 (IL million)

Receipts	1970	1971 ^b	1972 ^c	Percent annual increase		Payments	1970	1971 ^b	1972 ^c	Percent annual increase	
				1971	1972					1971	1972
Contributions to funds	620	806	1,172	30.0	45.4						
						Nonfinancial transactions					
Pension	294	310	365	5.4	17.7	Social insurance benefits	292	351	485	20.2	38.2
Provident	158	274	474	73.4	73.0	Pension	141	172	221	22.0	28.5
Severance pay	95	117	173	23.2	47.9	Provident	47	55	103	17.0	87.3
Social benefits	73	105	160	43.8	52.4	Severance pay	47	54	63	14.9	16.7
Current income (interest, dividends, linkage increments, etc.)	227	311	386	37.0	24.1	Social benefits	57	70	98	22.8	40.0
						Mutual insurance benefit payments	11	10	11	—	—
Realized capital gains (incl. realized linkage increments)	51	84	156	64.7	85.7	Current expenditure	33	40	51	—	—
Other income	4	17	18	—	—	Expenditure on capital account	10	-4	2	—	—
Total receipts on real account	902	1,218	1,732	35.0	42.2	Total payments on real account	346	397	549	14.7	38.3
						Financial transactions					
						Net purchases of bonds and other securities	590	1,160			
						Loans to members	59	67			
						Employer debt	16	8			
						Deposits in banks	3	7			
						Other transactions	14	8			
						Total	682	1,250			
						Errors and omissions	139	-67			
						Total payments	1,218	1,732			

^a The figures in this table represent combined and not consolidated financial statement data; that is, they include intrasector transactions. The volume of such transactions, however, is not great, and as the statistical reporting is improved, this double-counting of transactions on real account will be eliminated. In order to reconcile the data in this table with those in the economy's flow-of-funds set of accounts (see Chapter XIV), the transactions of Bitzur Ltd., Gmul Ltd., and Te'udah Ltd. have to be added to the accounts here.

^b Revised data.

^c Sample data; with the release of final data some of the figures here may have to be revised.

As mentioned above, in 1972 provident scheme contributions rose 73 percent to IL 474 million, propelling this type of scheme into first place from the standpoint of such receipts. The marked expansion of these schemes (which accumulate savings, unlike the pension plans, which provide pensions to employees upon retirement) stemmed primarily from the strong growth of the schemes administered by commercial banks, while the company plans did not show any unusual growth. The formidable expansion of the bank schemes is attributable to several factors, to be discussed in the next section. Suffice it to mention at this point that what characterizes these schemes is their large potential membership compared with the more or less fixed membership of company pension and provident plans, and the fact that changes in the amount of contributions are connected with changes in the propensity to save, national saving, and the relative yields on alternative financial investments.

Contributions to severance pay schemes were, at IL 173 million, up 48 percent, as opposed to 23 percent in 1971. These schemes fall into two categories: those in which the employer is insured, he and not the employee making contributions and withdrawals according to his needs (this is a good savings instrument); and those set up within a pension fund in which the employee is insured (here the employer's contributions and their rates reveal much greater regularity). It was the growth of employment, wages and salaries, and especially profits that resulted in the increased contributions this year.

Contributions to social benefit schemes went up 52.4 percent, compared with 44 percent the year before, and totalled IL 160 million. The accelerated rise was apparently connected with the increase in employers' commitments in such sectors as agriculture and industry; this is borne out by the sharply higher volume of fringe benefit payments made by the schemes (see below).

The other component of social insurance fund receipts—current income and realized capital gains—rose 36 percent, compared with 46 percent in 1971, and reached IL 560 million. The decline in the growth rate was the net result of a faster rise in realized capital gains (mainly linkage differentials)—86 vs. 65 percent—and a more sluggish rise in current income—24 as against 37 percent. This development is attributable to the aggravation of inflation in recent years and to a certain time-lag (due to the nature of the bonds held by the funds) between the sharpening of inflation and the acceleration of realized linkage differentials.

(b) *Payments*

Payments to social insurance fund members fall into four categories: pensions to employees who have retired (or to their survivors); payments to members withdrawing from the funds (in the bank-administered schemes to those who have been members for the minimum period entitling them to withdraw their accumulated savings); severance pay to employees who have been discharged

or withdrawals by employers upon completion of the minimum required period; and social benefits.

Pension payments totalled IL 221 million—up 28.5 percent, compared with 22 percent in 1971. No precise data are available on the number of pensioners or members leaving their jobs, but according to general information on the “aging” of fund membership and the increase in employee earnings, this growth rate seems rather low. This is attributable to the growing tendency for those who are eligible to retire to continue working because of the full employment situation and the drastic cut in their standard of living upon retirement,⁵ as well as the adjustment problem entailed by retirement. It should be noted in this context that the combined National Insurance Institute and pension payments—i.e. the arrangement whereby a certain sum was deducted from the payments to those also receiving a pension from the National Insurance Institute—was abolished in 1972, and this brought up pension payments by IL 12 million. In addition, the year reviewed saw the institution of the arrangement providing for the continuity of membership rights in the various Histadrut-affiliated pension funds; this depressed the percentage increase in pension payments due to the transfer of members changing their place of employment.

Provident scheme payments shot up 87 percent, as contrasted with a mere 17 percent the year before, and totalled IL 103 million. There were two reasons for this striking increase: (1) the transfer of groups of workers and their accumulated savings from company to bank-administered funds (this affected the volume of both receipts and payments); and (2) with the “aging” of the bank-administered funds more persons have reached the minimum period of membership entitling them to withdraw their accumulated savings.

Severance payments totalled IL 63 million—up 17 percent, as against 15 percent the year before. This was consistent with the prevailing full employment situation and high profits, which resulted in the discharge of comparatively few workers and precluded the need for employers to make premature withdrawals from the severance pay funds.

Social benefit payments rose 40 percent, compared with 23 percent in 1971. The acceleration is explained by the larger volume of contributions, even though there was still a big gap between receipts and payments (despite the fact that this is merely a transfer account—see below).

Total payments to members—pension, provident, and severance pay—were equivalent, as in 1971, to about 69 percent of total profits and realized capital gains, signifying that the social insurance funds are still at the stage where

⁵ There are two reasons for the worsened economic situation of pensioners. First is the relatively short period of membership of some of the retiring members, which does not entitle them to high pension rates. The second lies in Israel's wage structure: since a considerable part of the wage or salary is paid in the form of nontaxable allowances and other benefits, the retiring employee suffers a greater cut in his effective income than appears from his pension payment.

they are accumulating all employer and employee contributions while making payments to members from current income and capital gains. But this has no significance whatsoever as far as the actuarial position of the funds is concerned, nor does it show the extent to which the funds have consolidated their position; it merely indicates the present volume of savings and accumulation through the funds and the stage which the subsector has reached in its development. Nevertheless the very heterogeneous structure of the subsector, especially the distinction between the pension schemes on the one hand and the provident schemes on the other, must be borne in mind.

(c) *Household saving through the funds*

Household saving through the social insurance funds may be defined as the total accumulation of the funds, plus the increase in unrealized revaluation increments less the accumulation in the severance pay funds (which represents employers' savings) and the growth of outstanding loans to households.⁶ Calculated on this basis, household saving in 1972 amounted to IL 1,591 million, as against IL 892 million in 1971 and IL 669 million in 1969 (see Table XVI-2). The increase is attributable to the continued expansion of the social insurance funds, which, as described above, stemmed partly from exogenous factors independent of the current behavioral pattern of households, and partly (especially in the funds operated by commercial banks) from the growing popularity of this savings instrument, which in 1972 was associated with the mounting demand for financial assets.

Table XVI-2
HOUSEHOLD SAVING THROUGH SOCIAL INSURANCE FUNDS, 1970-72
(IL million)

	1970	1971 ^a	1972 ^b
1. Total accumulation	533	717	1,253
2. Increase in unrealized revaluation increments	233	356	522
3. Total accumulation after revaluation (1+2)	766	1,073	1,775
4. Less: Accumulation in severance pay funds	63	122	189
5. Total accumulation of households (3-4)	703	951	1,586
6. Less: Increase in loans to households ^c	34	59	67
7. Household saving through social insurance funds	669	892	1,519

^a Revised data.

^b The data are based on a sample and are liable to change.

^c Consists only of loans granted from social insurance fund resources; that is, it excludes the ordinary bank credit which the funds administered by commercial banks sometimes grant to members.

SOURCE: Based on Central Bureau of Statistics data.

⁶ This refers to ordinary credit extended from the funds' resources (see note ^c to Table XVI-2).

The above definition reflects the nominal increase in net household assets in the fund during the year reviewed. To estimate the amount of liquidity absorbed by the funds from households and employers, the year's increase in outstanding loans to households and the change in interest and linkage differentials due have to be deducted from the total accumulation. In 1972 absorption amounted to IL 1,185 million, compared with IL 619 million in 1971 and IL 478 million in 1970. The ratio between this magnitude and gross nominal disposable income from domestic sources at current prices (less compulsory loans) went up from 3.2 percent in 1970 and 3.4 percent in 1971 to 5.1 percent in 1972, testifying to an increase in the subsector's contribution to the absorption of purchasing power in the year reviewed.⁷

3. BALANCE SHEET DEVELOPMENTS

The combined balance sheet of the social insurance funds rose by 28 percent to IL 5,735 million; the addition of IL 1,481 million of unrealized revaluation increments brings the figure up to IL 7,216 million. This represents the accumulated saving of households and employers through the funds (see Table XVI-4), and it consists of the excess of payments over receipts, plus interest and linkage differentials accumulated over the years.

(a) *Assets by type of fund*

An analysis of asset growth by type of fund reveals that the principal feature is the growing importance of the bank-administered pension and provident schemes. After expanding faster than the subsector average during the past three years (see Table XVI-3), their share in total social insurance assets rose from 15.8 percent in 1969 to 26 percent in the year reviewed. The most impressive gain was recorded by the provident schemes (250 percent during this three-year period); the growth of the central pension funds was more modest (about 125 percent), but more rapid than that of the other pension or provident funds.

There are several factors behind this development: (1) the potential membership of the bank-administered schemes is much greater than that of the company pension and provident schemes where, under the relevant collective labor agreements, membership is generally automatic upon employment in the company; hence the mounting demand for this type of asset (which augmented the demand for financial assets in general and value-linked assets in particular) has naturally been channelled to these schemes; (2) bank-administered schemes attract the funds obtained from the partial capitalization of pensions (especially under the noncontributory schemes), while this source is not available to the

⁷ This, of course, does not refer to the utilization of the accumulated funds, or whether they were partly or wholly pumped back into the economy.

Table XVI-3

GROWTH OF SOCIAL INSURANCE FUND ASSETS, BY TYPE OF FUND, 1969-72
(IL million)

	1969	1970	1971 ^a	1972 ^b	Percent annual increase		
					1970	1971	1972
Pension funds	2,227	2,596	2,946	3,482	16.6	13.5	18.2
Funds administered by banks and insurance companies	510	666	934	1,496	30.6	40.2	60.2
Central severance pay funds	225	287	371	506	27.6	29.3	36.4
Provident funds	285	379	563	990	33.0	48.5	75.8
Other funds	495	503	602	757	1.6	19.7	25.7
Total assets	3,232	3,765	4,482	5,735	16.5	19.0	28.0
Total assets after revaluation	3,602	4,368	5,441	7,216	21.3	24.6	32.6

^a Revised data.

^b The data are based on a sample and are liable to change.

SOURCE: Central Bureau of Statistics.

company schemes;⁸ (3) bank-administered schemes serve the self-employed, and after the raising of the maximum tax deduction and credit allowed by the income tax authorities in recent years,⁹ they have stepped up their savings; (4) the demand of employees covered by noncontributory pension plans (mostly civil servants and local authority personnel) for such financial assets as provident fund rights in order to take advantage of the tax concessions allowed them by law has naturally been diverted to the bank-administered funds, where membership is open to the general public, rather than to company funds; (5) company funds have been merging with bank-administered funds so as to benefit from administrative economies of scale; and (6) since the pension and company funds are older than the bank-administered funds, their accumulation is slower than that of the latter funds, which are at the stage where they accumulate nearly all their receipts. It should be noted in this connection that the bank-administered funds have enlarged the gamut of financial instruments available to the individual saver (who has not yet taken full advantage of the concessions allowed under the income tax regulations), by offering him a high-yield, relatively illiquid asset compared with bonds or other close alternatives: provident fund savings net the individual an average of about 10 percent a year, plus linkage differentials, but the investment has a low liquidity, since

⁸ Partial capitalization of pensions (usually one-quarter of the total) is quite common where permitted by the regulations, because of certain advantages with respect to income tax, liquidity, inheritance, etc.

⁹ See Bank of Israel, *Annual Report 1971*, p. 380.

the savings cannot be withdrawn until at least ten years after the opening of the account.¹⁰

In contrast to the dynamic growth of the bank-administered funds, the company funds have perforce developed more sluggishly, since this depends exclusively on changes in the number of employees in the company and in their earnings; they have no other way to boost membership or contribution rates, which are fixed and hence are not influenced by the propensity to save or by the relative rate of return on such saving. It should also be pointed out that the actuarial imbalance of the pension funds retards accumulation, while in bank-administered funds such a problem cannot arise since they do not provide pension coverage.

(b) *The combined balance sheet*

1. *Assets*

The relative shares of the various social insurance fund assets are determined by Treasury regulations, and funds wishing to enjoy income tax concessions and exemptions must adhere to them. Hence the dominant weight of securities in total assets—82.8 percent in 1972, compared with 80.1 percent the year before. The growing weight of this item is apparently due to the continuing process of portfolio adjustment in conformity with the requirement to hold up to 85 percent, in place of 80 percent, of the funds' total assets in recognized investments,¹¹ and also because of the rising share of bank-administered schemes in the subsector's total assets. The share of loans to members was down a fraction, from 8.6 to 7.9 percent, although this item grew at the same rate as in 1971. The rise in the proportion of securities and the decline in that of members' loans were apparently connected with the increasing importance of the bank-administered schemes: they do not extend loans to members,¹² but as opposed to this, they hold a larger percentage of securities than required, though not always in recognized investments—they place their 15 percent free resources in financial investments that promise a larger return than loans to members or recognized investments.

Employer debt edged down from 2 percent in 1971 to 1.7 percent, despite the high interest rates prevailing in the economy this year, which constituted an inducement to employers to utilize this source of funds. But since this liability is larger in the pension and company schemes than in bank-administered funds,

¹⁰ Yield and liquidity calculations are different for those transferring their capitalized pensions to this type of scheme.

¹¹ The amount of assets which the subsector is required to invest is slightly less than its total assets, the difference mainly reflecting the exclusion of the social benefit schemes and loans to members.

¹² The reference is to loans granted directly by the funds. The banks administering the schemes sometimes extend loans at a low interest rate to fund members.

Table XVI-4

COMBINED BALANCE SHEET OF SOCIAL INSURANCE FUNDS, 1970-72

(IL million)

	1970	1971 ^a	1972 ^b	Increase or decrease (-)		Percentage distribution		
				1971	1972	1970	1971	1972
Assets^c								
Securities	3,003	3,593	4,753	590	1,160	79.8	80.1	82.8
Loans to members	328	387	454	59	67	8.7	8.6	7.9
Employer debt	73	89	97	16	8	1.9	2.0	1.7
Deposits	113	106	109	-7	3	3.0	2.4	1.9
Loans to others	18	24	28	6	4	0.5	0.5	0.5
Real estate	87	83	85	-4	2	2.3	1.9	1.5
Accrued interest and linkage increments receivable	95	134	135	39	1	2.5	3.0	2.4
Demand deposits and cash	15	25	29	10	4	0.4	0.6	0.5
Other assets and contingent accounts	33	41	45	8	4	0.9	0.9	0.8
Total	3,765	4,482	5,735	717	1,253	100.0	100.0	100.0
Liabilities^c								
Pension reserve	2,074	2,135	2,505	61	370	55.0	47.6	43.7
Provident reserve	895	1,314	1,912	419	598	23.8	29.3	33.3
Severance pay reserve	454	625	797	171	172	12.1	13.9	13.9
Social benefit and mutual insurance reserves	127	144	180	17	36	3.4	3.3	3.1
Member contributions and general reserve	21	24	30	3	6	0.6	0.5	0.5
Auxiliary reserve and undistributed profits	118	184	244	66	60	3.1	4.1	4.3
Deposits earmarked for loans, sundry creditors, and contingent accounts	76	56	67	-20	11	2.0	1.3	1.2
Total	3,765	4,482	5,735	717	1,253	100.0	100.0	100.0

^a Revised data.^b The data are based on a sample and are liable to change.^c Excluding revaluation increments of IL 603 million in 1970, IL 959 million in 1971, and IL 1,481 million in 1972.

SOURCE: Central Bureau of Statistics.

it was the increased weight of the bank-administered funds that depressed the share of this item.¹³

2. *Liabilities*

The subsector's liabilities consist predominantly of three reserves—pension, provident, and severance pay—and to a lesser extent the social benefit reserve, auxiliary reserve, and undistributed profits. The relative shares of these items are largely determined by developments in receipts and payments, surveyed in section 2. The influence of the rapid expansion of bank-administered schemes on the composition of the liabilities has already been noted—the increase in the weight of the provident reserve (from 23.8 percent in 1970 to 33.3 percent in 1972) and the sharp decline in that of the pension reserve (from 55 to 43.7 percent). Another noteworthy development is the year-to-year growth of the social benefit and mutual insurance reserves: even though the funds in effect merely act as agents for the transfer of contributions and the payment of part of the social benefits, since part of the sums collected is not paid out to employees for various reasons (chiefly because of difficulties in tracking them down or because they have waived their rights), the funds' assets are augmented accordingly, bringing up the level of accumulation and saving. In 1972 these reserves expanded by 25 percent to reach IL 180 million.

4. FINANCIAL TRANSACTIONS

Because of the Treasury regulations which require them to place most of their assets in recognized investments and the consequent large size of their securities portfolio, which results in the reinvestment of the proceeds of securities reaching maturity, the social insurance funds have become the principal customer for new domestic issues.¹⁴ In 1972 they purchased original issues to the tune of IL 1,270 million, compared with only IL 870 million in 1971. These consisted overwhelmingly of index-linked securities maturing in 17 to 20 years and bearing 6–6.5 percent interest, with only a small fraction being option-type paper. The net increase in the securities portfolio—i.e. less redemptions and reinvestments—reached IL 1,160 million, as contrasted with IL 590 million in 1971.¹⁵

The increase in gross purchases of securities and in net holdings was made possible thanks to the faster accumulation in the year reviewed and the rise in the proportion of portfolio investment at the expense of other assets.

¹³ The weight of employer debt reached 2.1 percent in the Histadrut-affiliated pension funds and 9.3 percent in the other pension funds.

¹⁴ Since hardly any of these bonds are listed on the Stock Exchange, the social insurance funds account for only a small percentage of total trade on the Exchange.

¹⁵ Social insurance funds can also buy securities in the secondary market; consequently, the difference between gross purchases and the net growth of the securities portfolio need not necessarily reflect redemptions of the funds' holdings.

The funds continued to place most of their bond investments in financial institution issues¹⁶ and only a small fraction in Government issues. But without going into the question of the Government's control of Israel's capital market in general,¹⁷ no conclusions should be drawn from this fact regarding the extent to which the Government controls the funds raised by the subsector.

Although no precise data are available, it is reasonable to assume that the stock market boom in 1972 prompted some of the social insurance funds to step up their purchases of equities and convertible bonds; however, the weight of these items in total investment remained very slight because of the legal restrictions on equity investment and the funds' unhappy experience with such transactions in the past compared with index-linked bonds. Despite some decline in yields in the index-linked bond market due to the livelier demand for this type of paper, this development bypassed the social insurance funds. But it should not be concluded that this led to a stronger demand for social insurance fund rights, since these are fairly long-term investments and relative changes in yields in a particular year do not greatly affect the purchase of financial assets.

In addition to their securities transactions, in 1972 the funds lent IL 67 million (net) to members and IL 8 million to employers (the debt arising from arrears in contributions), and increased their bank deposits and other transactions by IL 15 million.

II. INSURANCE COMPANIES¹⁸

The rapid growth in all classes of insurance business carried over through 1972, with premium receipts¹⁹ rising from IL 654 million to IL 865 million, of which IL 213 million was on life and IL 652 million on general insurance policies.

This strong upswing is explained by the vigorous expansion of economic activity during the past three years, which brought up the level of private income, saving, and prices. Growth was even stronger in 1972 than in the two preceding years, owing partly to the time-lag between the acceleration of economic activity and the adjustment of insurance portfolios and premium rates.

There was a steep rise in the value of life insurance in force, especially index-linked. Premiums soared 33 percent, as against 28 percent in 1971 and 22

¹⁶ On this point see Chapter XV, "Financial Institutions", and Chapter XVII, "The Securities Market".

¹⁷ Including Gmul, Bitzur, and Te'udah, which do not constitute part of the financial institutions sector as defined in Chapter XV—the funds mobilized by these three institutions are either deposited with the Treasury or used to finance the various sectors of the economy through deposits with commercial banks for the purpose of granting loans.

¹⁸ Israeli insurance companies, branches of foreign firms, and Lloyd's agents operating in Israel.

¹⁹ Less reinsurance in Israel.

percent in 1970. In line with the growth of premium receipts, the life insurance reserve was increased by some IL 35 million to IL 166 million. The share of Israeli firms continued upward, and self-retention²⁰ remained high, a trend characteristic of the past few years.

General insurance business developed similarly, with premiums rising 32 percent, as against 27 percent in 1971 and 19 percent in 1970. The weight of foreign insurers dropped further, while self-retention continued upward.

The combined balance sheet of Israeli insurance companies rose by IL 378 million, compared with IL 278 million in 1971. The life insurance reserve, which represents the accumulated saving of households through the insurance companies, accounted for 40 percent of the incremental liabilities, while Government-guaranteed bonds accounted for 47 percent of the asset growth. On the liabilities side, reinsurers' deposits declined sharply, a development connected with the increased self-retention. Among the assets, outstanding loans and deposits were up strongly, apparently signifying a heavier demand for insurance company credit.

1. LIFE INSURANCE

(a) *Main developments*

The life insurance portfolio²¹ of Israeli companies expanded enormously in 1972—by IL 3,700 million, as against IL 1,700 million in 1971 and IL 1,000 million in 1970. This can be attributed chiefly to the intensification of economic activity, which resulted *inter alia* in an accelerated growth of private income and saving and a rapid rise in prices. Another factor was the reduction of premium rates and the introduction by a number of firms of new insurance schemes, some of which actually constituted a means of lowering rates.²²

Unlinked insurance, which has a very low saving element, advanced 33 percent, compared with 19 percent in 1971. This development was connected primarily with the increase in group insurance and in the average amount of coverage per insured as a result of price and wage rises.

Insurance linked to the consumer price index—where the saving element is higher—was up by a very respectable 68 percent, compared with 44 percent in 1971. After deducting linkage increments due to the rise in the index, the expansion of the portfolio came to 49 percent. This indicates that part of the incremental private saving in the year reviewed was in the form of insurance,²³ and supports the hypothesis that at a time of inflation the public prefers linked to unlinked insurance.

²⁰ Less transactions reinsured abroad.

²¹ Including severance pay but excluding pension insurance.

²² The reduction of premium rates during the year was made possible *inter alia* by the raising of the interest rate on Government value-linked bonds sold to insurance companies.

²³ And this at a time when alternative investments offered a better rate of return.

The value of dollar-linked insurance in force declined to IL 92 million during the year. If the increments arising from the devaluations of the Israeli pound are deducted, the dollar-linked life portfolio has been shrinking from year to year, as such policies have not been issued since 1962 and meanwhile many have either matured or lapsed or have been surrendered.

The share of index-linked policies in total life insurance rose in 1972 to 57 percent, compared with 47 percent in 1971 and 46 percent in 1970.

Table XVI-5
LIFE INSURANCE IN FORCE,^a 1962-72

(IL million)

	Total amount at end of year	Linked insurance		Unlinked insurance	Share 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	1,225.5	99.0	1,672.4	44.7
1968	3,749.6	1,553.5	93.0	2,103.1	43.9
1969	4,758.0	1,979.6	90.7	2,569.8	44.6
1970	5,772.0	2,591.2	83.3	3,097.5	46.3
1971 ^b	7,492.7	3,719.7	94.1	3,678.9	50.9
1972 ^c	11,202.4	6,235.6	92.2	4,874.6	56.5

^a Excluding pension and retirement plans.

^b Revised data.

^c Estimate.

SOURCE: Commissioner of Insurance, Ministry of Finance.

(b) *Investment of linked and unlinked funds*

Under existing regulations insurance companies must hold assets with matching terms against their liabilities on account of linked life insurance, with the following exceptions: (1) 5 percent which may be held in cash; (2) outstanding premiums; and (3) other current assets, in accordance with the balance sheet position.

As to the composition of assets subject to linkage, insurance companies may grant policyholders loans up to the cash surrender value of the policies without 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. The remainder must be invested in Government or

Government-guaranteed bonds. Because of the profitability of this type of investment, the companies actually purchase more bonds than legally required. The agreements signed with the Israel Electric Corporation and the Accountant General assure the purchase by insurance companies of index-linked long-term bonds with maturities of up to 40 years.²⁴

The regulations governing the investment of unlinked insurance give the companies a freer hand than in the case of linked insurance: the firms may invest 10 percent of their assets in shares (such investment is prohibited in the case of linked insurance); 35 percent (instead of the 20 percent for linked insurance) in securities approved by the Commissioner of Insurance; 50 percent (instead of 20 percent) in loans and bank deposits; up to 20 percent in immovable assets and in subsidiaries; and 7.5 percent (instead of 5 percent) in cash.

Under the linked insurance regulations, the insurance companies deposited IL 54 million with the Bank of Israel in 1972, compared with IL 27 million in 1971, and purchased IL 62 million worth of Electric Corporation bonds, as against IL 42 million the year before.

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

Income of insurance companies operating in Israel from life insurance business advanced 33 percent in 1972, as against 28 percent in 1970, and totalled IL213 million. The accelerated growth during the past two years may be largely ascribed to the appreciable increase in private income and to the rise in the consumer price index (to which premiums on index-linked policies are pegged).²⁵ In addition to the premiums, the life insurance business account was credited with IL 42 million in interest income and IL 48 million in capital gains on investments.

Claims paid to policyholders went up by IL 22 million to IL 69 million; this amounted to 27 percent of total receipts, and compares with 25 percent in 1971.²⁶ Current expenses in the life insurance branch rose proportionately to the growth of receipts and amounted to IL 60 million.

Net accumulation in the life insurance branch, including the appreciation of investments, rose 26 percent to IL 166 million, compared with IL 133 million in 1971 and IL 75 million in 1970.

The share of Israeli firms in life insurance business continued upward in

²⁴ The rate of interest paid on deposits with the Bank of Israel was raised in 1972 from 5.8 to 6.2 percent.

²⁵ The rate of premium linkage is adjusted twice a year for changes in the consumer price index—in February and July. The increase in the rate during the past two years was calculated on the basis of the rate prevailing in July 1970, when the rapid price rise began.

²⁶ In contrast to other countries, the ratio of claim payments to total receipts is low in Israel, owing to the comparatively young age structure of the population and the notable expansion of life insurance business.

Table XVI-6

**INCOME, OUTGO, AND ACCUMULATION OF LIFE INSURANCE COMPANIES
IN ISRAEL,^a 1968-72**

(IL million)

	1968	1969	1970	1971 ^b	1972 ^c
Income					
Premiums	78.3	102.2	124.3	159.4	212.6
Interest	15.3	18.6	23.3	32.0	42.0
Total	93.6	120.8	147.6	191.0	254.6
Outgo					
Benefits to policyholders	25.3	33.6	41.2	47.5	69.2
Operating expenses	20.7	26.3	33.9	44.8	60.0
Gross profit ^d	5.9	5.8	6.5	10.4	6.9
Total	51.9	65.7	81.6	102.7	136.1
Surplus of income over outgo	41.7	55.1	66.0	88.3	118.5
Income from investment of life insurance funds	2.6	6.6	9.3	43.3	47.8
Annual accumulation (growth of the life insurance reserve)	44.3	61.7	75.3	131.6	166.3

^a Israeli and foreign insurance companies operating in Israel; before deducting reinsurance abroad.

^b Revised data.

^c Estimate.

^d Including profits of reinsurers abroad.

SOURCE: Central Bureau of Statistics.

1972, reaching 95.5 percent of total premium receipts. Self-retention amounted to 92 percent, as in the past several years.

2. GENERAL INSURANCE

General insurance business continued to expand appreciably, especially in the motor vehicle branch. General premium receipts were, at IL 652 million, up 32 percent, compared with 27 percent in 1971.

The stronger growth of this class of insurance was due to a number of factors, the most significant being the buoyant economy, inflation, and the upward revision of motor vehicle premium rates. Since these factors usually make their effect felt after a certain time-lag, it follows that the acceleration in general insurance business in 1972 was connected with economic developments in the preceding year.²⁷

²⁷ Annual insurance contracts are usually adjusted for the appreciation of the insured assets and the revision of premium rates only upon renewal. The economic developments in 1971 were therefore reflected in the contracts only when they were renewed in 1972.

The rising trend in the share of Israeli companies carried over through 1972, when they accounted for 85 percent of total premium receipts. The proportion of transactions reinsured abroad declined from 43 to 40 percent, testifying to a further strengthening of the position of domestic firms in general insurance business.

The year reviewed witnessed an unprecedented advance in motor vehicle insurance, premium receipts rising 50 percent compared with 36 percent in 1971, to reach IL 251 million. This brought up their share in total general insurance premiums from 34 percent in 1971 to 38.5 percent. This gain is partly explained by the larger number of private cars on the roads and the upward revision of premium rates in the past two years.

Table XVI-7
PREMIUMS RECEIPTS FROM GENERAL AND MOTOR VEHICLE
INSURANCE, 1968-72^a

(IL million)

	1968	1969	1970	1971 ^b	1972 ^c
Total general premium receipts	258.3	329.1	390.3	495.4	651.9
Thereof: Motor vehicle insurance	82.1	103.0	123.4	168.0	250.9
Motor vehicle premiums as a percent of total general premiums	31.8	31.3	31.6	33.9	38.5
Annual increase in premium receipts					
Total general insurance					
Amount (IL million)	53.5	70.8	61.2	105.2	156.4
Percent	26.1	27.4	18.6	26.9	31.6
Motor vehicle insurance					
Amount (IL million)	17.9	20.9	20.4	44.6	82.9
Percent	27.9	25.5	19.8	36.1	49.3

^a Israeli and foreign companies and Lloyd's agents; includes registration fees and marine insurance; excludes reinsurance in Israel and receipts from abroad.

^b Revised data.

^c Estimate.

SOURCE: Central Bureau of Statistics.

The share of Israeli firms in motor vehicle insurance declined from 90 percent in 1971 to 86 percent, reversing the upward trend of the past few years. This was apparently connected with the limitations imposed by some of the local insurers²⁸ and with the entry of new foreign firms in this market in the year reviewed.

Self-retention of Israeli companies in this branch continued to increase, from

²⁸ Because of the relatively low profitability of motor vehicle insurance, some Israeli firms offered motor car insurance policies linked to life or other types of insurance.

77 percent in 1971 to 81 percent. This was mainly due to a change in the method of reinsurance.²⁹

3. BALANCE SHEET GROWTH OF ISRAELI COMPANIES

The combined balance sheet of Israeli insurance companies expanded in 1972 by IL 378 million, compared with IL 248 million in 1971 and IL 148 in 1970, and totalled IL 1,485 million.

The weight of the securities portfolio in incremental assets went up from 45 percent in 1971 to 47 percent, while that of the insurance reserves (life and general) in incremental liabilities declined from 57 to 55 percent.

The life insurance reserve, which is determined according to actuarial calculations and represents the accumulated saving of households through the insurance companies, grew by IL 157 million,³⁰ compared with IL 102 million in 1971; its weight in total liabilities stood at 41 percent, the same as in the four preceding years.

The general insurance reserve, allocations to which are based on the estimated outstanding insurance risk assumed by insurance companies in connection with such business, went up by IL 51 million, as against IL 40 million in 1971. This brought up its share in total liabilities to 11 percent, continuing the trend of recent years, which is connected with the increase in self-retention.

Among other liabilities, deposits of reinsurers rose relatively little, and their weight continued to drop in 1972; this too may be ascribed to the greater self-retention in 1972.

The weight of stockholders' equity (paid-up share capital and the general and other reserves) continued downward, standing at 10.4 percent, as against 11.6 percent in 1971 and 13.1 percent in 1970.

On the assets side, the securities portfolio accounted for 46.2 percent of the total, about the same as in the two preceding years. Purchases of Government and Government-guaranteed bonds added up to IL 174 million, compared with IL 121 million in 1971.

Outstanding premiums expanded by IL 35 million to IL 177 million. Most of this represented sums collected by agents but not yet transmitted, while part was still due from households.

Outstanding loans extended by the subsector, including those against policies, other loans, and deposits for the granting of short- and long-term loans, totalled

²⁹ In recent years there has been a gradual switch from reinsurance contracts on a quota basis—where the insurer transfers an agreed share of all his business—to the system whereby the insurer decides the percentage of the risk he is prepared to assume and only reinsures the balance.

³⁰ This reserve is theoretically equal to the present value of all claims that will have to be paid to policyholders in the future, less the present value of premium receipts and other anticipated income.

Table XVI-8

ASSETS AND LIABILITIES OF ISRAELI INSURANCE COMPANIES, 1969-72

	IL million				Percent			
	1969	1970	1971 ^a	1972 ^b	1969	1970	1971 ^a	1972 ^b
Assets								
Government or Government-guaranteed bonds	291.5	362.5	483.4	657.3	40.9	42.2	43.7	44.3
Other securities	27.6	35.9	25.8	28.7	3.9	4.2	2.4	1.9
Loans on policies	17.7	22.0	23.8	30.1	2.5	2.5	2.2	2.0
Other loans	43.5	62.9	85.6	141.3	6.1	7.3	7.7	9.5
Long-term deposits	34.5	29.2	35.3	43.6	4.9	3.4	3.2	3.0
Real estate and investment in subsidiaries	53.7	59.8	66.9	83.6	7.6	7.0	6.1	5.6
Outstanding premiums	97.2	111.7	141.8	176.9	13.7	13.0	12.8	11.9
Sundry debtors	84.1	102.9	142.9	185.9	11.8	12.0	12.9	12.5
Cash and demand deposits	61.0	72.1	101.1	137.3	8.6	8.4	9.0	9.3
Total assets	710.8	859.0	1,106.6	1,484.7	100.0	100.0	100.0	100.0
Liabilities								
Paid-up share capital	58.0	64.1	67.2	76.9	8.2	7.5	6.1	5.2
General and other reserves	47.2	51.6	64.3	77.9	6.6	5.6	5.5	5.2
Life insurance reserve (less reinsurance)	288.7	355.1	456.7	614.1	40.6	41.3	41.4	41.4
General insurance reserve (less reinsurance)	51.0	67.4	107.0	158.0	7.2	7.9	9.7	10.6
Extraordinary risks reserve	29.3	37.8	47.9	62.3	4.1	4.4	4.3	4.2
Deposits of reinsurers	72.6	90.3	90.4	104.7	10.2	10.5	8.3	7.1
Pending and approved claims (general and life insurance), less reinsurance	73.1	98.1	143.2	212.3	10.3	11.4	12.9	14.3
Current liabilities	90.9	94.6	129.9	178.5	12.8	11.4	11.8	12.0
Total liabilities	710.8	859.0	1,106.6	1,484.7	100.0	100.0	100.0	100.0

^a Revised data.^b Estimate.

SOURCE: Central Bureau of Statistics.

IL 540 million in 1972, compared with IL 390 million in 1971 and IL 290 million in 1970. This steep rise was connected with the tighter-money policy introduced by the authorities, which sharpened the demand for insurance company credit,³¹ and with the expansion of life insurance business, which enabled the firms to meet this demand and step up their financial intermediation.

³¹ The restriction of credit from other sources apparently forced borrowers to turn to such financial intermediaries as insurance companies, which extend credit on relatively stiff terms.