



Ministry of Finance

**Capital Markets, Insurance
and Savings Division
(CMISD)**

November 2010

Main Topics

- 1. Supervised Entities – General Overview**
2. Recent Developments
3. The Non-Bank Financial Sector and the Financial Markets
4. Non-Bank Financial System Strengths and Vulnerability
5. Cooperation Between Supervisory Authorities

Supervised Entities

23 Insurance companies

14 “New” pension funds management companies

18 “Old” pension funds

92 Provident funds’ management companies

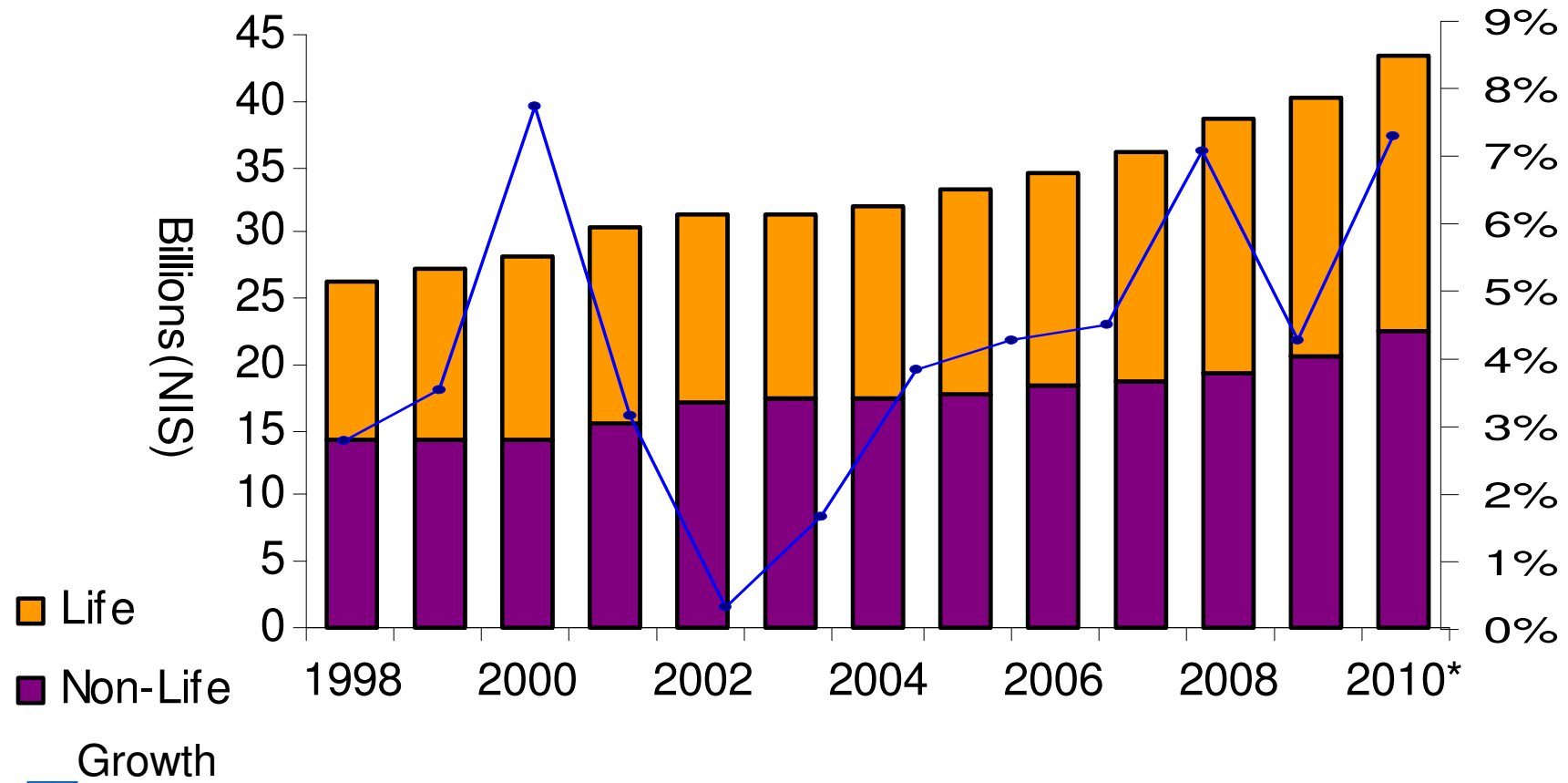
Total Assets (09/2010):

926 NIS billions (259 \$US billions)

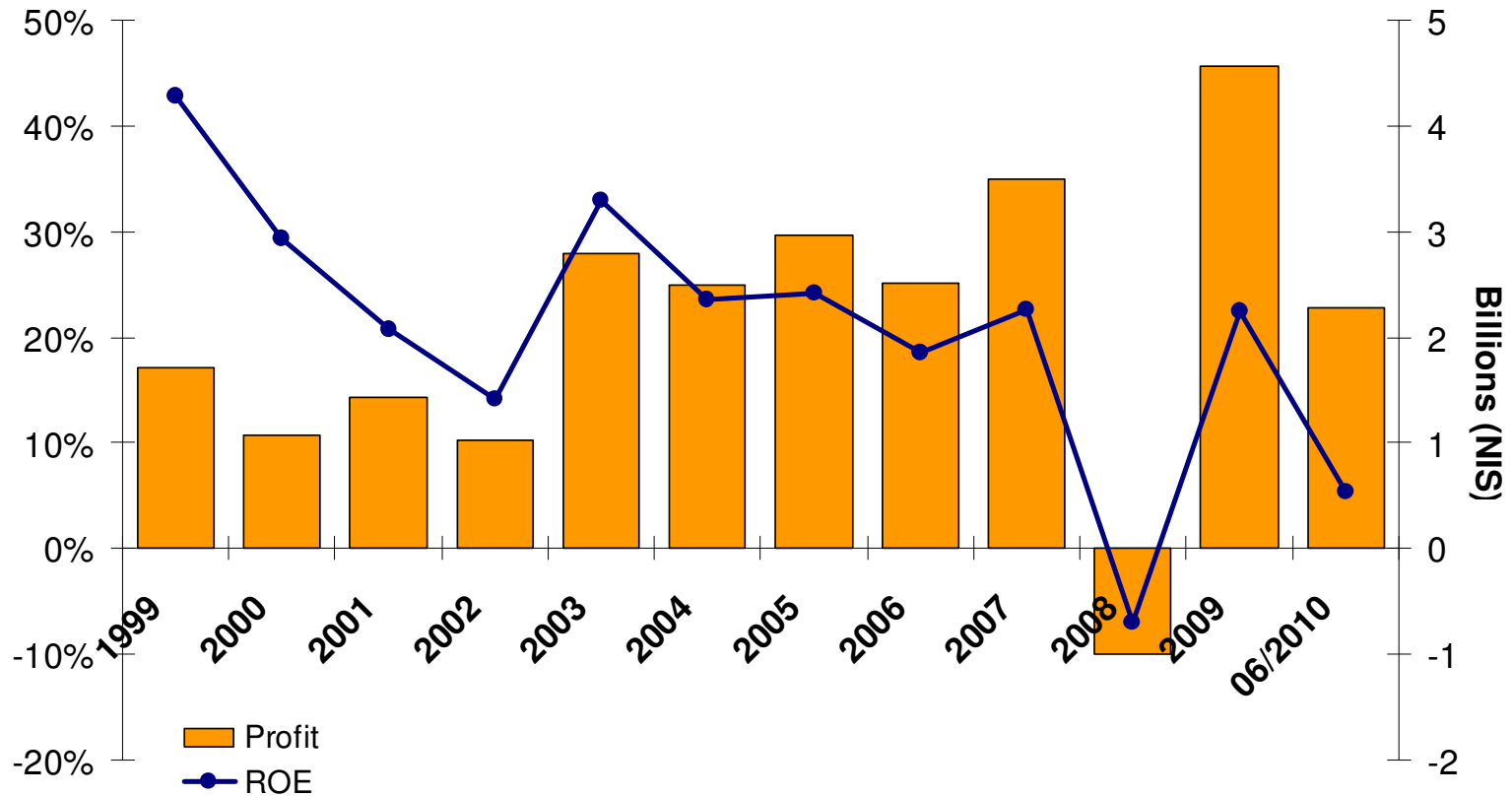
Assets of the Israeli Public (09/2010)

	NIS Billions	US\$ Billions	% of Total	
Long Term Savings	Provident Funds	296.1	82.7	12.0
	Old Pension Funds	309.2	86.3	12.5
	New Pension Funds	83.9	23.4	3.4
	Participating Life-Insurance Policies	118.5	33.1	4.8
	Guaranteed Life Insurance Policies	64.1	17.9	2.6
	Sub-Total	871.8	243.4	35.3
Non-life insurance and Nostro	53.7	15.0	2.2	
Bank Deposits	646.5	180.5	26.2	
Mutual Funds	150.8	42.1	6.1	
Direct Investments	745.5	208.1	30.2	
Total	2,468.3	689.1	100.0	

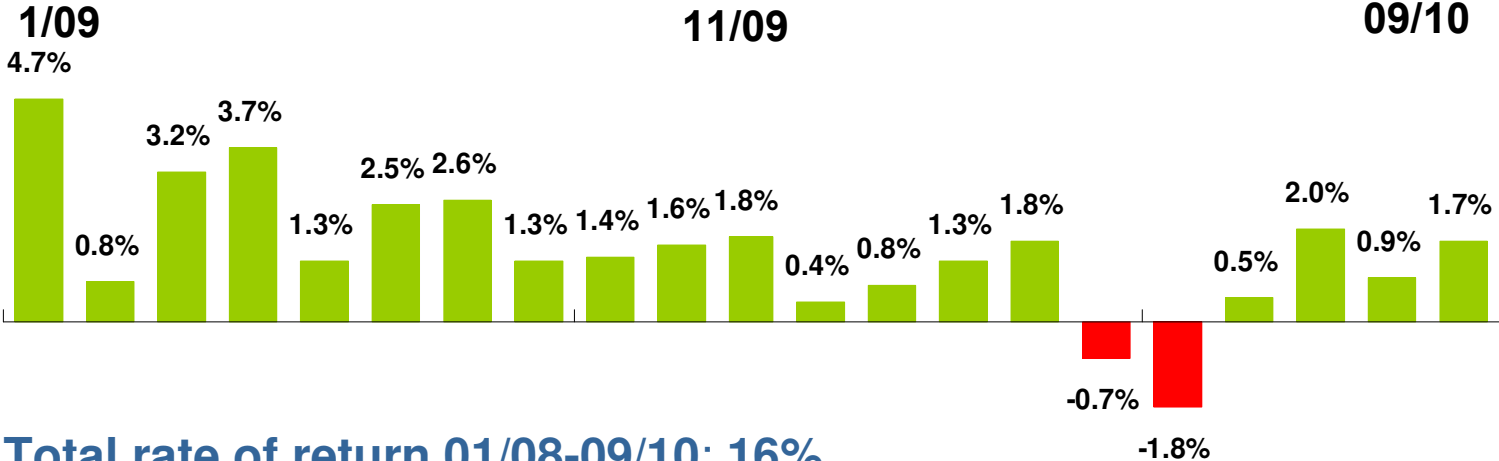
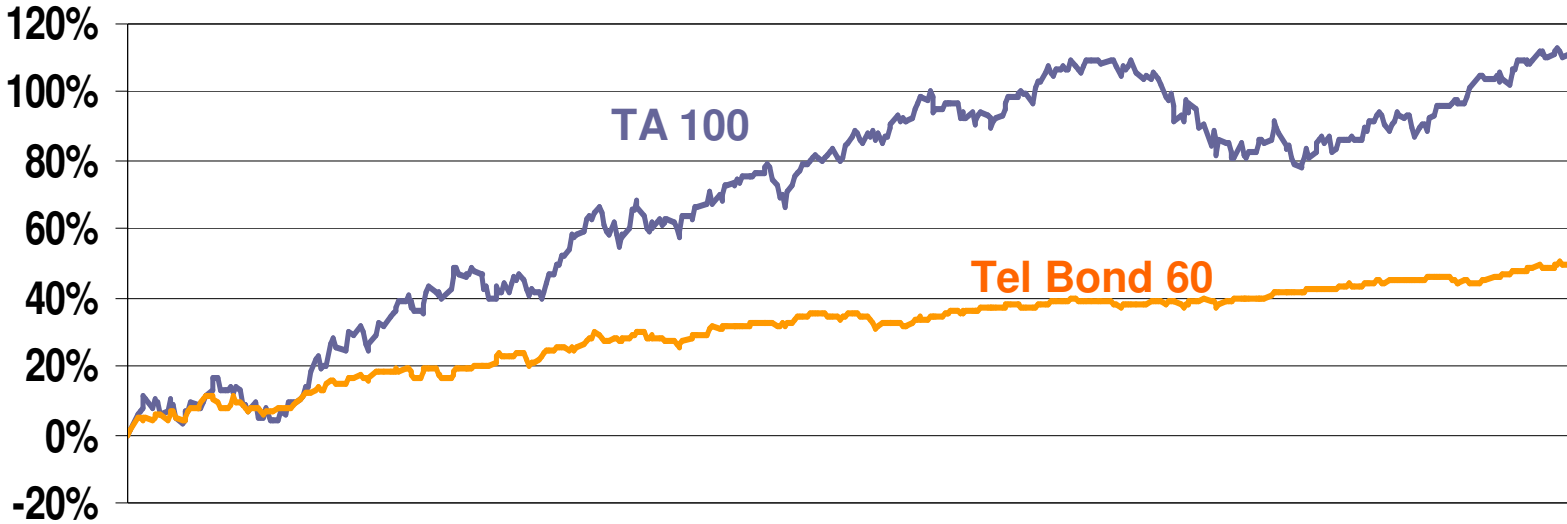
Insurance Premiums – Volume and Growth (1998-2010)



Insurance Sector Profit (1999-2010)



Provident Funds and Market Indices Performance (01/09-10/09)



Total rate of return 01/08-09/10: 16%
Total rate of return 01/09-09/10: 38%

Distribution of Assets of Long Term Savings (Billion NIS)

The savers bear the investment risk

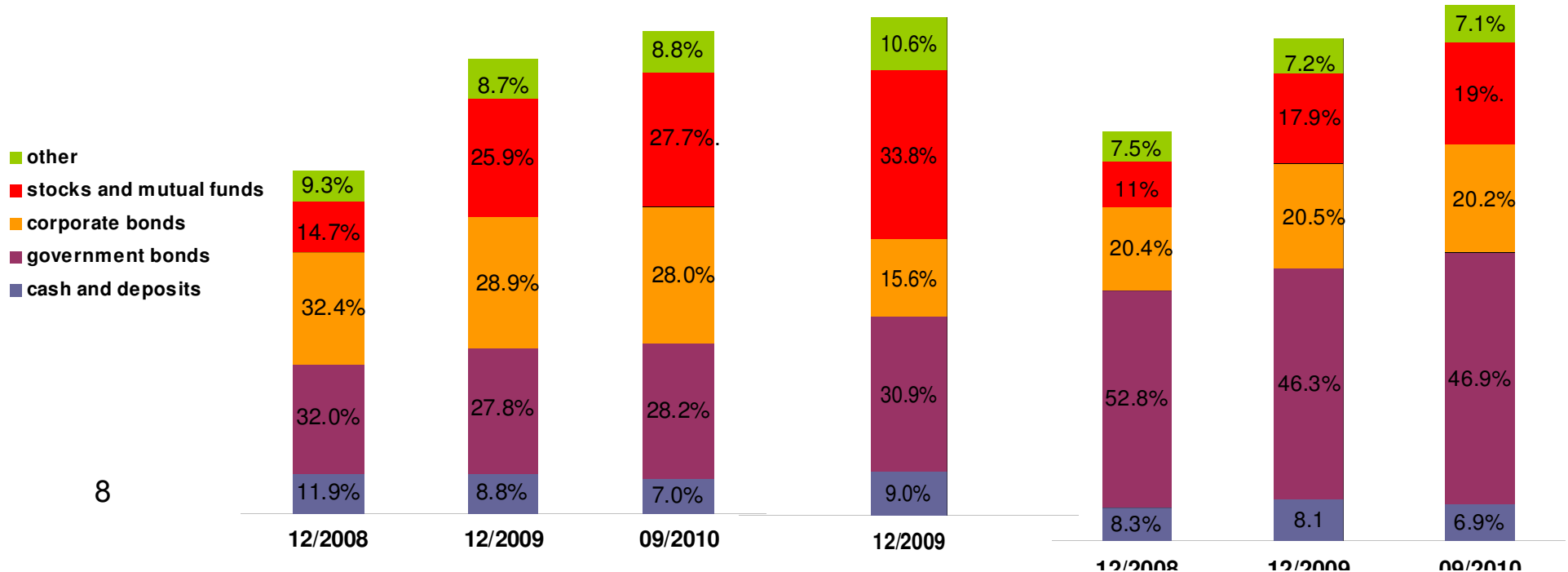
Provident Funds, New Pension Funds,
Participating Life Insurance Policies

OECD
Average

Total Long Term Saving

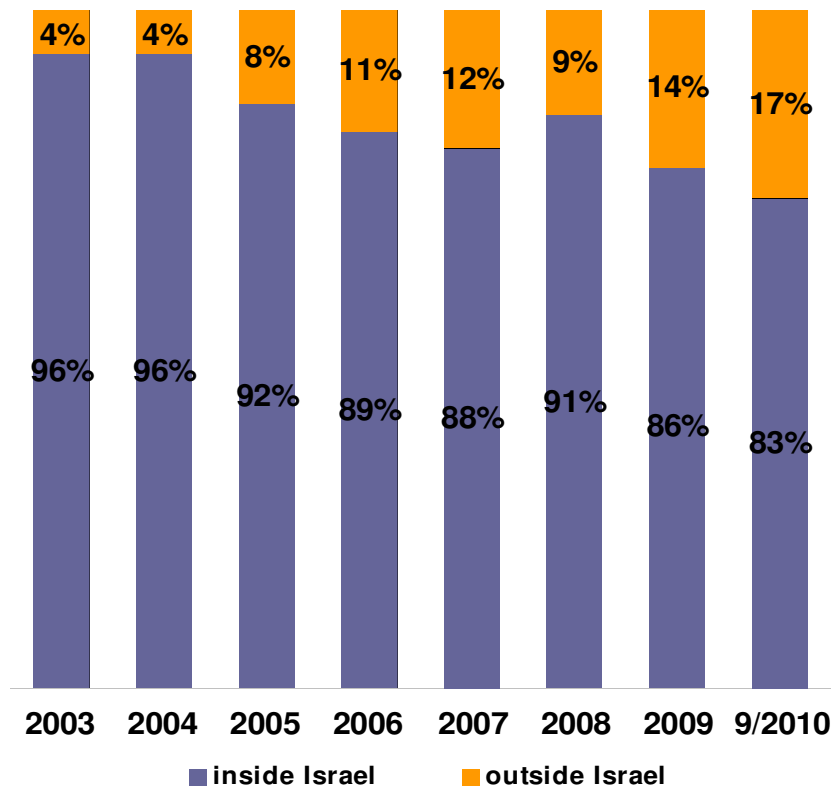
Total	355	471	502
Assets:			

Total	669	821	872
Assets:			

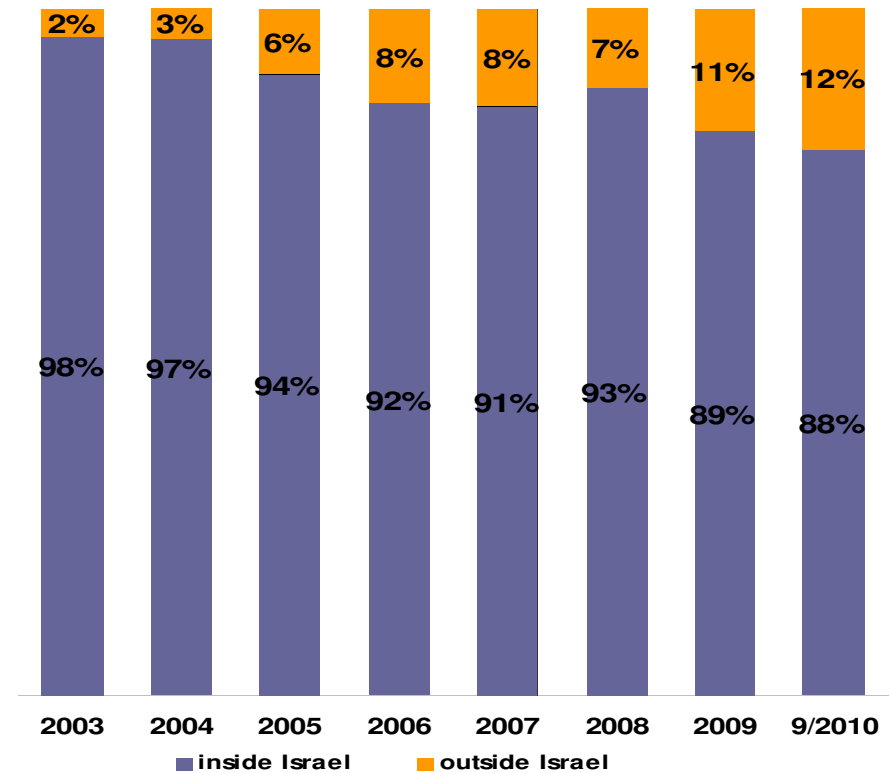


Distribution of Long Term Savings Investments Outside and Inside Israel

Provident Funds, New Pension Funds, Participating Insurance Policies



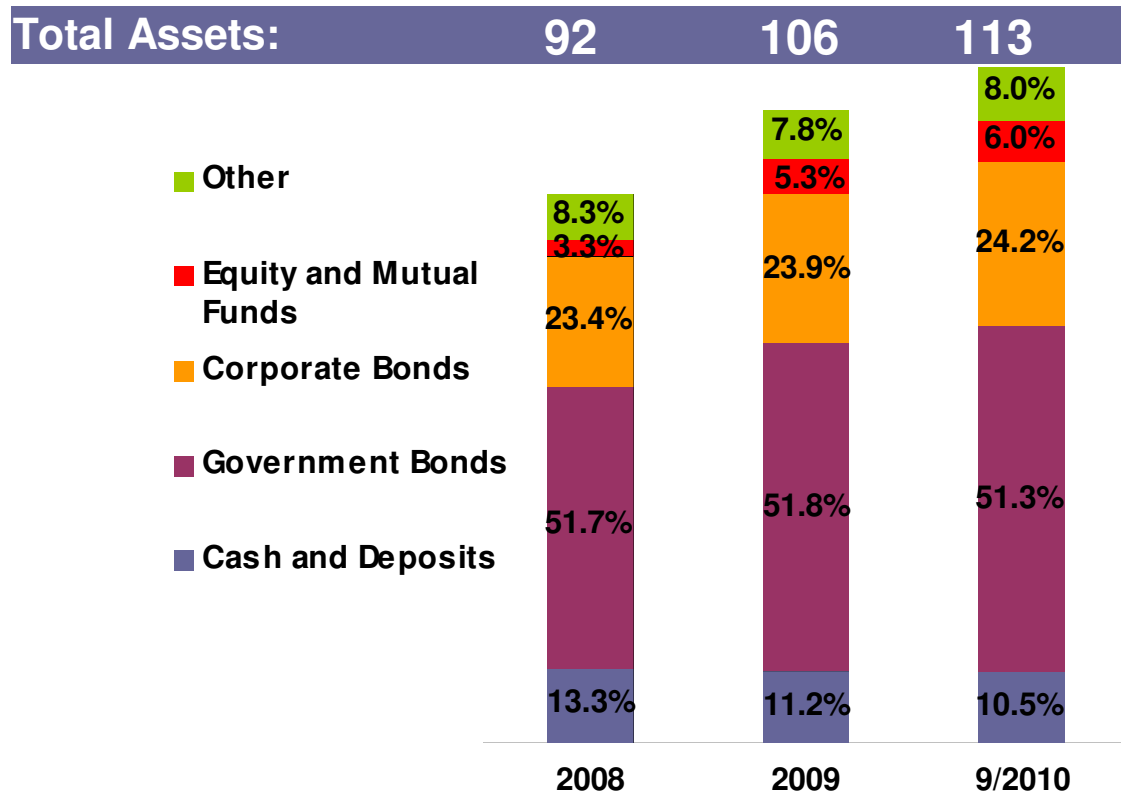
Total Long Term Saving



**Increasing the ratio of investment outside Israel,
Diversification effects on the institutional bodies' portfolio**

Distribution of Nostro Portfolio (Billion NIS)

Insurance companies bear the investment risk

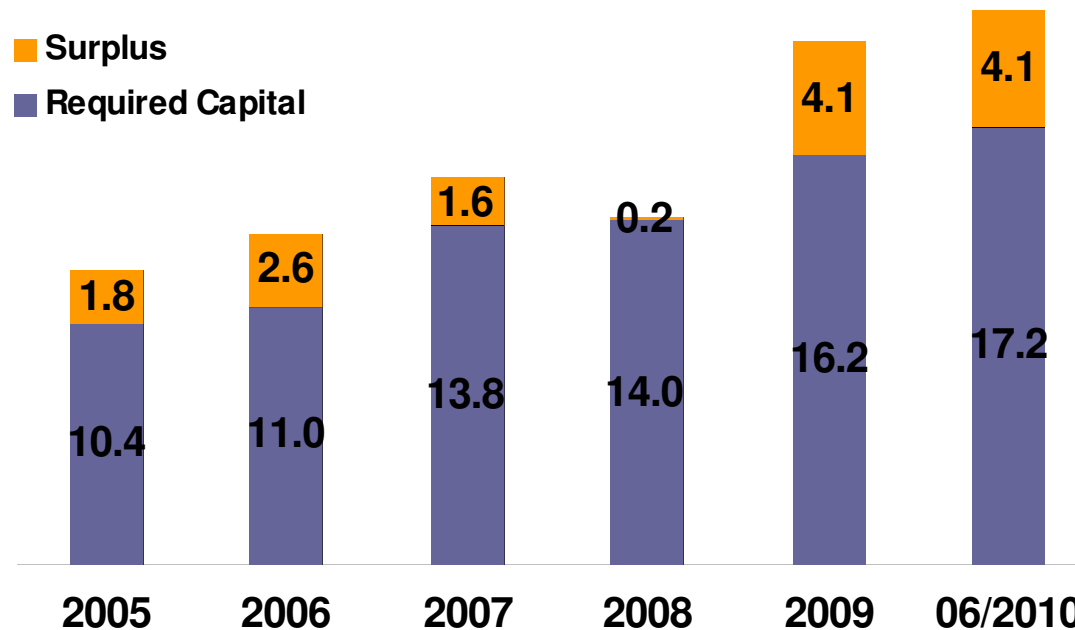


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Capital Surplus of Insurance Companies – the Highest Ever

- Update of the insurance company capital regulations
- Published a letter re criteria for issuance of dividends
- Published a draft re MCR according to Solvency II
- Implementation of QIS4 in 2009 and QIS5 (Jan 2011)



Measures Taken by CMISD subsequent to the Global Crisis

Israel suffered little relative to global economy from crisis.

=> Relatively, little need for major revisions of regulations.

Published regulation regarding investments of institutions in corporate bonds (Hodak committee recommendations)

Other Measures Taken by the CMISD During year 2009-10

- Established two new departments:
 - Solvency II implementation
 - Enforcement
- Increased CMISD'S manpower
- Revision of strategic plan

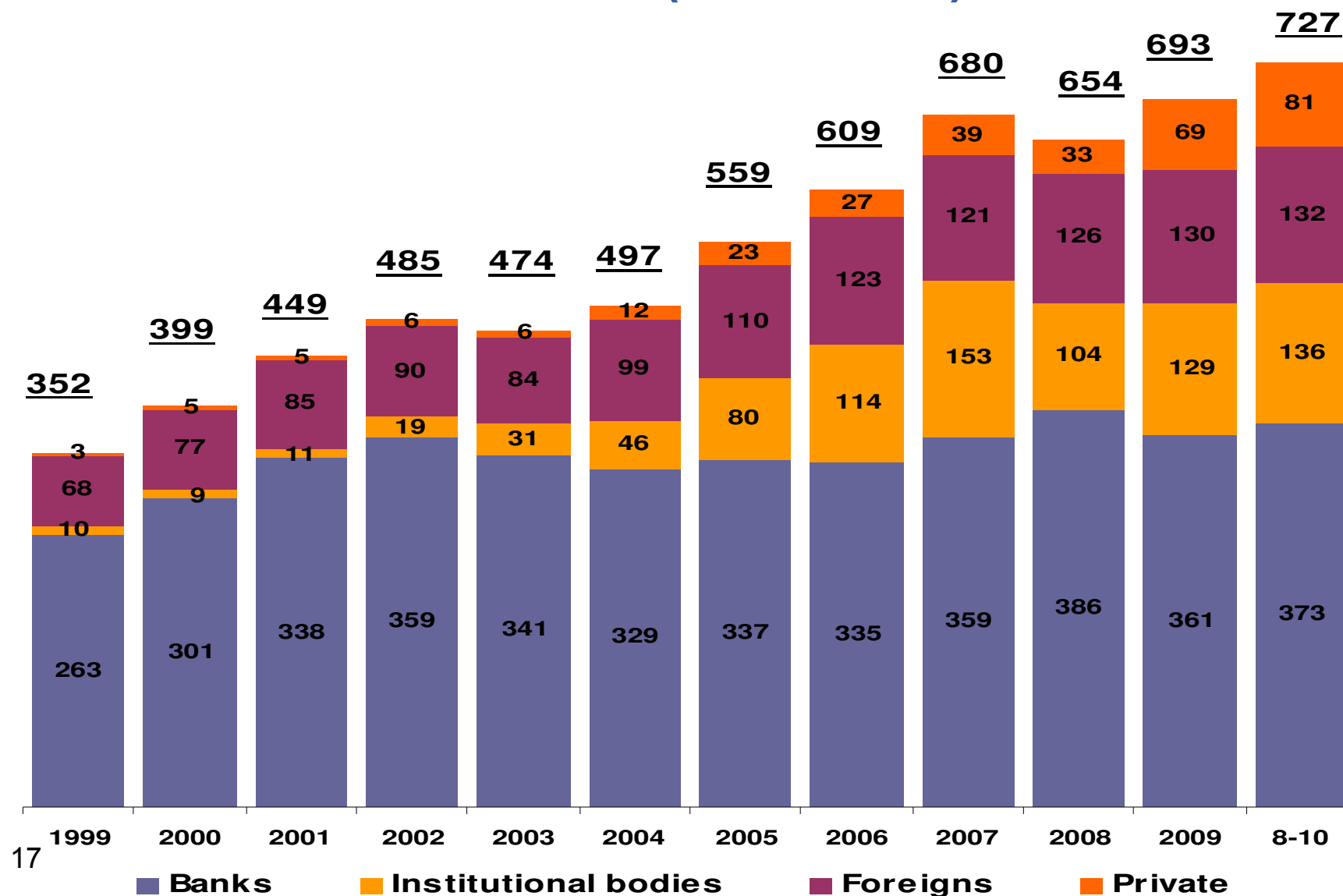
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Main Developments in the Financial Markets and the Non-Banking Sector

- Constant increase in number of debt and equity issuers and in the volume of raising
- Decrease in corporate bond yield spreads
- Increase in value of equity and bond indices

Distribution of Business Credit by Lenders (Billion NIS)



Average Spreads by Dates and Rates

Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Jun-10	Oct-10
AAA						
1.05%	0.41%	1.13%	2.18%	1.31%	1.18%	1.13%
AA-						
1.16%	1.35%	2.07%	5.53%	2.12%	1.89%	1.56%
A						
1.54%	2.10%	2.62%	17.01%	3.90%	3.73%	3.09%
BBB+						
2.50%	2.84%	5.90%	39.36%	6.82%	6.94%	5.79%
RF						
6.12%	5.48%	5.99%	4.31%	4.67%	4.17%	4.00%

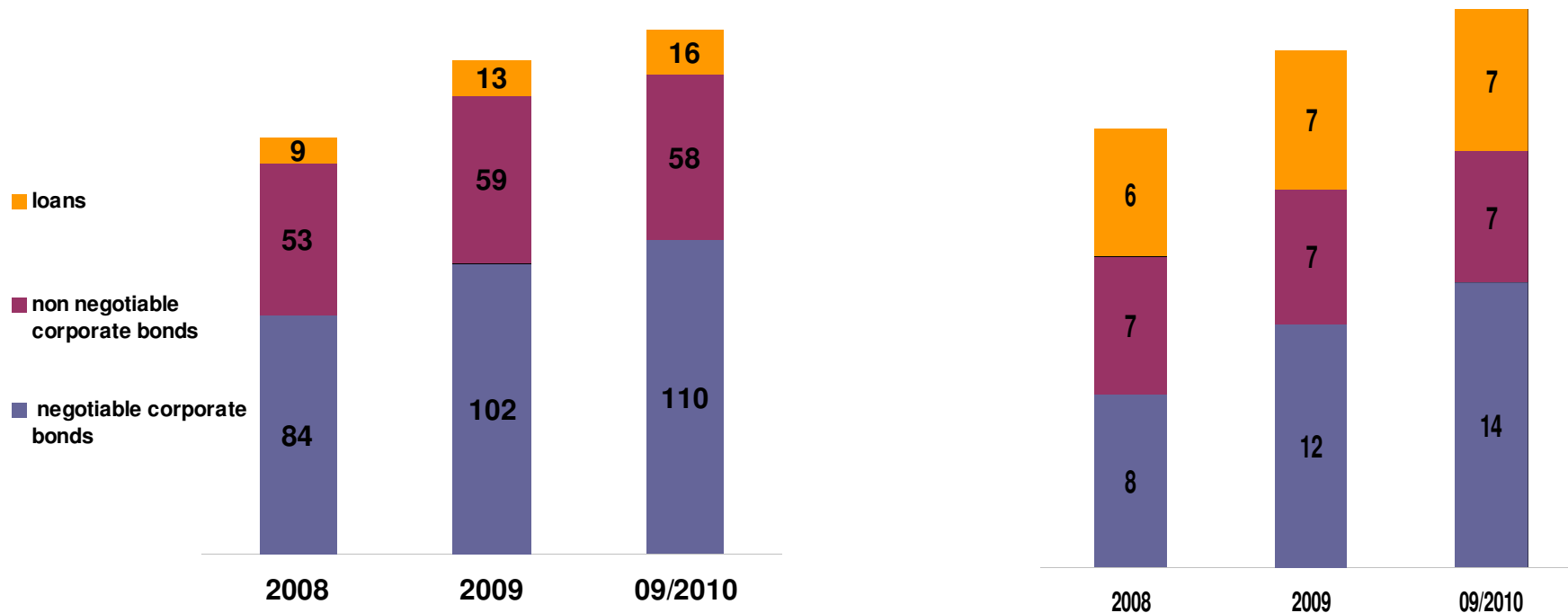
Distribution of Business Credit in the Institutional Bodies Portfolio (Billion NIS)

Long Term Savings

Nostro Portfolio of Insurance Companies

%of assets: 23% 24% 24%

%of assets: 24% 23% 23%



Exposure to Certain Sectors

(June 2010)

	Provident Funds	Pension Funds (Total)	New Pension Funds	Insurance Companies	Average
Real Estate - direct	0.1%	0.5%	0.7%	3.7%	0.9%
Real Estate - financial	9.1%	2.1%	5.5%	10.1%	5.3%
Financial	8.8%	4.4%	6.7%	9.4%	7.0
Investments and Holdings	7.0%	1.8%	3.3%	5.2%	4.2%

Main Investors in Bonds

(August 2010 , Billion NIS)

	Total	Banks	Households and Others	nonresidents	Institutional bodies	Institutional bodies: % of total
Negotiable Corporate Bonds	188	5	81	27	75	40%
Non-negotiable Corporate Bonds	46	---	---	---	46	100%
Government Bonds	666	66	169	113	318	48%
Total	899	71	250	139	438	49%

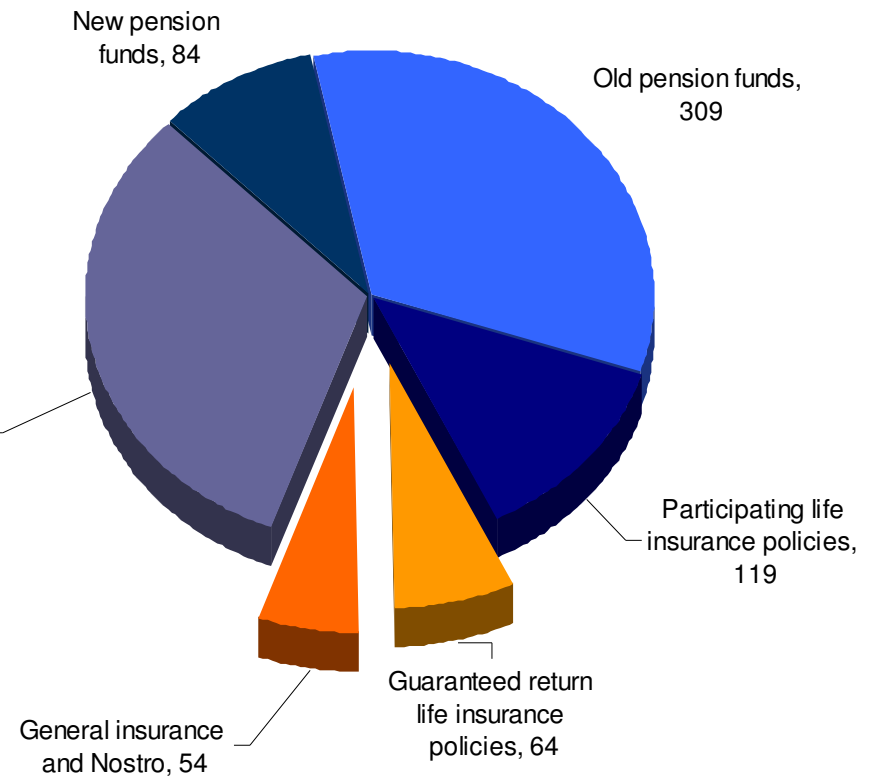
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Systemic Risks Shared by Financial Institutions

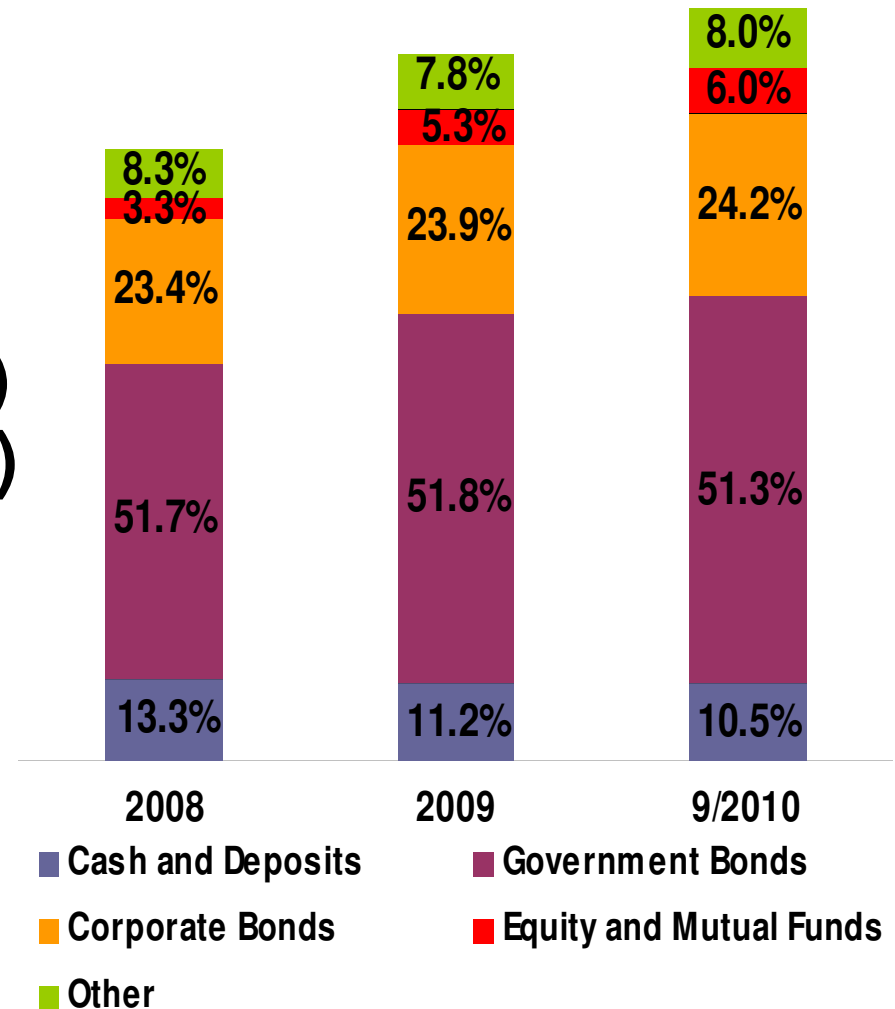
Volatility of Capital Markets

- Little impact on solvency of most companies: savers bear investment risk
- Impact on L-T savings
 - High % of liquid savings in provident funds
 - Limited risk relative to OECD countries
 - Sensitivity to capital market volatility



Impact on Stability of Insurance Companies (Nostro)

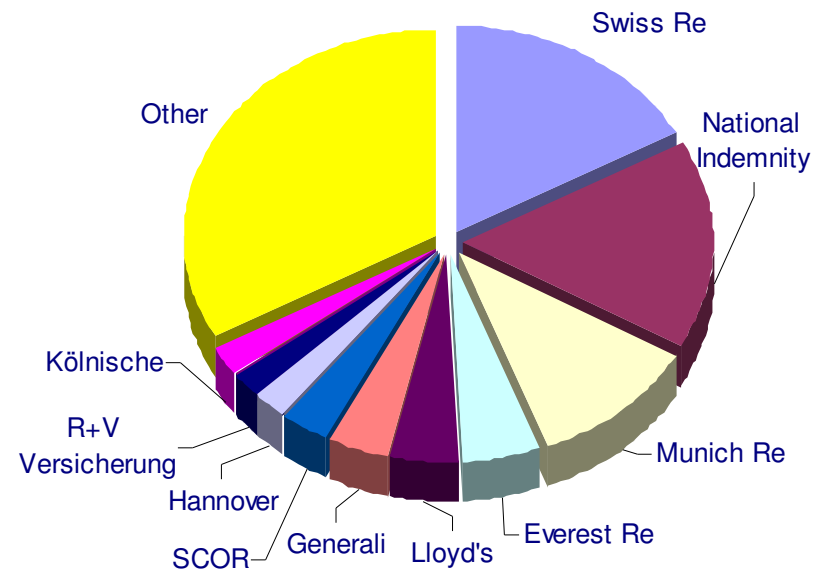
- **Bear investment risk**
- **Exposed to market risk**
- **50%+ invested in gov. bonds**
- **Low share of stocks (6%) compared to OECD (17%)**
- **Increased capital requirements according**
- **Increased geographic dispersion**



Systemic Risks Shared by Financial Institutions

- **Catastrophic Event**
- **Impact on stability of insurance companies**
 - **Earthquake risk is the major risk in non-life insurance area**
 - **Deductible of 10% of the sum assured**
 - **High quality (A and above) re-insurers provide comprehensive earth-quake coverage**

DISTRIBUTION OF PREMIUMS COLLECTED BY REINSURANCE COMPANIES DURING 2009



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Cooperation Between Supervision Authorities

- **Cooperation with local supervision authorities**

- Regular meetings of supervisors and regulators
- Updates about essential actions
- Cooperation on licensing, supervision, regulation, and international cooperation

- **Cooperation with foreign supervision authorities**

- Cooperation on ad-hoc basis according to the insurance supervision law
- Joining the MMoU – in the future