



**GOVERNMENT OF ISRAEL
MINISTRY OF FINANCE**

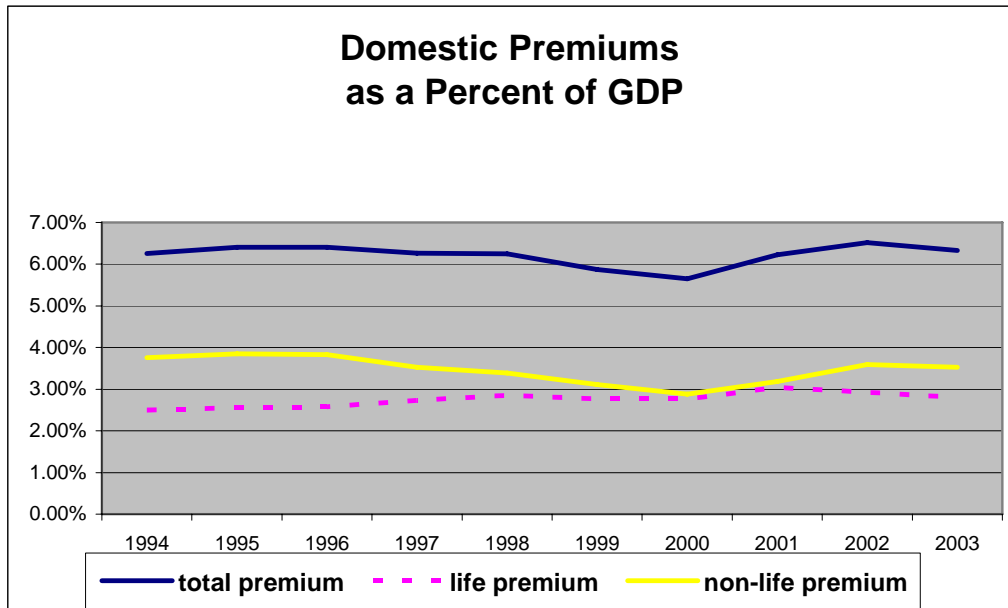
PRIVATE INSURANCE IN ISRAEL

**ANSWERS TO QUESTIONS
FROM DISCUSSION NOTE OF JUNE 18, 2004**

I. INSURANCE MARKETS
a) General market characteristics

How have the life and non life insurance penetration evolved over the last decade? Which classes of insurance are most promising?

The level of insurance penetration in each of the last 10 years is presented below:



We anticipate future increases in the penetration of retirement savings plans, by means of life policies and pension plans. In the near term, however, pension plan penetration may increase at the expense of life insurance penetration.

In 2002, premiums increased by 15.2% on the non life insurance market, while life insurance premiums declined by 4.9%. How can these trends be explained? What are the factors underlying the decrease in the relative share of life insurance premiums in total premiums over the last few years?

In 2002:

- Non-life premiums increased by 10.5%, after adjusting for changes in the cost of living. Much of the increase followed increases in foreign reinsurance rates on property insurance and on employers and third party liability insurance. There were also increases in domestic rates for automobile liability insurance.
- Life insurance premiums decreased by 5.6%, after adjusting for changes in the cost of living. "Managers" policies generate a large part of premium income. Premium payments to such policies are based on current salary levels. Average monthly salaries declined during 2002, adversely affecting premium income from in-force policies. Unemployment rose in 2001 and 2002,

adversely affecting the number of in-force policies. The downturn in salaries and employment reflect a general recession that began in 2000 and included heavily insured sectors such as "high-tech".

The relative share of life insurance premiums is expected to increase as economic conditions improve.

b) Distribution networks

What proportion of life and non-life insurance products is distributed by brokers?

Life

More than 99% of 2003 premium was generated by insurance agents.

Non-Life

Approximately 96% of 2003 premium was generated by insurance agents, while 4% was generated by direct marketing. Direct marketing was concentrated mostly in the following lines:

Line of Insurance	Percent of 2003 Premiums Generated by Direct Marketing
Personal accident	13%
Automobile property	9%
Automobile liability	8%
Homeowner property	7%

What are the main classes of insurance most sold by brokers, and why? Is there a broker association? If so, is it open to foreign brokers? How many brokers are foreign or foreign-controlled?

Agents heavily dominate the distribution of all individual lines of insurance.

The Bureau of Insurance Agents in Israel is a voluntary association. Current members include approximately 3,000 agents.

One may not act as an insurance agent in Israel, nor become a member of the Bureau, on the strength of a foreign license. A domestic license must be obtained from the Commissioner of Insurance (referred to below as the "**Commissioner**"). Many agents and members of the Bureau are licensed both in Israel and abroad.

Could the Israeli representatives describe the role of banks or any other financial or non financial institution/company, if any at this stage, in the distribution of insurance products?

As a general rule, insurance brokerage requires an agent's license. There are a few notable exceptions:

- Banks may sell insurance to customers for homeowner loans, including life insurance in the amount of the loan outstanding and insurance against damage to the mortgaged property. Otherwise, banks are not permitted to sell insurance, and the extent of a bank's investment in an insurance company is limited, out of concern for the high level of concentration characteristic of the banking industry. Consideration is being given to permit banks to sell other kinds of insurance.
- Insurance companies sell supplementary health insurance via national health funds (who act as group policyholders) and temporary health coverage abroad via travel agencies.

Is e-commerce an allowed/popular channel of distribution of insurance products in Israel?

E-commerce is a permitted form of insurance distribution. However, little insurance is actually offered for sale via the internet.

II. INSURANCE REGULATION AND SUPERVISION

a) Regulation of insurance companies

Specialisation

Many companies write both life and non-life types of insurance in Israel. What prompted Israeli regulators to opt for non-specialisation, in contrast to the rule in the OECD countries?

The provision of both life and non-life insurance by the same company is a longstanding practice in Israel. Israeli regulators have not seen a pressing need to require specialization in view of the separations listed below.

Is there a legal requirement for composite insurers to maintain separate management and separate assets for life and non life operations?

The Insurance Supervision Law requires the following separation between life and non-life businesses:

- A separate accounting system must be used for each business;
- Assets in respect of life insurance liabilities must be maintained separately and may not be diverted to cover non-life liabilities;
- Separate reinsurance treaties are required.

Solvency

Could the Israeli representatives elaborate on the solvency requirements currently applicable to insurance companies and on the future developments considered in this regard?

To elaborate on our report of June 1:

– *Reserve Requirements*

Insurers must appoint actuaries for most lines of business. After 2004, reserves for incurred claims will be calculated by actuaries for virtually all lines of insurance.

– *Capital Requirements*

In addition to fixed amount, percent-of-premium and percent-of-claims requirements (described in our report of June 1), insurers must maintain capital equal to the sum of:

- a. Deferred acquisition costs for life and health insurance;
- b. Prohibited investments;
- c. Reinsurer receivables that are one-year past-due;
- d. 2% of liabilities in respect of guaranteed-return life insurance policies, and specified percentages of corresponding assets to the extent not invested in government bonds.

Insurers must declare their current level of capital and minimum required capital in quarterly reports to the Commissioner.

– *Future Developments*

It is the Commissioner's intention to pattern Israeli solvency requirements after those emerging from the Solvency II project.

Insolvency

One of the linchpins of a customer's confidence in the company from which he obtains a contract is the guarantee that that contract will be honoured regardless of what happens to the insurer. Is it possible to transfer portfolios prior to an insurer's liquidation under consideration? Does the law stipulate an order of priority among claimants? If so, what is it?

The transfer of an insurance portfolio by one insurer to another is permitted with the approval of the Commissioner. All proceeds must be used for the payment of retained claims.

In the event of insurer insolvency, all assets, including those held in respect of non-life insurance liabilities, must first be used to cover life insurance liabilities.

Has an early warning system been established to prevent company failures?

At present, there is continuous monitoring of the financial statements and information returns submitted to the Commissioner.

A set of standard, automatic early warning indicators will be created and operated by mid-year 2005. By that time, insurance company information returns will also have been reviewed with a view to increase their effectiveness for off-site inspections.

Could the Israeli representative elaborate on the measures that are typically taken in case of solvency problems, on the available recovery measures and on the possible sanctions?

To elaborate on our report of June 1:

- After consultation with company management and with approval of the Minister of Finance, a Commissioner appointed supervisor may transfer assets and liabilities to another insurer. All proceeds must be used to pay retained claims;
- The Commissioner may revoke the license of a company after appointing a special supervisor or after a liquidation order has been issued.

Are there any insurance guarantee funds?

"Karnit" is a fund which guarantees automobile liability coverage in the event that an insurer is unable to meet its obligations or cannot be identified ("hit and run").

There are no other funds that guarantee performance in the event of insurance company failure.

Have there been failures on insurance companies in the recent past?

1992 marked the failure of one of the largest domestic insurers of its time. Its life insurance portfolio was sold to two other large insurers. Automobile liability claims were transferred to the "Karnit" guarantee fund. Property insurance claims continue to be paid under the supervision of a Commissioner appointed supervisor.

A much smaller company failed in 1995. It was more than 50% owned by another domestic insurer, which:

- Purchased the life insurance portfolio;
- Obligated itself to cover all policyholder claims;
- Dealt with all claims of reinsurers and shareholders.

Technical provisions

Could the Israeli representatives explain how technical provisions are computed?

Life and Health Insurance

Policy provisions and reserve bases for insurance contracts reflect any underlying investment guarantees:

- Until 1992, policy premiums and benefits were linked only to the cost of living index. Approximately 85% of reserves were invested in government bonds bearing a guaranteed coupon yield.
- All policies written since 1992 are issued on a participating basis without the backing of guaranteed-yield bonds.

Policy reserves for level-premium policies are generally calculated on a net level premium basis with an interest margin and suitably conservative mortality basis.

For policies issued before 1999, policy reserves are adjusted downward to a varying extent by a "Zillmer deduction". With regard to policies issued after 1998, deferred acquisition costs are recognized as an asset.

For financial reporting purposes, the "DAC asset" is written off over the lesser of the term of the policy and:

- 15 years, for life insurance;
- 6 years, for health insurance;

For tax purposes, the DAC asset is written off over the lesser of the term of the policy and 4 years.

For annuity business, allowance is made in the reserves for future mortality improvements.

Non-Life Insurance

There are three broad categories of reserves:

- *Unearned Premium Reserves*
- *Reserves for Incurred Claims*
These include IBNR claims, claims in transit and claims approved by the insurer. Future claims payments are valued by means of a variety of traditional actuarial techniques, at the discretion of the company actuary. These encompass the aggregation of loss data (by category of insured, underwriting year, accident year, etc.), the analysis of data (chain ladder techniques, etc.), identification of trends, implications of recent changes, discounting for future investment returns, etc.
- *Excess of Premiums Over Expenses, Paid Claims and Other Reserves (Liability Lines)*
This amount is held for each of the three most recent underwriting years. For companies lacking statistically credible claims experience, it is held for each of the five most recent underwriting years.

Investments

Could the Israeli representative provide a more detailed overview of the regulation of insurance company's investments in Israel? Could the Israeli representative describe the quantitative restrictions enforced, as well as the provisions (if any) regarding currency/maturity matching, diversification, spread, liquidity and localisation?

To elaborate on our report of June 1:

- There is no restriction on foreign investments in countries rated A- or above;
- Maximum investments in a single company depend on the company's credit rating:

Rating	Maximum Investment as a Percent of Insurer Liabilities
Unrated	5%
BBB and Above	7.5%
AA and Above	10%

- Loans to a group of borrowers sharing a common controlling interest may not exceed 15% of insurer liabilities (8% if any company is unrated);
- Investment in a single real estate property may not exceed 3% of insurer liabilities (10% if held in respect of owners equity);
- Collateral in respect of options and futures contracts may not exceed 10% of insurer liabilities;
- For assets held in respect of insurance liabilities:
 - a. Investments must be chosen so that a "risk dispersion index" equals or exceeds prescribed values. The prescribed values generally vary from 65%-75%, depending on the category of liability. The index is an average of the values assigned to each investment, weighted by the value of the investment. The values assigned to each investment depend on its underlying risk and marketability.
 - b. Investments whose returns are inflation-adjusted differently from the corresponding liability, are limited to 20%-30% of the liability;
 - c. Average durations may not exceed the following limits:

Line of Insurance	Maximum Duration in Years
Liability (Automobile, Employer, 3 rd Party, etc.)	5
Other Property and Casualty	2

What is the basis used for investment valuation (market or historical value basis)?

There are two broad categories of assets:

- *Participating Life Insurance*
Most assets are valued at market. After 2004, the basis for all such assets will be their "fair value".
- *Owners' Equity, Reserves for Non-Life and Non-Participating Life Insurance*
Marketable assets are valued at market. Most non-marketable assets are valued at their historical values. Eventually, all such assets will be held at their "fair value".

Accounting

Are there harmonised accounting standards for insurance and reinsurance companies? Could the Israeli representative elaborate on the accounting rules enforced?

There are no domestic reinsurance companies per se and the volume of reinsurance ceded to domestic companies is not significant. Consequently, there are no special accounting standards for reinsurance companies.

Israel has not developed an accounting policy for insurance that differs, in general terms, from other developed countries. Specific rules are described above under *Technical Provisions* and *Investments*.

Actuaries

Could the Israeli representative elaborate on the reforms foreseen regarding:

- **the role of the actuary ;**
- **the expected level of qualification and competence of actuaries?**

We propose that the following roles and qualifications be added to the Insurance Supervision Law:

- The statutory role of the "appointed" insurance company actuary would include:
 - a. Recommending an appropriate level of reserves for each line of insurance to which he has been appointed by the board of directors. The actuary will make his recommendation directly to the board.
 - b. To identify, monitor and evaluate the potential impact of the principal risks facing the company that are inherent to policyholder obligations and are within the mandate assigned to him/her by the board. In this regard, the actuary will report to the board-appointed risk officer.
- Since some Israeli insurers write property and casualty insurance as well as life insurance, the board of directors will be required to appoint:
 - a. At least one actuary;
 - b. One risk officer whose role would include coordinating the identification, monitoring and evaluation of risks on a companywide basis. In this regard, the risk officer will report directly to the board.
- Qualification standards for actuaries would be determined as follows:
 - a. A local association of actuaries will be empowered to appoint a "qualification committee", subject to all of the following conditions:
 - i. The local association would be a full-member-association of the International Actuarial Association (IAA), thereby meeting the educational standards of the IAA. The Israeli Association of Actuaries currently meets this condition;
 - ii. Each member of the qualification committee would be a member of a full-member-association of the IAA;
 - iii. Each member of the qualification committee would be subject to approval by the Commissioner of Insurance (Israeli legislative provisions will not grant a professional association the exclusive authority to determine who is an actuary).
 - b. The qualification committee would:
 - i. Determine an education requirement, including course content and standards for examinations;
 - ii. Determine a continuing professional development requirement;
 - iii. Monitor the implementation of the education and continuing professional development requirements;
 - iv. Enrol actuaries who meet the education and experience requirements;
 - v. De-list actuaries who fail to meet the continuing professional development requirement or who have been disqualified by a disciplinary tribunal.
 - c. The education and continuing professional development requirements would also be supervised by the Commissioner of Insurance.
 - d. The experience requirement would include three years of actuarial experience in the ten years preceding enrolment, including one and one-half years of local experience. The requirement for "appointed actuaries" would include seven years of actuarial experience.

- e. The education and experience requirements would be tempered by grandfathering provisions for current practitioners.
- The proposed qualification requirements are intended to protect insurers by creating uniform, minimum requirements. The current level of actuarial competence gives some indication of the expected future level. Among current chief actuaries of Israeli insurance companies:
 - a. All have extensive actuarial experience;
 - b. Some are Fellows of bodies such as the Society of Actuaries and the Institute of Actuaries while others have had more limited, local actuarial education.

Compulsory insurance

What are the compulsory insurance lines in your country? How are compulsory insurance premiums set?

Every motor vehicle user must acquire insurance that covers him/her against all liabilities arising from bodily injuries to passengers and third parties. A central data base operator issues annual recommendations of premium rates and risk classifications based on actuarial analysis of data collected from domestic automobile insurers. Each insurer sets its own premium rates that may not exceed 96% of corresponding rates in the “pool”. The pool is a joint arrangement of automobile insurers for high-risk motorists who would otherwise be unable to obtain insurance.

Other compulsory lines include insurance for divers, athletes, airplanes and liabilities related to specified businesses. None of these lines constitute a significant part of the domestic insurance market, nor are premium rates regulated.

Reinsurance

Is reinsurance supervised in your country?

Reinsurance operations of foreign companies are not supervised in Israel. Reinsurance operations of domestic insurers are not significant and are supervised accordingly.

Are there any domestic retention requirements for reinsurance?

Insurers are not required to retain any part of their business.

Consumer protection

Could the Israeli representatives elaborate on any rules for disclosure of information involving insurance contracts or the promotion of insurance products and the protection of consumers against abuses by insurance companies or intermediaries?

The Commissioner has:

- Specified the information that every insurer must provide to any insured before the policy is issued and every year thereafter;
- Published a consumers' guide to supplemental health insurance, to be followed by guides for other kinds of insurance;

- Statutory authority to arbitrate disputes between policyholders and insurers.

Court rulings have also created high standards of disclosure for agents.

Have financial education programmes been carried out for the insurance sector? Is there any sort of mediation system in Israel?

The government has not sponsored financial education programmes for the insurance sector. However, the Commissioner does publish answers to commonly asked questions. Fundamental decisions in matters of consumer complaints are also distributed to each insurance company ombudsman.

The Commissioner's public complaints department investigates and arbitrates disputes regarding all lines of insurance, pensions and provident funds, at no charge to the consumer. A decision by the Commissioner binds the insurer and may only be overturned by a District Court.

Private mediation between insurer and insured is permitted but infrequently used. The Ministry of Justice is developing guidelines for private insurance mediation. Their promulgation will likely stimulate its use.

Corporate governance

Could Israel's representative describe Israel initiatives or foreseen measures, if any, to improve the corporate governance of insurance companies?

Insurance companies are subject to the Corporations Law, last revised in 1999. It defines a general standard of governance, including statutory roles for the board of directors, senior officers, internal and external auditors, etc.

The International Association of Insurance Supervisors (IAIS) recently published essential criteria and recommended criteria for the implementation of a stable framework of corporate governance for insurance companies. We are currently reviewing the IAIS essential criteria in terms of their compatibility with Israeli legal provisions.

It is our intention to evaluate the current framework of corporate governance in Israel, in conjunction with other local regulatory authorities.

Fit and proper requirements

What "fit and proper" requirements are applicable to company officers?

With regard to the granting of an insurance company license, the Insurance Supervision Law requires the Commissioner to take into consideration qualification requirements for directors and senior managers and means requirements for company owners. The legislation establishes specific qualification requirements for internal auditors and investment managers.

Distribution

What are the regulatory measures applying to intermediaries? Are there a compulsory registration/licensing of intermediaries? What are the prerequisites for becoming a broker? How is their competence assessed? What requirements must they meet with regard to financial guarantees and disclosure of information?

As a general rule, anyone acting in Israel as an intermediary between an individual and an insurer must possess an insurance agent's license. Intermediation without a license is a criminal offence punishable by up to two years in prison.

Eligibility conditions for an individual agent's license include:

- Israeli residency;
- Age 18;
- Scores of at least 60% in examinations sponsored by the Ministry of Finance;
- Two-year internship followed by a report from the supervising agent, including:
 - a. The number of policies sold by the intern in each line of insurance;
 - b. His/her recommendation and opinion regarding the knowledge and experience gained by the intern;
- Waiver of confidentiality with regard to police criminal records (Such records are reviewed by the Commissioner for every agent every year).

There are two stages of examinations:

- Pre-apprenticeship examinations;
- Post-apprenticeship licensing examinations for each line of insurance.

Conditions for receiving a corporate agent's license include:

- Registration as an Israeli corporation;
- Possession of an individual agent's license by every employee engaged in intermediation;
- Employment of a business manager;
- Indicative corporate name.

The law prohibits the granting of an agent's license to anyone:

- Who was convicted or served a prison sentence for an offence of moral turpitude in the preceding five years;
- Stands indicted of such an offence.

A license will also be denied if the Commissioner is of the opinion that the candidate is not fit to serve as an agent on the basis of other facts.

There are currently no capital requirements for insurance agents or agencies. An insurance agency must submit an audited annual financial statement.

What are the regulatory differences, if any, between Israeli and foreign brokers?

Any foreign broker must obtain a local license. There are no regulatory differences

Terrorism insurance

Could the Israeli representative describe briefly to the Committee – and especially to delegates who are not members of the task force on terrorism insurance, the terrorism insurance scheme that has been established in Israel?

Death resulting from terrorism is covered by national social insurance as well as by private pension plans and insurance policies.

Disability resulting from terrorism is covered by national social insurance and by private pension plans. It is not covered automatically under private insurance policies, but extended coverage may be purchased.

Sickness resulting from terrorism is covered by national social insurance. It is slightly more generous than the basic coverage provided by national health care legislation.

The State of Israel has established a fund for the purpose of compensating victims of property damage resulting from terrorism:

- Israeli residents and visiting tourists are covered without payment of premium. The fund is financed by property taxes;
- Except in exceptional cases, only direct damage is covered;
- The level of compensation is based on the before-damage, realizable value of the property and not on the cost of a new replacement;
- There is a limit on compensation for damage to a private dwelling.

Private supplemental insurance covers indirect damage and the difference between realizable property value and the cost of a new replacement.

b) Issues related to the supervision of insurance companies

Could the Israeli representative describe briefly the structure and functioning of the body in charge of supervision (size, source of budget, internal organisation, etc?)

The Capital Markets, Insurance and Savings Division has eighty full-time staff. It is funded primarily from general government revenues, but also receives annual licensing fees from agents.

For information concerning internal organisation, please refer to our report of June 1.

Could the Israeli representative elaborate on the recent move towards a risk based approach?

In order to create an efficient, comprehensive method for monitoring the soundness of domestic insurance companies, the Commissioner is adopting an approach similar to that used in Canada.

For every insurance company, each significant activity will be evaluated separately, including the level of inherent risks and the effectiveness of the company's risk control mechanisms.

Such evaluations will be performed by Commissioner staff and not by third parties.

The first such evaluation is underway, regarding the automobile liability insurance business of a domestic company. The on-site inspection will commence in August. Life insurance and other significant activities of the same company will be evaluated before year-end. Some of the same activities will be evaluated in other companies at approximately the same time.

Are on site inspections conducted regularly? Are they performed only when problems are suspected? Could the Israeli representatives specify the main problems currently encountered in the area of insurance company supervision? What sanctions can the supervisory authority take if a company fails to comply with the rules governing for instance the technical reserves or investments?

On site inspections are conducted regularly. Until now, they have generally been outsourced to accounting firms for the purpose of reviewing compliance with accounting standards, investment regulations and Commissioner instructions.

Our solvency supervision has not revealed significant problems that are common to more than one company.

Companies that fail to comply with regulation may be subject to fines, officer suspensions and revocation of insurance license.

Do regulators contemplate giving the supervisory authority greater powers or financial resources?

Consideration is being given to creating a single financial supervisory authority, encompassing insurance, banking and securities transactions. The creation of such an authority would likely result in the allocation of greater resources to the supervision of insurance companies.

Are prices now free for all classes of insurance lines?

Life Insurance

There are limits on the expense component of premiums, in the case of savings policies that qualify for tax benefits. Otherwise, the Commissioner is usually concerned with the reasonableness of the risk premium only.

Non Life Insurance

With the exception of automobile liability and long term care insurance, premium rates are generally not supervised.

What are the conditions attached to the outsourcing of insurance supervision? For what type of companies can supervision be outsourced? Is it a common practice?

Until now, outsourcing has been common but generally limited to the on-site inspections described above.

III. ACCESS TO THE INSURANCE MARKET

Could the Israeli representative give more details on the penetration by foreign insurers - how it has evolved and why, etc.

The market share of foreign non-life insurers stands at less than 1%. We note that their market share was less than 1% in the early 1990s as well.

Foreign penetration takes other forms:

- There is significant foreign ownership of domestic insurers, including the largest Israeli life insurer;
- Active business is done by Lloyd's;
- Some of the larger Israeli corporations purchase non-life coverage from insurers abroad.

Are there obstacles to establishment/ operation/ investment by foreign insurers? Can for instance foreign insurers provide compulsory insurances? Are specific deposits required from foreign owned insurance companies?

There are no obstacles to the establishment/ operation/ investment of foreign insurers by comparison to domestic insurers. Foreign insurers may provide compulsory insurance. No specific deposits are required beyond the capital requirements described in our report of June 1.

Could the Israeli authorities confirm that domestic and foreign owned companies are submitted to the same requirements and treatment with regards to licensing? For instance, what is on average the time-lag between the lodging of a complete application and the final decision by the supervisory authority for both types of insurers? Are they also submitted to the same investment rules?

Domestic and foreign owned companies are submitted to the same requirements and treatment with regards to licensing. They are also submitted to the same investment rules.

Could the Israeli representative provide an estimation of market share of foreign insurers in life, non-life and reinsurance businesses?

Foreign insurers are not active in the Israeli life insurance market and represent less than 1% of the non-life market. Virtually all reinsurance is provided by foreign companies.

IV. PRIVATE HEALTH INSURANCE

Could the Israeli representative elaborate on the current situation and expected trends in private health insurance market in Israel?

We expect the following trends:

- With regard to long term care insurance, an increase in the relative penetration of individual policies versus group policies;
- With regard to health coverage other than long term care, an increase in the penetration of group policies.

Could the Israeli representative elaborate on the measures to develop the private health insurance market?

One important means of development is to increase public understanding of the added value of private insurance in comparison with basic and supplemental services offered by the national health funds. We believe that greater public understanding will further stimulate the refinement of existing private health insurance products.

The Commissioner:

- Requires insurers to provide each prospective policyholder with a detailed description of the offered private coverage and a comparison between the private coverage and basic public health care services;
- Has introduced standard definitions of medical terms and activities-of-daily living. New dread disease and long term care insurance policies may only use the standard definitions. It is our intention to introduce standard definitions to other kinds of health policies as well.

What is its structure? (Coverage, assets size, contribution rates, how many companies are operating in this area, what volume of premiums PHI represents, etc.)

For information about the individual health services covered, please refer to our report of June 1.

12 insurance companies offer health insurance policies, including various combinations of health services. Consequently, premium rates vary widely. Premiums are typically attained-age-rated. However, some long term care (and long term disability) policies are sold on the basis of premiums that do not vary by age after issue. Insurers have the option of adjusting the level of premiums over the life of the policy, in line with past experience of a block of business, subject to Commissioner approval. Total annual health premiums (also including long term disability policies) amount to approximately 800 million dollars.

What percentage of the population is currently covered?

Approximately 30% of Israeli residents are covered under private health insurance policies, not including coverage for long term care or disability.

Approximately 65% of Israeli residents are covered under private long term care insurance.

V. TAXATION

Could the Israeli representative describe the main features of the taxation of insurance products, and of insurance companies in Israel? Have incentives, including tax relief, be granted to stimulate market growth and long term savings? Are technical provisions built up by insurance companies eligible for a different tax treatment than that of profits?

The following information is somewhat more detailed than our report of June 1.

Life Insurance Products (Excluding Long Term Disability)

- 25% of employee-paid premiums are tax credited, on salaries up to approximately the average national wage;
- Employer-paid premiums are tax-deductible;

- For policies paying a life annuity at retirement:
 - a. Employer-paid premiums, on salaries up to 4 times the national average wage, are not recognized as income in the hands of the employee;
 - b. All investment income is tax-exempt;
 - c. 35% of annuity payments are tax exempt, up to a limit.
- For policies paying a lump-sum at retirement:
 - a. Employer-paid premiums, on salaries up to approximately the average national wage, are not recognized as income in the hands of the employee;
 - b. Investment income on:
 - i. Contributions up to a certain limit is tax-exempt;
 - ii. Excess contributions is taxed at 15%;
 - iii. Lump-sum payments:
 - a. After age 67 are tax-exempt;
 - b. After age 60 and 15 years of premium payments – previously exempted investment income is taxed at 15%;
 - c. Before age 60 are taxed at 35%.

The incentives above are intended to stimulate retirement savings and market growth.

Long Term Disability Products

- Employer-paid premiums, on 2.5% of salaries up to 4 times the average national wage, are not recognized as income in the hands of the employee;
- Disability benefits are taxed as ordinary income.

Non Life Products

There are no tax incentives for consumers.

Insurance Companies

Insurance company profits are taxed at a flat rate of 36%.

Technical Provisions and Profits

Increases and decreases in reserves are recognized for tax purposes as expenses and revenues, respectively. Investment earnings on reserves are otherwise tax-exempt.

A new tax has been introduced on life insurance products that may explain part of the fall in premiums for 2002. Can the Israeli representative describe this new tax and the rationale for its inception and for a taxation of life insurance products vs. other financial products?

The new tax applies to private income from savings and securities generally. It is designed to reduce differences between various taxes on capital, and to enable an easing of taxes on labour. With regard to life insurance policies, the new tax is limited to 15% of investment earnings on "excess" contributions to policies that pay only lump-sum benefits. The tax does not apply to any policy whose benefits are payable in the form of a life annuity, in order to encourage savings for retirement.