

INSURANCE CONTRACT LAW 5741-1981

CHAPTER ONE: PROVISIONS FOR ALL CATEGORIES OF INSURANCE

Article One: Insurance Contract

Insurance contract

1. An insurance contract is a contract between an insurer and an insured person, which obligates the insurer - in consideration of insurance premiums - to pay insurance benefits to the beneficiary upon occurrence of the insured event.

Policy

2. (a) When an insurance contract has been concluded, the insurer shall deliver to the insured person a document signed by the insurer, specifying the parties' rights and obligations (hereafter: policy), unless in that category of insurance it is customary not to issue a policy.
(b) As long as the policy has not been delivered to the insured person, the conditions customary with that insurer in that category of insurance - as submitted to the Commissioner of Insurance under section 16 of the Insurance Business (Control) Law 5711-1951, or as submitted or permitted, as the case may be, under section 40 of the said Law - shall be deemed to have been agreed between the parties, unless a deviation from those conditions was agreed between the parties.

Must emphasize limitations

3. Any condition or restriction on the insurer's liability or on its extent shall be specified in the policy near the subject to which it relates, or shall be stated therein with special prominence; the insurer may not rely on a condition or restriction, in respect of which this provision was not complied with.

Attachments to the policy

4. If the contract refers to a written reply by the insured person to a question he was asked by the insurer, then a copy of the reply shall be attached to the policy; the insurer may not rely on a reply, of which a copy is not attached to the contract.

Delivery of transcripts

5. The insurer shall deliver to the insured person and to the beneficiary, at the insured person's request and expense, transcripts of the policy and of the documents attached to it.

Obligation of disclosure

6. (a) If the insurer asked the insured person before conclusion of the contract - either on the insurance form or otherwise - a question on a point that is likely to affect the willingness of a reasonable insurer to conclude the contract at all or to conclude it on the terms contained in it (hereafter: material point), then the insured person shall give a complete and frank answer in writing.
- (b) A sweeping question, which covers various matters without differentiating between them, does not require an aforesaid reply, unless it is reasonable when the contract is concluded.
- (c) Concealment with fraudulent intent by the insured person, of anything he knows to be a material point, shall be treated like a reply that is not complete and not frank.

Consequence of nondisclosure

7. (a) If the reply to a question on a material point is incomplete and not frank, then the insurer may - within 30 days of the day on which he learned of it and as long as the insured event has not occurred - cancel the contract by written notice to the insured person.
- (b) If the insurer cancels the contract by virtue of this section, then the insured person is entitled to the refund of insurance premiums paid by him for the period after the cancellation, less the insurer's expenses, unless the insured person acted with fraudulent intent.
- (c) If the insured event occurred before the contract was canceled by virtue of this section, then the insurer is only liable to insurance benefits reduced in the proportion that corresponds to the ratio between the insurance benefits payable according to his common practice in accordance with the true state of affairs, and between the agreed insurance premiums, and he is completely free of obligation in each of the following cases:
 - (1) the reply was given with fraudulent intent;
 - (2) a reasonable insurer would not have entered into the contract, even with higher premiums, had he known the true situation; in this case the insured person is entitled to a refund of premiums paid by him for the period after the insured event occurred, less the insurer's expenses.

Denial of remedies

8. In each of the following cases the insurer is not entitled to the remedies said in section 7, unless the reply which was not complete or not frank was given with fraudulent intent:
 - (1) he knew or should have known the true situation when the contract was concluded, or he caused the reply not to be complete and frank;
 - (2) the fact, about which the reply was incomplete and not frank, ceased to exist before the insured event occurred, or did not affect its occurrence, the insurer's liability or its extent.

Insurance period

9. (a) Unless agreed otherwise, the period of insurance begins when the contract is concluded and it ends at midnight at the end of its last day.

- (b) If the period of insurance was agreed and if no later than 30 days before the end of the period the insured person proposed to the insurer in writing to extend the insurance for a period specified in the proposal, then the insurer is deemed to have agreed to the proposal unless he notified the insured person in writing - within 15 days after the proposal was delivered - of his refusal.
- (c) If it was agreed that the insurance be extended automatically at the end of the agreed period, then the insurance shall be extended each time for a period equal in length with the agreed period.
- (d) If no insurance period was agreed upon, then each party may cancel the insurance at any time by written notice to the other party; the insured person is entitled to the refund of premiums paid by him for the period after cancellation of the insurance.

Cancellation of contract

10. If one of the parties cancelled the contract under its terms or under this Law, then the contract lapses 15 days after the day on which the notice of cancellation was given to the other party.

Article Two: Beneficiary

Who is a beneficiary?

11. (a) The insured person is also the beneficiary, if no other beneficiary was designated.
- (b) A beneficiary shall be designated in a manner that makes his identification possible.
- (c) As long as the insured event has not occurred, the insured person may - by written notice to the insurer - designate a beneficiary other than himself, and he may revoke that designation and designate another beneficiary; however, the designation shall be irrevocable if it was so specified in the contract or in the written notice from the insured person to the insurer.
- (d) Designation of a beneficiary can be in respect of only part of the insurance benefits.

Status of beneficiary

12. (a) If a beneficiary other than the insured person was designated, then the right to the insurance benefits shall vest in the beneficiary; this provision does not derogate from the insured person's right to demand that the insurer pay the insurance benefits to the beneficiary.
- (b) Any argument which the insurer can raise against the insured person he can also raise against the beneficiary, and he may set off insurance premiums due to him under that contract against the insurance benefits.

Rights of insured person and of beneficiary

13. (a) The designation of a beneficiary other than the insured person does not prevent the insured person from transferring or charging his

rights under the contract, or creditors of the insured person from attaching those rights, all as long as the insured event has not occurred; however, if the beneficiary's designation was irrevocable, then a transfer or charge of the insured person's rights shall be subject to the beneficiary's written consent, and the insured person's creditors are not entitled to attach those rights.

- (b) Before the insured event occurs the beneficiary's right can be transferred, charged or attached only if the beneficiary's designation was irrevocable.

Article Three: Insurance Premiums

Time for payment

- 14. (a) Insurance premiums shall be paid when the contract is concluded or a reasonable time thereafter and - if they are set for specific periods - at the beginning of each period.
- (b) If the insurance is for several years and the premiums were set in an inclusive amount, then they shall be paid in equal annual installments at the beginning of each year of insurance.

Payment in arrears

- 15. (a) If insurance premiums or part thereof were not paid on time and also were not paid within 15 days after the insurer demanded in writing that the insured person pay them, then the insurer may inform the insured person in writing that the contract will become void after an additional 21 days, if the amount in arrears is not paid before then.
- (b) If a beneficiary other than the insured person was designated and that designation was irrevocable, then the insurer is not entitled to cancel the contract unless he informed the beneficiary in writing of the delay and if the beneficiary did not pay the amount in arrears within 15 days after the notification was delivered to him.

Article Four: Changes in the Risk

Risk no longer exists

- 16. (a) An insurance contract to cover a risk which already had passed when the contract was made or against an insured event which already had occurred at that time is void.
- (b) If it becomes impossible for the insured event to occur after an insurance contract is concluded, then the insurance contract is canceled automatically and the insured person is entitled to the refund of insurance premiums paid by him for the period after its cancellation.

Must notify of increased risk

17. (a) If an insured person becomes aware that a material change has occurred, then he must inform the insurer thereof immediately in writing.
- (b) For purposes of this article, "material change" - any of the following:
 - (1) a change on a material point, about which a question was put to the insured person before the contract was concluded and which occurred after that question had been answered;
 - (2) a change on a point specifically designated in the policy as material, which occurred after the policy was delivered to the insured person;
 - (3) anything which shows that the reply to a question on a material point was incorrect and which increases the insurer's risk substantially.

Effect of increased risk

18. (a) Within 30 days after notice of a material change was delivered to the insurer or after he learned of it in some other way, whichever is earlier, and as long as the insured event has not occurred, the insurer may cancel the contract by written notice to the insured person.
- (b) If the insurer canceled the contract by virtue of this section, then the insured person is entitled to the refund of insurance premiums paid by him in respect of the period after the cancellation, unless the insured person acted with fraudulent intent; if the insurer does not cancel the contract, then he is deemed to agree to its continuation in spite of the change.
- (c) If the insured event occurred before the contract was cancelled by virtue of this section, then the insurer is liable only to proportionally reduced insurance benefits, in the ratio between the agreed insurance premium and that which would have been payable after the change according to his common practice, and he shall be completely free of liability if any of the following is the case:
 - (1) no notice was given under section 17, and that was because of fraudulent intent;
 - (2) a reasonable insurer would not have entered into that contract, even for higher insurance premiums, had he known the situation as it is after the change; in this case the insured person is entitled to the refund of premiums he paid for the period after the change.

Denial of remedies

19. In any of the following cases the insurer is not entitled to the remedies said in section 18:
 - (1) the change ceased to exist before the insured event occurred, or it did not affect its occurrence or the insurer's liability or its extent;
 - (2) the change resulted from a step taken with the insurer's approval;
 - (3) the change resulted from any step taken to prevent serious material or bodily damage, on condition that the insured person notified the insurer in writing immediately after he took that step or immediately after he became aware of it.

Reduced risk

20. If the insurance premiums were set in the light of circumstances that enhanced the insurer's risk, and if - after they were set - those circumstances ceased to exist or to affect the insurer's risk, then the insured person is entitled to a reduction of the premiums, other than the insurer's expenses, for the period after he notified the insurer of the change, and they shall be set at what would customarily have been payable to that insurer when the premiums were set, in the absence of those circumstances.

Measures to reduce risk

21. If it was stipulated that the insured person or the beneficiary take a step to reduce the insurer's risk materially, and if that step was not taken within the time set for it, then the provisions of sections 18 and 19 shall apply, mutatis mutandis.

Article Five: Insurance Benefits**Notification that the insured event occurred**

22. If the insured event occurred, then the insured person shall so inform the insurer as soon as he becomes aware of it, and the beneficiary shall inform the insurer, as soon as he becomes aware of it, that the event has occurred and of his right to insurance benefits; notification by one of these shall relieve the other of that obligation.

Ascertainment of insurer's liability

23. (a) When notification of an insured event and a written claim for payment of insurance benefits were delivered to the insurer, he shall immediately do whatever is necessary to ascertain his liability.
- (b) The insured person or the beneficiary, as the case may be, shall deliver to the insurer all the documents required to ascertain the liability within a reasonable time after he was requested to do so, and if those documents are not in his possession he must do everything in his power to help the insurer obtain them.

Frustration of ascertainment of liability

24. (a) If an obligation under section 22 or 23(b) was not fulfilled in time, and if its fulfillment would have enabled the insurer to reduce his liability, then he shall only be liable to those insurance benefits to which he would have been liable if the obligation had been fulfilled; this provision shall not apply in each of the following cases:
- (1) the obligation was not fulfilled or was fulfilled belatedly because of justified reasons;
 - (2) its nonfulfillment or late fulfillment did not prevent the insurer from ascertaining his liability and did not hinder that ascertainment.
- (b) If the insured person or the beneficiary intentionally did anything to prevent or hinder the insurer in ascertaining his liability, then the insurer is only liable to those insurance benefits to which he would have been liable, had the aforesaid not been done.

Fraudulent claims

25. If an obligation under sections 22 or 23(b) was violated, or if anything said in section 24(b) was done, or if the insured person or the beneficiary communicated false facts to the insurer or concealed from him facts about the insured event or the insurer's liability, and if that was done with fraudulent intent, then the insurer is relieved of his liability.

Event caused intentionally

26. If the insured event was caused intentionally by the insured person or by the beneficiary, then the insurer is relieved of liability.

Time for the payment of insurance benefits

27. Insurance benefits shall be paid within 30 days after the day on which the insurer has the information and documents needed to ascertain his liability, but insurance benefits about which there is no bona fide disagreement shall be paid within 30 days after the day on which a claim under section 23(a) is delivered to the insurer, and they may be claimed separately from the other benefits.

Linkage and interest

28. (a) Linkage differentials, within the meaning of that term in the Adjudication of Interest and Linkage Law 5721-1961, shall be added to insurance benefits from the day of the insured event, and linked interest at the rate set under section 1 of the said Law for purposes of the definition of "linkage differentials and interest" from the thirtieth day after the claim was delivered; this provision shall not derogate from the Court's power under the said Law.
- (b) If the insurance benefits or a part thereof were calculated at their value on some date after the insured event, then linkage differentials shall be added to them or to the part thereof, as the case may be, from that date only.
- (c) If the insurer must refund insurance premiums to the insured person or to the beneficiary, then linkage differentials and interest, as said in subsection (a), shall be added to them from the day on which the obligation arose.
- (d) The provisions of subsection (a) shall not apply to insurance benefits paid in foreign currency or in Israel currency calculated according to the value of a foreign currency, but to said benefits shall be added, from 30 days after the claim was delivered, interest at the rate set under section 4(a) of the Adjudication of Interest and Linkage Law 5721-1961, beginning 30 days after the claim was delivered to the insurer.

Special interest

- 28A. If an insurer of personal insurance did not in good faith pay the insurance benefits which were not in dispute when he should have paid them under section 27, then the Court may obligate him to pay special interest at a rate of not more than three times the rate set in the definition of linkage differentials and interest in the Adjudication of Interest and Linkage Law 5721-1961, which shall be calculated on the said insurance benefits and on

the linkage differentials added to those benefits under section 28, from the times when the insurer should have paid them until their actual payment; the special interest shall be paid in addition to the interest said in section 28; for this purposes, "personal insurance" - life insurance, personal accident insurance, vehicle (property) insurance, insurance of dwellings and their contents, and exclusive of liability insurance.

Special relief

29. If - under Law or under the contract - the insurer's liability or its extent is conditional - affirmatively or negatively - on an act or omission by the insured person or by the beneficiary, and if that act or omission did not materially affect the insurer's risk, then the Court may - if it finds it just to do so under the circumstances of the case - obligate the insurer to pay all or part of the insurance benefits, even if the condition was not fulfilled or was violated.

Recurrence of insured event

30. The insurer must pay benefits even if the insured event occurred more than once during the insurance period, but altogether he shall not have to pay more than the amount of insurance, as defined in section 56.

Prescription

31. For claims for insurance benefits the period of prescription is three years after the insured event occurred.

Article Six: Insurance Agent

Definition

32. In this article, "**Insurance agent**" - a person whose business is the brokerage of insurance between insured persons and insurers.

Agency for purposes of contract

33. (a) In connection with negotiations toward the conclusion of an insurance contract, and in connection with the conclusion of the contract, the insurance agent shall be deemed the insurer's agent, unless he acted as the insured person's agent on his written demand.
- (b) In connection with the obligation of disclosure when an insurance contract is concluded, the insurance agent's knowledge of the true facts of a material point shall be deemed the insurer's knowledge.

Agency for purposes of premiums

34. For the purpose of accepting insurance premiums, the insurance agent who acted as broker or who is named in the policy as the insurance agent, shall be deemed the insurer's agent, unless the insurer informed the insured person in writing not to pay premiums to that agent.

Agency for delivery of notifications

35. For the purpose of notifications by the insured person and the beneficiary to the insurer, the insurance agent who brokered the insurance or who is named as insurance agent in the policy shall be deemed the insurer's agent, unless the insurer informed the insured person in writing that notifications are to be sent to another address.

Application of Agency Law

36. The provisions of the Agency Law 5725-1965 shall apply, mutatis mutandis, to agency under the provisions of sections 33 to 35.

Article Seven: Miscellaneous Provisions

Notice

37. (a) Notices from the insurer to the insured person or to the beneficiary shall be sent to their last address that is known to the insurer.
- (b) Notice from the insured person or the beneficiary to the insurer shall, at the option of the person who gives the notice, be sent to the insurer at his business address, to the insurance agent said in section 35, or to another person in Israel, whose address was stated in the policy or of which the insurer gave them written notice.
- (c) If the insurer has no place of business in Israel and if no address of any other person in Israel is given, then the insurer is not entitled to plead that no notice was given by the insured person or the beneficiary, or that it was given belatedly.

Exclusivity of remedies

38. The insurer's remedies under sections 7, 15, 18, 24 and 25, exclude - in connection with matters dealt with in those sections - his remedies under any other Law.

Restrictions on stipulation

39. (a) There must not be any stipulation against the provisions of sections 2 to 4, 21, 25, 26, 33(b), 34, 35 and 38.
- (b) There shall be no stipulation against the provisions of sections 5 to 8, 9(c), 13, 15, 17, 18, 19, 22 to 24, 27, 31 and 37, except to the advantage of the insured person or of the beneficiary.

Applicability

40. The provisions of this Chapter shall apply to all categories of insurance, unless a special provision on the matter under consideration appears in another Chapter of this Law or in another Law.

CHAPTER TWO: LIFE INSURANCE

Definition

41. In life insurance the insured event is the death of the insured person or of another person, or their reaching a certain age, or some other event in their lives, other than an accident, sickness or disability.

Insurance of person other than insured person

42. (a) If the insured event is the death of a person other than the insured person, then the contract requires the written consent of that person or - if he is a minor or legally incompetent - the consent of his guardian, within the meaning of that term in the Capacity and Guardianship Law 5722-1962.
- (b) This section does not apply to the life insurance of a group of persons, the composition of which is apt to change during the insurance period, the beneficiaries being those persons or their heirs.

Restriction on remedies

43. The insurer is not entitled to the remedies said in section 7 after three years passed since the contract was concluded, unless the insured person or the person whose life has been insured acted with fraudulent intent.

Beneficiaries

44. (a) If the insured person's spouse is designated as beneficiary without being named, then the insurance benefits shall accrue to the person who was his spouse when the insured event occurred, and if relatives are designated - the relatives who were alive when the event occurred; if children or descendants are designated - that also means adopted children and any born within 300 days after the event occurred.
- (b) If several beneficiaries are designated and their shares are not specified, then the insurance benefits shall be divided equally.
- (c) If a beneficiary who is not the insured person died before the insured event occurred, then his spouse or descendants shall be entitled to the insurance benefits according to the rules of apportionment in intestate inheritance; if there are no such survivors, or if the beneficiary renounced his right before the insured event occurred, then the right to the insurance benefits shall vest in the insured person.

Cancellation of contract

45. (a) The insured person may cancel the contract at any time by written notice to the insurer.
- (b) If a beneficiary who is not the insured person was designated irrevocably and if the insured person cancelled the contract by virtue of this section, then the insurer shall immediately notify the beneficiary of the cancellation in writing, stating the provisions of this subsection, and the beneficiary may - by written notice to the insurer not later than 30 days after receipt of the insurer's notice - take over the contract with its rights and obligations; if the beneficiary gave aforesaid notice, then the contract shall remain in

effect - and if meanwhile it was cancelled it shall be reinstated - with the beneficiary taking the insured person's place.

- (c) If a beneficiary who is not the insured person was designated irrevocably and the contract is cancelled otherwise than said in subsection (b), then the insurer shall immediately give written notice to the beneficiary.

Conversion and redemption

- 46. (a) After insurance premiums for two years have been paid, the insured person may demand - by written notice to the insurer - conversion of the insurance into paid up insurance, or redemption of the policy.
- (b) If the insured person demanded conversion of the insurance into paid up insurance, then the insurance benefits shall be reduced from the end of the current insurance period for which premiums are being paid, in accordance with the amount set for that purpose in the policy, and the obligation to pay insurance premium shall cease from then on.
- (c) If the insured person demanded redemption of the policy, then the insurer shall pay him the redemption value set in the policy within 30 days after the day on which the demand was delivered, or within a longer period set by the insured person in his demand, which shall not be longer than 90 days; to the redemption value shall be added linkage differentials, within the meaning of that term in the Adjudication of Interest and Linkage Law 5721-1961, from the day the demand was delivered or from the day set in it, and linked interest at the rate set under section 1 of the said Law for purposes of the definition of "linkage differentials and interest" from the thirtieth day after the said day.
- (d) The insured person may restrict his request to part of the insurance.
- (e) If a beneficiary other than the insured person was designated irrevocably, then the insured person's demand requires the written consent of the beneficiary.

Conversion and redemption, notwithstanding cancellation

- 47. Cancellation of a contract by the insurer does not derogate from the insured person's right to the policy's redemption, and the said cancellation for nonpayment of premiums also does not impair his right to conversion of the insurance, provided that the request to convert the insurance was made within 30 days after the insurer's notice of cancellation.

Policy as surety for loan

- 48. If the insured person pledged his rights under a redeemable policy to the insurer as surety for a loan extended to him by the insurer, and if the loan was not repaid at the due time, then the insurer shall set off the loan against the policy's redemption value, only after he has requested in writing that the insured person repay the loan within the period in which the insurer must repay the redemption value and the loan was not repaid within that time.

Restriction on application of provisions

- 49. The provisions of sections 17 to 19 shall not apply to life insurance.

Suicide of person whose life is insured

50. In life insurance, the insurance benefits also are due if the person whose life was insured committed suicide, if a year or more passed since the contract was concluded.

Adoption of contract

51. (a) If a person other than the insured person was designated as beneficiary, and if the insured person died while the person whose life was insured is alive, then the insurer shall so notify the beneficiary, and the beneficiary may - within 30 days after receipt of the notice - adopt the contract, its obligations and rights, by written notice.
- (b) If a person other than the insured person was designated as beneficiary, and if a bankruptcy order or a winding up order was given against the insured person, then the beneficiary may adopt the contract as said in subsection (a); however, if he was not designated irrevocably, then he shall pay to the trustee in bankruptcy or to the liquidator the policy's redemption value, as it was when the order was given.

Restrictions on stipulation

52. (a) There can be no stipulation against the provisions of sections 42, 49 and 51;
- (b) There can be no stipulation against the provisions of sections 43, 45 to 48 and 50, except to the advantage of the insured person or beneficiary.

CHAPTER THREE: ACCIDENT, SICKNESS AND DISABILITY INSURANCE

Definition

53. In accident insurance the insured event is an accident to the insured person or to another person, in sickness insurance it is the onset of a sickness from which he came to suffers, and in disability insurance it is the onset of disability.

Application of provisions

54. (a) The provisions of Chapter Two shall apply, mutatis mutandis, to accident, sickness and disability insurance in which the insurer must pay insurance benefits at rates agreed in advance, irrespective of the amount of damage caused.
- (b) The provisions of sections 42, 49, 52, 56, 61, 62 and 64 shall apply, mutatis mutandis, to accident, sickness and disability insurance in which the insurer must pay insurance benefits according to the amount of damage caused.

CHAPTER FOUR: DAMAGE INSURANCE

Article One: Property Insurance

Definition

55. (a) In property insurance the insurer must indemnify for losses caused to the insured person or the beneficiary because the insured property was lost or damaged.
- (b) The insured property may belong to the insured person or to another.

Extent of liability

56. (a) The insurer's obligation to indemnify shall be in the amount of damage suffered, but it shall not exceed the amount of his obligation under the contract (hereafter: insurance amount); the insurance amount - except for an insurance amount stated in a foreign currency or in Israel currency linked to a foreign currency - shall change in accordance with changes in the consumer price index published from time to time by the Central Bureau of Statistics or in some other index published as aforesaid on which the parties have agreed, between the index last published before the contract was concluded and the index last published before the insured event occurred.
- (b) The insurance amount in an insurance contract shall be stated in terms of foreign currency or in Israel currency linked to foreign currency only if that currency is included in the list of foreign currencies designated by the Commissioner of Insurance for this purpose.
- (c) Insurance benefits shall be calculated so that the beneficiary will be brought, as far as possible, to the condition in which he would have been if the insured event had not occurred.
- (d) If the parties agreed in advance on the amount of indemnification, then the insurance benefits shall be as agreed, independently of the amount of damage caused.

Expanded liability

57. The insurance of property against a certain risk also covers damage caused by reasonable means exerted to protect it from that risk.

Overinsurance

58. If, when the contract is concluded or thereafter, the amount of insurance unreasonably exceeds the value of the insured property, then each party may - at any time during the insurance period - request reduction of the amount of insurance to the value of the property at the time of the request; when this reduction is requested, the amount of insurance shall be reduced and the insurance premiums shall be reduced correspondingly from the day of the request.

Multiple insurance

59. (a) If property was insured against the same risk with more than one insurer for coincident periods, then the insured person shall so inform the insurers in writing immediately after the multiple insurance has been effected or after he becomes aware of it.
- (b) If a property was insured by multiple insurance and the aggregate of all insurance amounts exceeds the property's value unreasonably, then the insured person and each of the insurers is entitled - at any time during the insurance period - to request reduction of the amounts of insurance to the value of the property at the time of the request; when this reduction has been requested, the amount of insurance shall be reduced proportionally and the insurance premiums shall be reduced correspondingly from the day of the request.
- (c) In multiple insurance the insurers are jointly and severally liable to the insured person in respect of the coincident amount of insurance.
- (d) The insurers shall share the burden of liability in the proportion of the amounts of insurance.

Underinsurance

60. If the amount of insurance was less than the value of the insured property when the insurance contract was concluded, then the insurer's liability shall be reduced proportionally, in the ratio of the amount of insurance to the value of the property at the time the contract was concluded.

Reduction of damage

61. (a) The insurer is not liable to insurance benefits for damage which the insured person could have prevented or reduced - when the insured event occurred or thereafter - by adopting reasonable measures or measures which the insurer instructed him to adopt.
- (b) If the insured person or the beneficiary incurred reasonable expenses - when the insured event occurred or thereafter - in order to prevent or reduce the damage, or if he assumed reasonable obligations for that purpose, then the insurer must indemnify him, whether or not the damage was prevented or reduced; if the expenses or obligations were not reasonable, then the insurer shall indemnify to the extent that they were reasonable under the circumstances - all even in excess of the insurance amount.
- (c) The provisions of this section shall not apply to insurance, in which the parties agreed on the amount of indemnification, as said in section 56(c).

Substitution

62. (a) If, in respect of the insured event, the insured person also has a right for compensation or indemnification against a third person, not by virtue of an insurance contract, then that right passes to the insurer when he has paid insurance benefits to the beneficiary, in the amount of benefits paid.
- (b) The insurer is not entitled to use a right, which passed to him under this section, in a manner than will impair the insured person's right to collect compensation or indemnification from the third person in excess of the benefits received from the insurer.
- (c) If the insured person received compensation or indemnification from a third person, which under this section was due to the insurer, then he shall transmit it to the insurer; if he made a compromise, gave a waiver or did any other act derogatory to the insurer's rights, then he shall compensate him therefor.
- (d) The provisions of this section shall not apply when the insured event was caused unintentionally by a person from whom a reasonable insured person would not claim compensation or indemnification because of a family relationship or because of an employer/employee relationship between them.

Insurance of debts

63. In insurance against the nonpayment of debts the rights of the insured person against his debtor pass to the insurer, when he has paid insurance benefits to the beneficiary, in the amount of benefits paid, and the provisions of section 62(b) and (c) shall apply, mutatis mutandis.

Restrictions on stipulation

64. There shall be no stipulation against the provisions of sections 56, 57, 59(a) to (c), 61 and 62, except to the advantage of the insured person or beneficiary.

Article Two: Liability Insurance

Definition

65. In liability insurance the insurer must indemnify the insured person for a monetary liability which the insured person may incur towards a third party; the insured event occurs on the day on which the grounds for the said liability arises.

Extent of insurer's liability

66. Liability insurance also covers reasonable legal costs which the insured person must bear because of his liability, and that even in excess of the insurance amount.

Applicability of provisions

67. The provisions of sections 56, 59, 61 and 62 shall apply, mutatis mutandis, to liability insurance and there shall be no stipulation against them - except against the provisions of section 59(d) - except to the advantage of the insured person or the third party.

Status of the third party

68. In liability insurance the insurer may - and if the third party so demands, then he must - pay to the third party the insurance benefits due to the insured person from the insurer, on condition that he gave the insured person written notice to that effect 30 days in advance and the insured person did not object during that period; however, any argument available to the insurer against the insured person shall also be available to him against the third party.

Bankruptcy or winding up of insured person

69. (a) If one of the events specified below occurred in respect of a person insured by liability insurance, and if before or after its occurrence the insured person incurred a liability covered by the insurance toward a third party, then the insured person's rights toward the insurer because of that liability shall not be part of his assets, but shall be passed to the third party and he shall be entitled to sue the insurer on the strength of those rights; however, any argument available to the insurer against the insured person shall also be available to him against the third party.
- (b) And these are the events:
- (1) the insured person was declared bankrupt or - in the course of bankruptcy proceedings - reached a compromise or arrangement with his creditors;
 - (2) the insured person died and an order was made for the administration of his estate in bankruptcy;
 - (3) in respect of an insured person that is a body corporate - a winding up order was made, or a receiver for it or an administrator for it or for its business or plant was appointed, or it adopted a resolution for voluntary winding up, other than voluntary winding up for the purpose of structural change or of amalgamation with another body corporate.

Restriction on prescription

70. In liability insurance, a claim for insurance benefits is not prescribed as long as the third party's claim against the insured person is not prescribed.

Restrictions on stipulation and acts

71. (a) There shall be no stipulation against the provisions of sections 66 and 68 to 70.
- (b) No act of an insured person, insurer, trustee in bankruptcy, liquidator, receiver or administrator can derogate from a third party's rights under sections 68 and 69.

CHAPTER FIVE: MISCELLANEOUS

Restrictions on applicability

72. (a) (1) The provisions of this Law, except for section 62, shall not apply to reinsurance;
- (2) the provisions of this Law, except for sections 62 and 69, shall not apply to marine insurance and aviation insurance.
- (b) The Minister of Justice may - by order with the approval by the Knesset Constitution, Law and Justice Committee - prescribe categories of transactions to which all or some of the provisions of this Law shall not apply.

Grandfather clause

73. The provisions of this Law shall apply whenever the Motor Vehicles Insurance Ordinance (New Version) 5730-1970 or any other Law does not include special provisions for the matter concerned.

Repeal

74. The following are repealed:
- (1) the Ottoman Insurance Law of the year 1323 (1904);
- (2) the Assurance of Benefits (Third Party) Law 5737-1976.

Effect and transitional provisions

75. (a) This Law goes into effect on January 1, 1982, but section 28(a) shall go into effect three months after the date of this Law's publication in Reshumot.
- (b) The previous Law shall continue to apply to insurance contracts concluded before this Law came into effect; for purposes of applicability renewing an insurance contract shall be the same as concluding it.