

POLICY

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2014

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Arie Lavi

SOMETHING IN THE AIR

It is unclear whether it is the beach in Tel Aviv, the historical holiness of Jerusalem or the alleyways of Old Jaffa –there is something in the air of Israel that attracts reinsurers.

Many senior members of the insurance sector in Israel continue to report, year after the year, the huge interest created by the insurance companies in Israel amongst the reinsurance companies. The **Tel Aviv Re Conference**, which is being held this year for the eighth time, without doubt testifies to the attractiveness of the insurance sector in Israel, at least from the point of view of the reinsurers.

The Israeli economy is thriving, in a world which only now beginning to recover from long years of recession, stable long-term growth in the economy, a developed capital market and around 15 competitive, profitable, sophisticated and hungry insurance companies – probably explain better the stream of reinsurers coming to Israel. It is already clear beyond a shadow of doubt that the insurance sector in Israel is a source of great interest in the world market, certainly in excess of its relative weight in the world.

The organizers of the Conference, **Insurance Companies Association** Chairman, **Ofer Eliahu**, and **Life Insurance Companies Federation** Chairman, **Ze'ev Even Chen**, discuss in a conversation with **Policy** the contribution of the reinsurers to the insurance economy in Israel. According to Eliahu, "There are special catastrophic risks in Israel, the main one being the earthquake risk, and from this point of view, the reinsurer taking on a big share of the risk, is of vital importance". Even Chen added: "The reinsurers have great faith in

the insurers in Israel, both from the point of view of integrity and from the professional point of view, which are a vital condition for reinsurance deals, since the reinsurer relies on the business activity of the insurer".

Harel President Gideon Hamburger, who founded the Tel Aviv Re Conference during his period as Chairman of the Insurance Companies Association, in an interview held with him, describes the trends taking place in the reinsurance sector and their impact on the insurance market in Israel.

The CEO of the Israel branch of the **Swiss Re** insurance giant, **Yossi Sirote**, said in a conversation with **Policy** that even Swiss Re is surprised at the number of reinsurers operating here in 2013. He says that this testifies to the tough competition that Swiss Re has to cope with, but pointed to Swiss Re's advantages vis-à-vis its competitors.

Ayalon CEO, **Emil Vainshel**, describes, in a conversation with **Policy**, the connection between Ayalon and its reinsurers and says that the integrity and honesty of the controlling shareholder are very important to the reinsurers, "The company makes a point of not transferring all of the risk but acts with integrity and fairness. It regards the reinsurers as partners".

Hachshara CEO, **Etti Elishkov**, says that Hachshara's good results over the years in the various property branches and also in the engineering branches and in particular in contractors insurances, together with open relations of trust and long-term connections with the reinsurers – enable the company to obtain quality reinsurance coverages, from a stable panel of reinsurers. "In terms of reinsurance conditions and

price over time, we are year after year experiencing, we are pleased to say, an excess of supply on the part of the reinsurers, allowing us to disperse the risks whilst strengthening and closing reinsurance contracts to our satisfaction", says Elishkov.

Uri Omid, CEO of **Shlomo**, describing the current situation in the insurance sector, said: "Over the years, the Israeli insurance companies cross-subsidized the elementary insurance sector thanks to the high profits in life and health insurance. The excess profits recorded in these sectors are beginning to dwindle, amongst other things as a result of regulatory activity and increased public awareness".

Arik Yogev, CEO of the **Psagot Insurance Company**, presented his company, which commenced its activity in life insurance a few months ago – "It is true that the insurance sector in Israel is highly competitive, despite the consolidation that the sector has undergone. I can still remember when there were 30 insurance companies here, and their number has significantly decreased. A new insurance company has not been established in Israel for many years, and I am privileged to be setting it up".

In this special edition, you will in addition, find professional articles by **AIDA Israel** President Attny. **Gad Peter Naschitz**, **Lloyd's** representative in Israel, Attny. **Sigal Schlimoff** and Attny. **Rena Egulsky**, Attny. **Tammy Greenberg**, insurance figures **Hagai Shapira**, **Morly Dory**, **Gad Nussbaum** and **Rita Ba'al-Taxa**.

Good and useful reading,

Arie Lavi

REINSURERS HAVE GREAT CONFIDENCE IN THE INSURERS IN ISRAEL BOTH IN TERMS OF INTEGRITY AND IN PROFESSIONAL TERMS

• Even Chen: "For the time being, we do not see any expansion in regulation resulting from the populist opinions that are frequently expressed in the media and I hope that the regulator will continue to stand firm and not get caught up in populist trends which can bring harm to insureds and pension savers"

• Eliahu: "We should not adopt a solution that requires the insurer to purchase land that has not been damaged and exposes it to pecuniary risks entailed in holding stock of real estate - an insurer by definition is not supposed to take risks with volatile assets"

According to **Ofer Eliahu**, Chairman of the **General Insurance Association**, the **Tel Aviv Re** Conference is important on three levels. The Conference provides proper recognition of the professionalism of the Israeli insurance industry.

The Conference contributes to establishing a closer relationship between Israeli insurance companies and the reinsurers and to closing reinsurance transaction that are important to the insurance market in Israel. The Conference elevates the status of Tel Aviv and of Israel in general. Eliahu made this comment in joint

from overseas – a notable level of participation, according to the organizers. Even Chen stressed that, "International reinsurers have great confidence in the insurers in Israel both in terms of their integrity and

served as CEO of both organizations, I'll answer that. The two organizations bring the insurers together and are regarded as "Trade Association", as the term is defined in the Antitrust Law. The General Insurance Association



Ze'ev Even Chen
Chairman of Association
of Life Insurance Companies of Israel



Ofer Eliahu
Chairman of Israel Insurance Association

represents the insurance companies in all aspects of non-life (elementary) insurance, whilst the Federation represents the insurance companies in all matters relating to life insurance, long-term savings and health insurance.

The General Insurance Association was founded in 1951, whilst the Life Insurance

Policy conversation together with **Life Insurance Association** Chairman, **Ze'ev Even Chen**, in run-up to the Eighth Reinsurance conference in Tel-Aviv which is being held under the joint auspices of the two organizations. About 180 representatives of reinsurance companies are expected to arrive for this year's Conference

in terms of their professionalism – qualities which are indispensable in the re-insurance business, because the reinsurer is completely reliant on the insurer's business activity".

• **What characterizes the organizations that you head?**

Even Chen: As someone who has

Association was founded in 1956 as a limited company and separate from the General Insurance Association, since it concentrated the investments emanating from index-linked life insurance in designated debentures, originally in **Electric Corporation** debentures and later on - from 1962 – in government bonds. Yes, in the

beginning in the Electric Corporation, because in the late 'fifties the government was apprehensive about issuing fixed interest index-linked bonds.

We decided to maintain the separation even after the investments in designated bonds from life insurance funds (including savings funds) had ceased for new policies, because non-life insurance products are completely different from pension products and because their regulatory treatment is also different. The differing professional requirements demand parallel professionalism with the representative bodies.

To complete the picture, I would point out that the membership of the Life Insurance Association and the General Insurance Association does not completely overlap. The Life Insurance Association includes all of the insurance companies in Israel which are engaged in the same areas as the Life Insurance Association, whilst the General Insurance Association includes around 85% of the companies involved in non-life insurance in Israel.

• What can you tell us about the level of participation of overseas reinsurers in the Conference?

Eliahu: Every year we are pleasantly surprised by the level of response from the world's reinsurers and by the scale of their participation in the Conference. More than 180 representatives of reinsurance companies will be attending the Conference this year. To tell the truth, when **Gideon Hamburger** as the then Chairman of the General Insurance Association first suggested the Conference, we did not believe that we would achieve such a remarkable level of participation. It needs to be said that the participation at the Conference is characterized by the seniority of the representatives of the

world's leading reinsurers.

• What is the importance of the Conference?

Eliahu: The importance of Tel Aviv Re is in three aspects: recognition of the professionalism of the insurance industry in Israel, without which we would have difficulty in putting together the Conference. The second aspect is the conference's contribution to deepening familiarity and the connection between the insurance companies in Israel and reinsurers and in closing reinsurance transactions that are important to the insurance market in Israel. The third aspect is in raising the status of Tel Aviv and of Israel in general. There are few economic sectors in Israel that are able to attract so many of its senior members from around the world.

Even Chen: I should add that the **Finance Ministry** also recognizes the importance of the Conference, and participating for the first time this year in the gala opening will be Finance Minister **Yair Lapid**, who is also expected to speak.

• What is the contribution of the reinsurers to the insurance industry in Israel?

Eliahu: Reinsurance has a major role in the insurance business, and helps it to operate. Reinsurance increases the insurer's capacity and this is even truer in the case of small and medium insurers, because it enables them to expand their businesses without injecting equity or harming stability, and in this manner they can operate as players in the insurance market with respect to many products. Reinsurance also creates protection against volatility in expectancy of risk, which cannot be forecast in advance, including catastrophes. Because Israel is a small country, in the nature of things the insurance companies in Israel are small relative to the insurers in the larger countries, and thus they need

reinsurance.

It is difficult for me to imagine the insurance industry in Israel without reinsurance taking on a significant share of the risk. I should point out that Israel has specific disaster risks, chiefly the risk of an earthquake and from this point of view, reinsurance, which takes on a significant share of the risk, is vital.

Even Chen: International reinsurers have great confidence in the insurers in Israel both in terms of their integrity and in terms of their professionalism - qualities which are indispensable in the re-insurance business, because the reinsurer is completely reliant on the insurer's business activity.

• Do you feel the regulation of insurance in Israel is excessive?

Even Chen: We realize that the insurance industry, including pension savings, needs to be supervised and regulated, but the regulation in recent years has become invasive and detailed in manner that is needlessly harmful to the insurance business. There are regulatory directives that cause significant expense without giving much benefit to the policyholders, if at all. In our opinion, the principle of cost versus benefit is not always the factor that guides the Insurance Commissioner. Our view is that the regulation needs to be more general, setting only general principles. With two recent examples, the regulator has made a point of sending drafts for our consideration prior to issuing circulars, but the response times given are too short for us to make appropriate comments, particularly from an insurance point of view, as opposed to the legal aspects.

It seems to us that the regulator does not pay adequate attention to our comments, which are not given solely from the point of view of our own interests. As a result, in many cases the regulator does not give serious consideration to our views - which is a pity, since it impacts negatively on the effectiveness of the

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REINSURANCE CAPACITY HAS INCREASED IN ISRAEL AS A RESULT OF THE ACTIVITY OF THE REINSURERS

• A phenomenon has recently developed of brokers issuing policies directly to Israeli insurance clients via overseas brokers • This phenomenon is not for the benefit of the Israeli insurance sector and mainly - not for the benefit of the policyholders, since in case of a claim the policyholders will need to deal directly with the reinsurers abroad which is an expensive, lengthy and complicated process

"During 2013 we have experienced that there are enough reinsurers, including new ones, who are prepared to expand their activity also in Israel – which of course increases the reinsurers' capacity, mainly in respect of natural hazards". Thus says "**Harel Insurance and Finance**" President, **Gideon Hamburger**, who founded the "**Tel Aviv Re**" Conference, running up to the eighth **Tel Aviv Re 2014 Conference**, which is currently taking place. Hamburger, who founded the Conference as part of his activity and Chairman of the **Insurance Association**, said that many of those attending the Conference in recent years are reinsurers who are visiting Israel for the first time. He said: "Getting acquainted with the Israeli insurance market results in them coming to Israel more frequently".

• **What are the principle trends in the world reinsurance sector?**

Hamburger: The world reinsurance sector in general had a good year in 2013 since no large claims were registered.

In addition, it was possible to see that the principal reinsurance market is still in London but there is also in addition a reinsurance market in Switzerland, which is growing rapidly. Many of the reinsurers operating in Bermuda have transferred their activity to Zurich.

• **How do they affect the sector in Israel?**

Hamburger: During 2013 we have seen that there are enough reinsurers, including new ones, who are prepared to expand their activity also in Israel – which of course increases

the reinsurers' capacity, mainly in respect of natural hazards. In addition the reinsurers are starting to be more selective as to the quality of the risk.

• **How is this being implemented?**

Hamburger: It can be seen today that in respect of businesses with a



Gideon Hamburger

Harel Insurance and Finance President

good claims record – the reinsurers are prepared to give discounts, whilst in the case of businesses with a poor claims record – there is a trend amongst reinsurers to increase rates and to increase the deductibles, the policyholder's participation and demand current inspections.

• **What additional factors affect the relation of the Israeli insurance sector with the reinsurers?**

Hamburger: A phenomenon which has developed recently, and one which is definitely not for the benefit of the

insurance sector in Israel, is of the fact that brokers issuing policies to Israeli companies directly overseas, placing it with foreign insurance companies, without any participation of an Israeli insurance company. This results in the policyholders' premiums being transferred directly abroad. When there is a claim – the policyholders need to deal directly with the overseas insurers, a process which is costly, and in most cases is one which is lengthy and complicated.

• **How do the reinsurers relate to the regulatory processes in Israel?**

Hamburger: We have recently been hearing more and more expressions of surprise from the reinsurers over the heavy regulation by the **Insurance Commissioner's Office**.

• **How does Tel Aviv re, which you founded as Chairman of the Insurance Association, contribute to the insurance sector in Israel?**

Hamburger: There is no doubt that the reinsurance conference, which is taking place this year for the eighth time – has become a conference which has gained an excellent reputation for itself amongst reinsurers from all over the world. We are witnessing the fact that especially with regard to this Conference, a large number of reinsurers are coming from the Far East, USA and Europe.

Many of those attending the Conference in recent years are reinsurers who are visiting Israel for the first time. After getting acquainted with the Israeli insurance market results in them coming to Israel more frequently.

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THE SECTOR NEEDS TO ACT MORE RESPONSIBLY TOWARDS THE TRANSFER OF RISK TO REINSURERS IN ORDER TO ENSURE THEIR SUPPORT OVER TIME

• The managers need to price risks more accurately and use updated professional models • In 2013 Ayalon grew at the highest rate of all of the top six companies • All over the world, the agents and brokers are the dominant sales and marketing channel in the primary insurance market- but this does not negate the need to integrate innovative tools in the spirit of the times that are able to serve the company and the agent

According to **Ayalon** CEO **Emil Vainshel**, "the sector needs to act more responsibly, especially in the property and liabilities lines of business, with being so as to ensure, amongst other things a long-term partnership with the reinsurers. We should not wait until the reinsurers limiting coverage or dramatically raise prices". He says that insurance company managers need to price the insurance risks more professionally and responsibly, using advanced professional models taking into account the cost of capital and technical pricing of risks, amongst other things, in order to maintain good business relations over time with those reinsurers and we need to act in true partnership in risk management. The Israeli insurer does not need to act as a broker passing on most or all of the risk onto the reinsurer, when in practice he is able to permit himself to take on a bigger share of the insurance risk on the basis of professional and suitable pricing whilst using informed judgment of overall risk management.

"When underwriting policies at insufficient technical prices and transferring all or most of the risk onto the reinsurers – the time will come when they will simply stop

giving the necessary support", explains Vainshel.

Vainshel points to a worrying situation, and uses the example of the



Emil Vainshel
Ayalon CEO

commercial fire lines of business: "A significant share of the reinsurers, led by the **Munich Re** insurance giant, reduced and indeed refused to be part of the proportional reinsurance treaty in the commercial fire line of business, since over time, they have failed to make sufficient profit".

On the other hand, despite the criticism aimed at many companies in the sector, Vainshel also sees reasons for optimism. In an in-depth analysis of the activity some

of the biggest insurance companies in the sector, Vainshel is seeing signs showing a start of a return to more responsible risk management, with more professional pricing of the different complex risks, whilst taking into account that it is no longer possible to rely primarily on investment income due to the falling interest rates on financial instruments in Israel and abroad and in accordance with the relatively low yields.

Vainshel entered his position as Ayalon CEO at the end of 2011. He previously served as Deputy CEO at **Harel**, and was responsible for the insurance division of Harel. His appointment as CEO was the first in a series of appointments made by the controlling shareholder, Mr **Levi Rachmani**, in a process defined by Rachmani as a "return to former glory", which was aimed at improving Ayalon's status in the insurance sector, increasing profits and increasing its worth. He placed emphasis on the professional aspect – which company's founder, Levi Rachmani aimed at the outset – to be Israel's most professional company.

• **What is the unique value created by Ayalon for the reinsurers?**

Vainshel: Ayalon has a relationship

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Etti Elishkov, the CEO of Hachshara tells Policy: The positive results in our property and engineering portfolios (with an emphasis on contractors all risks insurance) over the years, coupled with the long-term & trust we have built with our reinsurers, enables Hachshara to obtain extensive reinsurance cover at competitive conditions with a panel of top reinsurers. Year after year we (fortunately) find our treaties oversubscribed, enabling us to spread the risk with our wide panel of top reinsurers.

- **What principles guide Hachshara in its relations with reinsurers?**

Elishkov: Our guiding principles in our relations with reinsurers are to view them as genuine business partners, ensure complete transparency and maintain long-term continuity with our reinsurance partners. This combination, coupled with profitable underwriting results, enables us to implement the strategy set out by the board of directors to the benefit of all parties.

- **What makes Hachshara “stand out of the crowd” with its reinsurers?**

Elishkov: Our proportional treaties, on a clean-cut basis, which we consider to be highly advantageous for us and to our reinsurers alike. Incidentally, I believe that we are



Etti Elishkov
Hachshara CEO

the only insurance company in Israel that works in this manner with its reinsurers. Concurrently, we are continuing to increase capacity in our property and engineering treaties to address ongoing expansion in these classes of business, and at the same time spreading the risk (and the increased profitability) between a wide panel of reinsurers.

- **Have there been any significant transformations in the company in the general insurance sector?**

Elishkov: We have significantly improved results in the motor bodily injury branch and we are also showing profits in the motor casco branch, largely due our underwriting and pricing philosophy. For this reason I am all the more convinced that it is unwise to be drawn into a downward spiral of price cutting. I of course cannot prevent this happening and therefore prefer to invest my efforts in establishing a sustainable underwriting and pricing philosophy for Hachshara. Our branch officers play a very active part in planning and implementing the company philosophy, in conjunction with the department heads. When branch managers are partners to the process - they go full steam ahead, and together we have clearly defined the target markets we would like to focus on in order to increase profitability. Similar to the rest of the market, Hachshara's property account was also hit by the January and December 2013 storm & flood losses. However I am glad to say that the losses we suffered were relatively moderate and can be attributed in no small way to our

decision to avoid insuring local authorities and/or infrastructure risks.

• **How is your commercial insurance portfolio developing?**

Elishkov: Despite the 2013 natural perils losses, we made nice profits in the commercial sector, which grew by around 20%. The Engineering and Contractors Department now has a respectably sized portfolio, especially considering that the department was only established 6 years ago and is constantly expanding and profiting, and we intend to maintain this level of profitability in the future.

In the commercial insurance sector, where profits are to a great extent a function of the quality of underwriting, we are reinforcing our basic principles of investing in human capital, which forms the basis for our motto of professionalism and service-orientation.

In the past, the company focused predominately on various classes of general insurance, although in the past few years our life assurance portfolio has grown considerably and the company is making constant efforts to develop a range of new products in this sector.

Elishkov speaks in terms of “innovative products that are going to revolutionise the market” and the target that Elishkov has set for herself and the company is to be one of the leading companies in the field of savings and risk based life products.

• **Which reinsurers do you work with in the life assurance sector?**

Elishkov: We are working with some of the leading reinsurers in the life sector and I must commend the cooperation and support they provide in all aspects of coverage

and pricing, both for existing products as well as for those under development.

• **How is your life assurance and financial services portfolio progressing?**

Our "Best Invest" program has accumulated around NIS 1 billion in funds, more than 50% of which was raised in 2013.

We are currently working on new investment funds such as a solid Shekel cash fund, where funds can be transferred to in the event of a stock market crash.

We are also working on a “kosher” index-linked fund for the ultra-orthodox population as well as other funds. We have seen significant growth in the number of “Managers’ Insurance” (combined risk and savings) policies.

Another innovative and unique product is "Future Guard". We offer this as a rider to existing life policies, giving insurance agents a cross-selling opportunity to policyholders with a guaranteed annuity factor, or on a stand-alone basis. Either way,

the policy provides added value to the client and is another potential source of income for the agent.

• **What new products are you working on?**

Elishkov: We are about to launch a unique long term care product, which is currently in the process of being approved by the Commissioner. The competitive pricing of this individually underwritten product, coupled with our professionalism and excellent service, will enable us to compete with the bigger companies. We are also planning to launch other products such as a savings scheme for children with life cover for parents. We are also revamping the mortgage life and home package and we will shortly be launching an upgraded product to address the dynamic needs of 21st century.

In summary - We highly value our partnership and close cooperation with our reinsurers and we look forward to many more years of growth, cooperation and mutual profitability.

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- The big insurance companies can expect serious problems in their ability to adapt the costs structure, a fact which enables us to market at more competitive prices
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Explaining one of the principles on which **Shlomo's** success in slashing losses and bringing the company for into profit for the first time in 2013 was based, Shlomo CEO **Uri Omid** says that it is based on them taking advantage of the fact that the policyholder is loyal to the agent and not to the insurance agent. According to Omid, who has been leading the company for the past two years, the technological developments affecting the insurance sector have had a positive impact on Shlomo. "The other insurance companies are currently being forced to deal with the serious problems resulting from the large costs structure, which makes it difficult for them to offer attractive prices".

In March of this year, the company posted its first annual profit, of approximately one million shekels, after six years of activity. "This was the sweetest million of all", says Omid. The profit was attained after Shlomo parted company with approximately 60% of the premiums and stopped working with many of its agents, with a view to recruiting agents who choose to work with the company on a significant share of their portfolio, Omid says, in explaining the main strategy that led to the transition from loss into profit.

- **What are the main processes affecting the Israeli insurance sector?**

Omid: For many years the Israeli insurance companies subsidized the elementary sector by virtue of the high profits from the life and health sectors. The excess profits that were posted in these two sectors are beginning to



Uri Omid
Shlomo CEO

disappear, amongst other things as a result regulatory activity and greater consumer awareness. The insurance companies are being forced to cope with a far more difficult situation for them in these areas.

- **How have technological developments affected the sector?**

Omid: Consumer behavior which is becoming more and more widespread is comparing process via comparison websites, and then going to the insurance agent and asking him to purchase the

insurance at the price he saw on the internet. The customer is loyal to the agent and not to the company, and thus he has no preference as to via which company the agent purchases the policy. The insurance agent will refer him to the insurance company that offered him that price. The big insurance companies have a major problem in offering very low prices, as a result of their costs structure, and this is where our advantage over the other companies comes into play. An amazing phenomenon has been created – as a result of the comparison sites, the agents are moving the business in our direction.

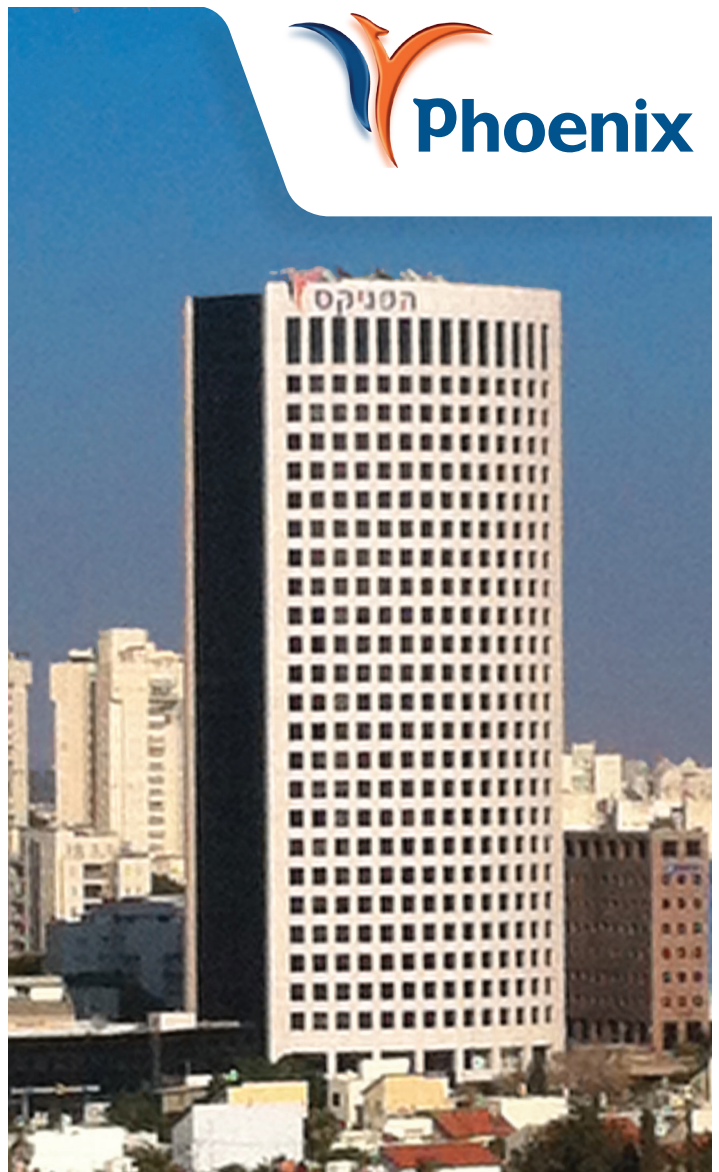
- **How have the reinsurers reacted to what has been happening in the company?**

Omid: All of the reinsurers that we work with have expressed their appreciation for the revolution that the company has undergone. Some of them have said that they have never seen such a dramatic turnaround, in such a short period of time, in a competitive market such as Israel.

- **Which reinsurers do you work with?**

Omid: In compulsory insurance, where we have a 5% share of the market, we buy excess of loss insurance, we work mainly with **Swiss, Hanover Re** and **RNV**. In exclusive cars insurance, we work

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WE ARE STARTING OUT WITH A HOST OF NEW IDEAS

A new insurance company has not been established in Israel for many years and I am privileged to be setting one up, in the knowledge that I am going into a sector which has undergone many changes in the past ten years and with competition at record levels

"The basic advantage is that we are not carrying the "kitbag" that is burdening the old companies – we don't have old and complex policies and we don't have old computer systems that were built up bit-by-bit. We are building everything from scratch and going out in a new direction with a host of ideas adapted to the current age". Thus says **Arik Yogeve**, CEO of the **Psagot Insurance Company**, a subsidiary of Israel's largest investment house, Psagot, which started operations a few months ago in the area of life insurance. He was speaking about Psagot Insurance Company's advantages over the existing insurance companies.

According to Yogeve, "we also want to take the whole subject of technology and service a generation forward in the insurance sector. The fact that we acquired a basic insurance platform allows us build the most innovative systems and offer clients and agents a unique buying and service experience, alongside the security, stability and professionalism of the largest investment house in Israel.

• **How do you see the Psagot Insurance Company blending in with the insurance sector, as the only one controlled by an investment house?**

Yogeve: I believe that the boundaries between investment houses and insurance companies are disappearing, especially with regard to savings and pension products and now also in basic risk products. The

managers insurance product that was marketed by the insurance companies lost its relative advantage in 2013 and now, the combination of the pension fund as the basic product together with the provident fund, risk and work disability are able to provide a genuine solution both for the needs of



Arik Yogeve

Psagot Insurance, pension
and provident company CEO

the customer and also for the needs of the agent and consultant. The area of classic insurance – life insurance in case of death (risk) and mortgage risk, which Psagot has started selling in recent months, enables the completion of comprehensive coverages for the customer.

Already at the beginning of our activity we are seeing how Psagot can quickly become a significant player. We went out with very attractive

risk tariffs, with the possibility of purchasing insurance up to age 75 and ending at age 80. We are in process of developing additional plans that are attractive for both the customer and marketer, many agents are joining our new activity all the time and I have no doubt that Psagot Insurance Company has a unique advantage of newness to become an important layer within the framework of the investment house and the largest manager of public money in Israel and in the sector as a whole.

• **The insurance sector is very competitive. What is special about Psagot, that enables it to compete successfully with the big insurance companies?**

Yogeve: It is certainly true that the insurance sector in Israel is highly competitive, despite the consolidation that has been going on in the sector. I can still remember a time when there were over 30 insurance companies and now their number has dwindled significantly. A new insurance company has not been established in Israel for many years and I am privileged to be setting one up, in the knowledge that I am going into a sector which has undergone many changes in the past ten years and with competition at record levels for the customer's attention, the agent's attention and mainly in the marketing of defensive products.

On the other hand, Psagot as a new insurance company has a number of advantages. The basic advantage

is that we are not carrying the "kitbag" that is burdening the old companies – we don't have old and complex policies and we don't have old computer systems that were built up by patchwork. We are building everything from scratch and going out in a new direction with a host of ideas adapted to the current age, but without dragging a big kitbag with us, enabling us to work efficiently and tightly. If we add to this a young, motivated team, which is excited at going into a new area of activity and working alongside experienced and long-serving people in the long term savings sphere, this enables us to put together products with highly attractive pricing and to run them and bring something new to the market.

We also want to take the whole subject of technology and service a generation forward in the insurance sector. The fact that we acquired a basic insurance platform allows us build the most innovative systems and offer clients and agents a unique buying and service experience, alongside the security, stability and professionalism of the largest investment house in Israel.

• What is the strategy adopted by Psagot in engaging with the reinsurers?

Yogev: With Psagot entering into the world of insurance and into life insurance in particular, in which insurances are effected in large insured amounts and for long periods (20-30 years, and even longer), we felt that choosing stable reinsurers, with high ratings by the agencies, to be of great importance, whilst dispersing our insurance portfolio over a number of such reinsurers.

It is important for us to choose reinsurers who have gained familiarity with the insurance sector in Israel over many years, giving advantages in receiving feedback in working with them, whilst learning from their experience in Israel and overseas.

• What is Psagot's strategy in penetrating the insurance market in Israel?

Yogev: As part of our marketing strategy, we have started developing unique life insurance products – regular risk and mortgage risk. Beyond that, we are developing new products including work disability insurance, private savings policies and additional coverages in the health area. In developing these products, Psagot is of course being helped by the reinsurers' experience. All of these products, like those that we are already marketing will have attractive tariffs. The combination of price with varied coverages will enable us to penetrate the Israeli insurance market massively.

• You mentioned agents. Will the company be marketing its products only via agents or also directly?

Yogev: We regard all of the existing channels as legitimate, agents, consultants, banks and direct marketing. I think that these channels complement each other and are suited to differing types of customers. In my opinion the term "direct" in life and risks insurances is of no consequence since this product needs to be marketed to the customer, who regrettably does not wake up in the morning and call the agent or the company asking to buy the product.

I have 1.3 million customers at Psagot, some of whom need the products that we have already developed and those that we are beginning to develop, and I believe that we all have a moral and sometimes even a legal as well as a business duty to offer them these products. As someone who grew up and developed over many years in the agents sector and as a big believer in the ability of the agents bring about awareness amongst the customers, internalizing the need and executing the sale, collaborating with Psagot will in the end give optimal solutions, mainly for the agents.

The connection with the agents is very important to us in all areas of our activity. We enjoy a close relationship with our in-house agencies and their managers: **Profit, Heiman, NPA, Amitim** and **Sarid** and with the many agents who have been working with us over many years in the area of pensions and I am certain and I am already seeing that setting up the insurance company has created an excellent basis for combining handling of long-term savings and for quality new agents joining our business activity.

• What is your forecast for market share in the years to come?

Yogev: Like any business we have a strategic plan and also a work program with clear targets for the coming years. I must admit that the goals are ambitious but they are certainly both challenging and attainable. We set up the company a few months ago. The sales process has already started and the results are amazing and reinforce our intentions. We will not become one of the biggest companies in the coming years, but we certainly intend becoming a very dominant player within 2-3 years in the insurance and pension savings sector.

• In the current age of mandatory pensions which include a basic level of life insurance, if there any business justification for selling life insurance separately from the pension fund? Does the insurance company have the ability to compete with life insurances provided via the pension funds?

Yogev: The built-in life insurance for survivors in the pension fund is on an annuity basis and covers only the saver's salary. The risk is designed to be an additional (or complementary) layer and not instead of the pension. The object of risk insurance is to compensate for the loss of income from the deceased spouse and the reduction in income of the surviving spouse.

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MORE REINSURERS ACTIVE IN ISRAEL AT THE END OF 2013 THAN WE ORIGINALLY ENVISAGED

- We at Swiss Re are very pleased with the collaboration and the business we are doing in Israel
- Every year there are new reinsurers competing with us in selling capacity • Unlike them, we know how to provide added value, such as advice on pricing, underwriting and claims

According to **Swiss Re Israel CEO Yossi Sirote**, "there were more reinsurers active in Israel at the end of 2013 that we originally envisaged. Capacity in the market is sufficient and the prices have not changed". As part of its strategy, the company makes every effort not to alter prices according to market cycles, Sirote said, adding: "We have it easier in a "hard", because then our prices are more attractive. But I believe that at the end of the day, the markets appreciate our stability".

Sirote joined Swiss Re 12 years ago as a senior actuary, and has been serving as the CEO of the company's Israel branch for past ten years. He previously served as an actuary at **Zion**, going on to serve as a health actuary at **Harel**, which acquired Zion.

• How would you describe Swiss Re's relations with the Israeli insurance market?

Sirote: We at Swiss Re are very pleased with the collaboration and the business we are doing in Israel. We have had a very successful year – we did a deal with the **Phoenix**, in which **Munich Re** ended a relationship in health insurances and we came in instead of them. The Phoenix profited from this move. We did a similar deal with **Migdal**, when **Generali** got out of the work disability sector, and we took over from them. Migdal, likewise, profited from the move.

• What is the trend in reinsurance tariffs?

Sirote: I estimate that reinsurance tariffs will not go up. At the end of 2013, there were more players that we originally envisaged. Capacity



Yossi Sirote

Swiss Re Israel CEO

in the market was sufficient and the prices did not change. As part of its strategy, the company makes every effort not to alter prices according to market cycles. In a "hard" market with rising prices, we have it easier, as we are then more attractive. All in all, I believe that the markets appreciate our stability.

• Do you expect new foreign players to enter the market?

Sirote: New reinsurers come into

the market every year. The insurance companies are always looking for new reinsurers. These insurers are our competitors in selling capacity. But know how to provide added value, such as pricing advice, underwriting and claims.

• How do you, as a reinsurer, regard the many reforms in the sector, especially the reforms in health insurance that went into effect a few months ago?

Sirote: In principle, I am big opponent of regulation. This time we were concerned that the regulator would be activated by the Knesset via legislation, and that it would also apply to existing policies. But when the previous Insurance Commissioner initiated this step, and specified that he is relating only to new policies – we breathed a sigh of relief, since the Commissioner gave the insurance companies the opportunity to re-price the risk.

• What was concerning you?

Sirote: Retroactive regulation. In Ireland, for example, a new law was enacted where part of the public expenditure on health would be imposed on the private policies, and this was done retroactively. In general, I would say that the health insurance policies in Israel complementary and are suited to the public health system in Israel. The idea of the private

Continued On Page 48 →

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- Experience and professionalism join forces with size and strength
- Insurance companies rated Aaa provide extraordinary financial security

*Migdal Insurance Company Ltd., the parent company of Migdal Makefet Pension and Provident Funds Ltd.

The aforementioned does not constitute marketing advice, professional advice or a recommendation to buy or invest in any products, assets, or investment channels. The full rating report is on the Midroog website at www.midroog.co.il.

It's good to have Migdal at your side.



THE CONSEQUENCES OF BREACH OF A CONDITION PRECEDENT IN A POLICY - THE SLUTZKY CASE

By **Adv. Sigal Schlimoff & Adv. Rena Egulsky**

Background

On 15.9.2013 the Supreme Court of Israel handed down a significant judgment on the matter of breach of terms of the policy in Certain Underwriters at Lloyd's vs. Mr. Eliyahu Slutzky.

The facts of the case are fairly straightforward and were not in dispute.

Insurers issued a homeowners insurance policy for Mr. Slutzky, which specifically stipulated that insurance coverage for jewelry would apply only if the

jewelry was placed in a safe. A burglary took place and jewelry that had not been deposited in the safe was stolen.

Insurers declined the insurance claim on the basis of breach of the policy condition.

The case came before the Supreme Court on appeal by Insurers after the lower appeal court upheld the insured's claim for benefits.

The Supreme Court's premise is that the insured indeed breached the very clear condition to place jewelry in the safe. Furthermore, as the safe had not been found by the

Contract Law 1981, the Supreme Court ruled in favor of the insured despite the obvious breach of the policy terms and concluded that "*the insured is nevertheless entitled to*

the full amount of insurance benefits."

Why?

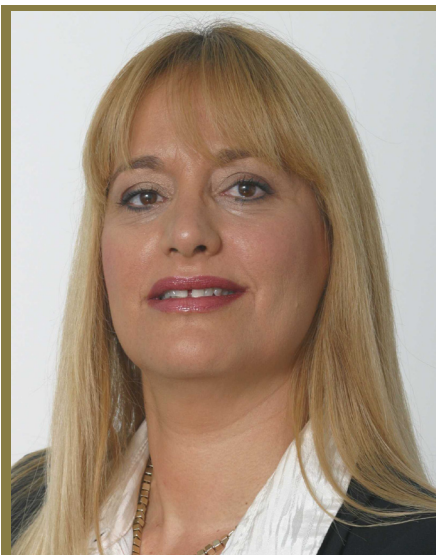
The Reasoning for the Slutzky Precedent - The Proportionate Remedy Rule

Israeli Insurance Law adopted a proportionate remedy rule. In essence, other than in cases of fraud, there is no automatic exemption of the Insurer from liability.

burglars, there was a clear causal connection between the breach of the policy and the subsequent loss. The Supreme Court then presented the following query: "*Under these circumstances, is the insurance company liable for payment of insurance benefits, and if so, should it be liable in full or on a partial basis?*"

Following analysis of the Insurance

This consumer protective mechanism applies to the issues of misrepresentation, breach of risk-reduction requirements and failure to notify of an aggravation of the insured risk in property insurance. The proportionate rule deviates from traditional Common Law principle of "all or nothing", cushioning the insured from the impact of the breach on the insurance coverage. Under Israeli law, the insurer is



Adv. Sigal Schlimoff
Gross Orad Schlimoff & Co.



Adv. Rena Egulsky
Gross Orad Schlimoff & Co.

entitled to a proportionate reduction of liability to the degree that the insured's breach actually affected the event or the premium rate. Furthermore, the insurer bears the onus of proof of all elements of the remedy mechanism.

The Slutzky case is novel for its being the first Supreme Court case in which remedy for the insurer was denied outright on the basis of the onus of proof. The insurer had failed to provide the court with proof of the elements necessary to calculate and apply a reduction of liability and the result was that no remedy was awarded at all.

What Are the Elements an Insurer has to prove?

The Supreme Court detailed the mechanism of application and calculation of the proportionate remedy rule, as follows:

The court will consider the degree and effect of the insured's breach and is authorized to reduce the insurer's liability proportionately according to the ratio of the actual premium and a higher premium that would have been charged had the risk-reduction requirement not been included in the terms of the policy.

In other words, the insurer must provide proof that it would have charged a higher premium for issuing the policy without the risk-reduction measure in order to be entitled to a proportionate reduction of liability.

If the insurer proves that the policy would not have been issued without the risk-reduction condition, the Insurer must further show that no other "reasonable" insurer would have issued the same or alternately

must show that a higher premium would have been charged by a "reasonable" insurer.

In other words, the insurer must adduce evidence of the insurance market trends regarding the particular risk-reduction requirement in question. The Slutzky precedent also allows for the insurer to prove the higher insurance premium rate that would have been charged by a "reasonable" insurer in order to reduce liability proportionately.

The Supreme Court noted that the burden of proof that the insurer must meet is not heavy. Nonetheless in the Slutzky case no attempt at all was made to show whether a policy would have been issued at a higher premium or not, by the insurer or by a "reasonable" insurer.

Thus, lacking any proof of the elements necessary for calculation of a proportionately reduced liability remedy, the Supreme Court ruled **by default** in favor of the insured.

Conclusions

The judgment's impact on the Israeli insurance market was significant and has been under in-house and public review and discussion by insurers and representatives of policy holders alike since its publication.

The Slutzky judgment reiterated principles that are laid out in the Insurance Contract Law and in this sense is not innovative. However, the judgment took these principles and applied them in extreme circumstances by denying, by default, any remedy for the insurer despite the obvious and substantive breach by the insured.

Warranties and Conditions Precedent are not recognized under Israeli Law

The Slutzky case is furthermore an example of Israeli Insurance Law's deviation from the black-and-white principles of traditional English Law, leaning towards the more moderate, consumer protective principles of Continental Law.

An important aspect of the Slutzky precedent is the Supreme Court's explicit decree that the Insurance Contract Law does not recognize the doctrine of warranties or conditions precedent, a doctrine that in other jurisdictions absolves the Insurer entirely of liability solely by virtue of the insured's breach.

The Supreme Court states clearly in the Slutzky case that the position taken by the insurer - that placing the jewelry in the safe is a "condition precedent" to coverage - is not acceptable under Israeli law.

Practical Steps – Going Forward
Israeli Insurers now face the practical implications of the Slutzky precedent. The main concern regards ensuring that they will be able to provide the courts in the future with the data necessary to enable calculation and application of the proportionate remedy.

Several ideas have been suggested, such as initially offering the insured the option to buy the policy without the risk-reduction requirement at a higher premium. This may not however be a practical solution in some fields of insurance. Other ideas include transfer of data regarding prevailing premium rates with and without risk-reduction measures. Whatever route is chosen, it is clear already that the proportionate remedy rule has been brought to the front stage of insurance litigation.

NON-LIFE REINSURANCE UTILIZATION IN ISRAEL

By **Gad Nussbaum**

Introduction

Reinsurance in all forms plays an integral and inseparable part of the insurance industry in Israel and worldwide. Efficient utilization of reinsurance allows the domestic insurer to write business on a much wider and stronger financial stability basis than what its own capital base would allow otherwise.

In this article, which is a continuation of a previous study on the subject performed some ten years ago, I will examine the following parameters related to the extent of reinsurance utilization by Israel's ten largest insurers:

1. Is there any correlation



Gad Nussbaum
Consultant, Migdal Insurance Co Ltd

between the scope of premiums ceded to reinsurers and the size

of the cedant as measured by GNPI?

2. Is there a correlation between the scope of premium ceded and the scope of reinsurance claims, i.e. whether, as the rate of reinsurance utilization rises, the rate of reinsurance claims (Loss Ratio) rises accordingly. One should notice that the emphasis here is on the rate of change rather than the amount of change which will naturally increase as utilization increases.

3. Has there been a change in the trend when comparing reinsurance utilization a decade ago to that of the post 2008 financial crisis era?

The analysis is based on data collected from financial statements of Israel's eight largest insurance companies plus the two direct Insurance companies, together comprising (in terms of premium) well over 90% of non-life insurance premiums in Israel. The analysis is based on data from six years – 2008 through 2013.

In view of the very low inflation rates during this period, the data is presented in nominal values, as it was originally. Similarly, investment income has not been taken into consideration.

Rate of Reinsurance Utilization

This rate is an expression

Reinsurance Premium Ceded

During the Period 2008 to 2013 (all figures in Thousands NIS)

Cedant	GNPI	Retained Premium	Ceded Premium	Reinsurance Utilization
Harel	17,021,498	9,850,693	7,170,805	42.13%
Clal	16,948,763	12,266,544	4,682,219	27.63%
Menorah	13,713,798	9,989,225	3,724,573	27.16%
Phoenix	11,912,776	9,407,685	2,505,091	21.03%
Migdal	9,258,176	6,425,242	2,832,934	30.60%
Ayalon	7,815,233	6,871,074	944,159	12.08%
IDI	5,449,444	5,187,377	262,067	4.81%
ILD	5,071,277	4,548,672	522,605	10.31%
Eliahu	3,868,587	3,584,640	283,947	7.34%
AIG	3,081,426	2,326,652	754,774	24.49%
Totals	94,140,978	70,457,804	23,683,174	25.16%

Table 1
Source: Cedants' Annual Reports

of the ratio between the premiums ceded to the total reported premium. Table no. 1 demonstrates that the rate of reinsurance utilization varies greatly among companies. The lowest rate (4.81%) was reported by IDI; the highest (42.13%) was reported by Harel. The average rate of reinsurance utilization by all companies throughout all years was 25.16%.

Generally speaking, one may conclude that there is a positive correlation between the size of the cedant and rate of reinsurance utilization. The larger the company, the more, relatively, reinsurance it buys. These deviations can be attributed to a number of causes:

1. Companies whose primary lines of business are personal insurance (Homeowners' and Motor Vehicles) will require less reinsurance coverage than companies writing large

- commercial and industrial risks.
2. Some companies are known to have made financial deals (Surplus Relief) with reinsurers, by which they cede a certain percentage of all their business on a Quota Share basis, thus showing large extent of reinsurance utilization. On the other hand, companies which utilize Excess of Loss reinsurance will cede less premium than those using Proportional Reinsurance. In property insurance, all companies except one use Proportional Reinsurance.
3. Companies, primarily small

ones, are keeping small retentions and are buying large amounts of facultative reinsurance. Such companies will show a high rate of reinsurance utilization. The total rate of reinsurance utilization for all companies increased continuously in the first three years, from 22.15% in 2008 to 26.42% in 2010. Then there was a slight decline in 2011 and another increase from then on (see Table no. 2). A deeper analysis reveals that the very significant increase from 2008 to 2009 emanates from the agreements signed by Harel and Menorah, under which as of 2009 they ceded a bouquet of all their non-life business on a Quota Share basis. This accounts for over 90% of the increase from 2008 to 2009. One should also note that the rate of increase in reinsurance utilization from year to year is more significant than

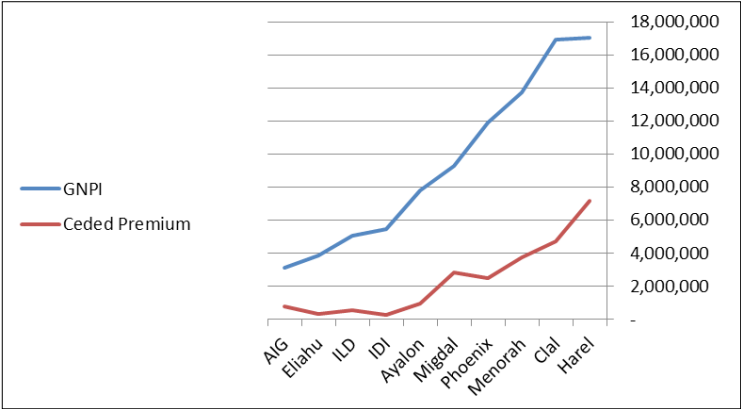


Chart 1

Reinsurance Premium Ceded per Annum

During the Period 2008 to 2013 (all figures in Thousands NIS)

Year	GNPI	Annual Change	Ceded Premium	Annual Change	Reinsurance Utilization
2008	14,713,881		3,259,272		22.15%
2009	15,247,115	3.62%	3,927,926	20.52%	25.76%
2010	15,467,823	1.45%	4,086,724	4.04%	26.42%
2011	15,738,943	1.75%	3,905,203	-4.44%	24.81%
2012	16,441,483	4.46%	4,172,896	6.85%	25.38%
2013	16,531,733	0.55%	4,331,153	3.79%	26.20%
Totals	94,140,978		23,683,174		25.16%

Table 2
Source: Cedants' Annual Reports

WHAT DOES SHE REALLY MEAN WHEN SHE SAYS "NO"?

By **Adv. Rita Baal-Taxa**

Section 26 of the Insurance Contract Law, 1981 – an incident which is caused intentionally¹, forms the inspiration behind the dishonesty, fraud, malicious damage and intentional act exclusion, within the framework of the list of the policy exclusions formulated by the insurance companies.

Extreme examples, where an insured sets fire to his own property in order to receive insurance benefits, or a professional person acting vindictively with the intention of injuring his client, are types of cases which are not disputed and in which the courts support the insurer's position, denying the insured's right to insurance benefits in such cases.

At the other end of the same scale are cases of negligence: such as a misprint, erroneous interpretation, forgetfulness and so on. Damages resulting from obvious negligence are likewise not a matter of dispute and entitle to insurance benefits, with nobody disputing the right.

There is an elusive point on this scale – between negligence on the one hand and malicious damage on the other hand, which raises heated debate when brought for determination by the judiciary. A recent judgment given by Hon. Judge Ruth Ronen in the Momentum case² raised the level of the argument, to the point where an appeal was filed in the Supreme Court, on which the insurance sector is waiting with bated breath. The ruling will be a binding precedent

in the interpretation of the intention exclusion.

So, what does she really mean when she says "no"? An insurance company excluding intentional acts would explain that a liability policy covers acts of negligence, which are the result of situation where a person caused damage to another where he is unaware of the results of his



Adv. Rita Baal-Taxa

Executive VP at the Phoenix,
Business Sector Manager

actions. The negligence tort arises where non-awareness of the results of the action is not reasonable. In other words, a "reasonable person" or a "reasonable professional", would have been aware of the results of the act and would therefore not have acted in the same manner.

In order to more deeply understand the non-awareness element, which forms

the cornerstone of the negligence tort, we need to go back in time to the 18th century, when the negligence tort appeared for the first time in English law. Until then, an integral part of the damages torts in common law required a *mens rea* of intention. The novelty of the negligence tort was the absence of the requirement of intention to cause the damage, on the part of the damaging party.

However, does the existence of the negligence tort, even without intention to cause damage, neutralize its existence in the case of intended damage? Or even in the case of awareness of the possibility of damage.

This is the point where it needs to be said that even if the negligence tort could include cases where there is awareness of the possibility of damage, this does not entail anything as to the insurability of the situation.

In view of this, a separation needs to be made between the negligence tort and the responsibility of the damaging party towards the victim, and the insurance coverage, which can be given to the same damaging party. In the same way that coverage cannot be given for criminal acts requiring a *mens rea* of intention, so should (civil) tort damages be excluded when knowledge exists of the ability to cause damage. The exclusion cannot be limited only to a desire to cause damage.

The mere fact of the knowledge that an act (or omission) is in contravention

¹ "An insurance event which is caused intentionally by the insured or by the beneficiary – the insurer is exempt from its liability"

² CC 48855-01-11 Marinianski et al v. Momentum Capital Markets Ltd et al.

THE RESEARCH FUND ON INSURANCE MATTERS AFFILIATED WITH THE ISRAEL INSURANCE ASSOCIATION (RA)

(A NON-PROFIT ORGANISATION)

The Fund welcomes applications for financial support for the purpose of conducting research on insurance matters, especially on the subject of motor bodily injury insurance, and other insurance branches of importance to the public interest (i.e. Earthquake and other Natural hazards risks and insurance)

A researcher must submit an application in accordance with the terms and instructions of the fund, and subject to the following criteria:

1. The application must be for a research only (not for donations, current or development budget participation, seminars, book writing or training).
2. The applicant must be the researcher (not via a representative), and state the name of the research institution in which the research will be conducted (if any)..
3. The subject of the research must relate to insurance matters of importance to the public interest.
(i.e. a research on motor bodily injury insurance can refer to: road accidents or treating road accident victims; Road Accident Victims Law and matters related to this unique type of insurance; means for minimizing bodily injuries following road accidents; medical treatment of road accident victims; reducing the number of road accidents, etc.)
4. The study must be scientific and professional.
5. The study must be for the benefit of the public rather than for profitable aims.

Due to the fact that the aforementioned criteria are mandatory, researchers are requested to refrain from submitting studies which do not comply with the aforementioned criteria.

Furthermore, the Fund applies conventional discretion such as: the qualifications of the researcher; the researcher's reputation and academic ranking; the researcher's connections with medical, educational, research, or governmental institutions; the potential scope of implementing and executing the proposed study as well as the anticipated benefits to be derived therefrom; the feasibility of the study both from a scientific and financial perspectives considering the scope and timetable and innovativeness of the study.

Receipt of financial support is subject to approval by the Fund's Board at its sole discretion, and signing a detailed agreement.

Directives and guidelines for submitting the study may be obtained by writing to the Fund consultant, Mr. Meir Shavit, by e-mail mshavit@017.net.il

The application must be submitted in writing to the Fund consultant, Mr. Meir Shavit by e-mail and must comply with the aforementioned criteria, directives and guidelines

The Fund's Board

IBROKER 2014

By **Morly Dory**

As a broker I meet clients on a daily basis from various business sectors: bankers, real estate managers, contractors, defense and aviation industry manufacturers, service companies, retailers educational institutes, media and content companies and many more. All of them share a single common denominator – industry-wide competition, the information the consumer has is more abundant and precise than ever before and hence the profit margins in their respective industries are declining. All of them emphasise that they invest a considerable amount of time and resources in streamlining and attempts to reduce costs, and maintaining the client base and the professional standards of the company.

There is no doubt that in the present era, all business sectors suffer from some type of decline in profits, leading them to the conclusion that they need to streamline in order to maintain the profitability of the company.

The competitiveness of the insurance industry is no guarded secret, but common knowledge. In the commercial insurance sector, Israel is considered to be one of the most competitive and advanced markets in the world from several perspectives – the relatively high level of risk awareness in both the commercial and private sectors, the high percentage of the population purchasing insurance compared to other countries, the wide and flexible policy wordings compared to other global markets and the service practice in the commercial sector which differs considerably from the rest of the world due to the unique structure of the Israeli market owing to the role of the independent insurance consultant; a somewhat

rare function in other global insurance markets.

The Israeli insurance broker is therefore in a similar position to his clients. On one hand, he has been suffering from an ongoing erosion of income since the beginning of the century. This erosion arises from a decline in premium levels coupled with a decline in commission levels. Both of these factors are the results of fierce competition in the local and global markets.

On the other hand, the Israeli broker needs to provide more extensive,



Morly Dory
Peltours Insurance Agencies CEO

professional and dedicated service than ever before in order to offer a competitive advantage to clients, besides competitive premiums. The client expects the broker to enhance the whole process of arranging and renewing insurance by reducing costs and extending the insurance cover. During the period of insurance the client expects ongoing support and assistance with the insurance aspects of every major commercial transaction, and in the event of a claim the client also looks to the broker for support on the engineering,

accounting and legal aspects of the claim. Due to declining profitability in the industry, difficulties are often encountered in obtaining quick and efficient service from insurers and hence the broker needs to make much greater efforts to satisfy the client's expectations.

In addition to these two challenges, the broker needs to streamline and reduce costs in order to maintain profitability for shareholders. This requires management time and skills to manage the expenses and constantly control them.

Until not long ago, a little more than 10 years back, a good broker was a professional broker who was familiar with the local and global insurance market, capable of tailoring insurance portfolios to the needs of the client, an expert in finding solutions for complex insurance requirements for special projects and dealing with large claims, all of this in addition to being a top-notch and sophisticated salesman.

These days, these qualities are still essential but not in themselves sufficient. A broker who wants to succeed not only for his clients, but also for his shareholders, cannot rely solely on these important aptitudes. In the current climate, the broker also needs to have management qualities and the expertise to efficiently manage his extensive service network which deals with thousands of clients every month, solve countless problems which constantly arise, manage the IT systems and steer his clients through ever-increasing regulation. Furthermore, he needs to keep abreast of developments in the insurance industry in Israel and worldwide and plan the corporate strategy accordingly, and ensure that

Continued On Page 48 →



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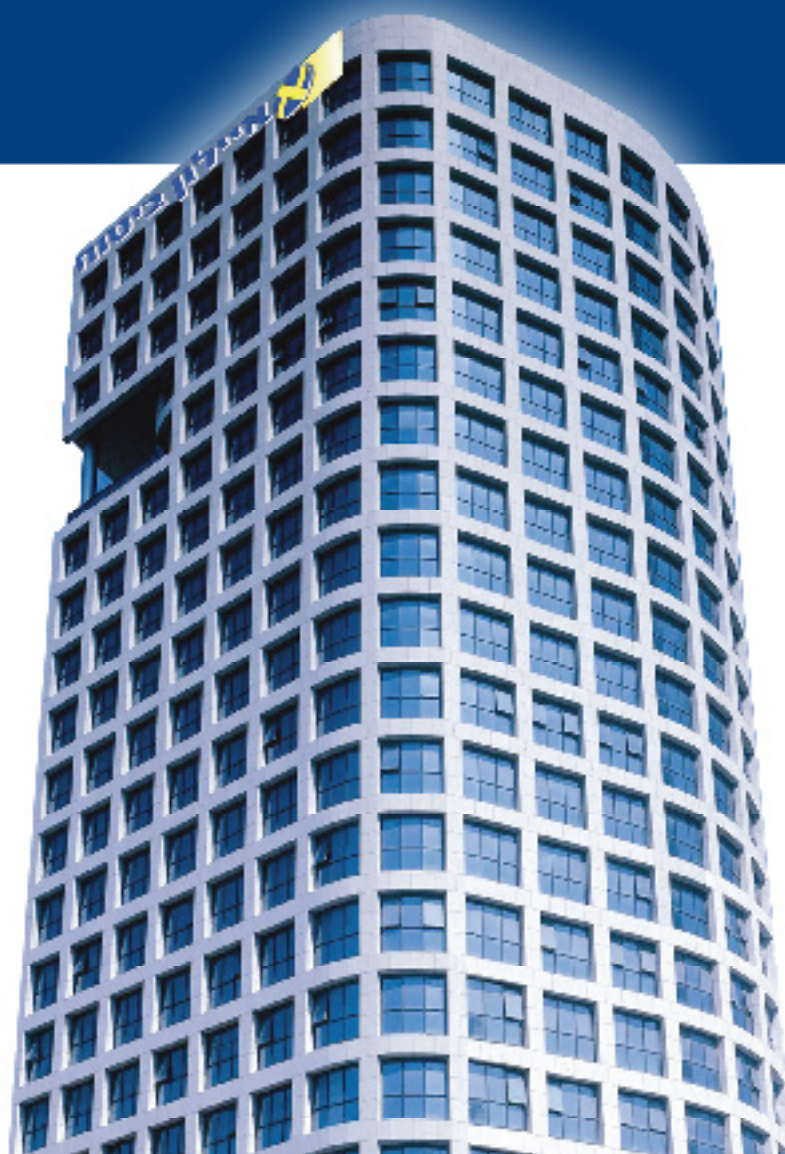
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AYALON INSURANCE COMPANY

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AUTONOMY AND CLASS ACTIONS

C.A. 4333/11, Daniel Solomon and others v. Guri Import and Distribution Ltd.

(Supreme Court, 13 March 2014)

By **Adv. PETER GAD NASCHITZ**

In a 2-1 majority decision, the Supreme Court discussed an appeal against a judgment of the Tel-Aviv District Court which discussed a petition to allow a class action in connection with a Gerber product of baby food which allegedly contained an illicit percentage of cadmium. The claim was based on the Consumer Protection Law, which is the legal basis of many class actions – in a large part not necessarily to actual damage which the consumer suffered but rather due to the breach of the right of autonomy to which the consumer is entitled – not to be compelled to consume a product which is harmful or nauseating. The leading case in this context is *Tnuva v. Rabi*. Tnuva is a leading producer and distributor of fruits, vegetables and dairy products. In a celebrated decision in a class action, Tnuva was held liable to compensate the class action claimant and the class of consumers which he represented, comprising all consumers of Tnuva milk from one of its factories where the delinquent product came from, in respect of the nausea which they were alleged to have felt when they consumed the said milk, which had been mixed with silicone, although no health impairments were observed. This case brought the damage to the autonomy of the consumer to become a leading source of petitions to permit class actions. Many of these cases

have actually not reached the stage of actual hearing due to the apprehension which brought many defendants to settle the cases out of courts.

The present case under review contributes an exception in the trend which had become a commonplace since the Rabi



Adv. PETER GAD NASCHITZ

judgment (which actually went up to the Supreme Court in two appeals and one further hearing), probably the only case in the legal history of Israel which allows such appeals only sparingly. While distinguishing the present case from Rabi, the court noted that in Rabi, Tnuva injected the milk with silicone, to prevent foaming, deliberately, with the purpose of avoiding the use of a more expensive ingredient.

This was not the case with the Gerber product in which a minor quantity of cadmium was found, which was not health-threatening. The fact that this ingredient was not mentioned in the label of the product was not found to be of a misleading character, as it constituted a natural component of one of the elements contained in the final product. The punch line and basic reasoning of the decision was that the autonomy of the claimant's infant son had not been prejudiced as the quantity of the product which he consumed was not dangerous. A further reason why a class action has not been allowed was the great difficulty of identifying the class in whose name the class action would be conducted which, under the Class Actions Law, would have to have identical characteristics.

In the reasons for the dismissal of the appeal, Justice Danziger, speaking for the majority, noted that the case differed from Rabi in two major aspects: the first being that this case may not be one which constituted a cause of action and the second that the appellants could not show that the injury to the autonomy caused any consequential damage. In further detail, the court pointed out that if there had been a mistake, this was bona fide; that the importer (who was the respondent, not the producer), imported a well known product of a respectable manufacturer in the

United States; that the cadmium which in larger quantities could be life-threatening, is found in the ingredients of the product naturally; that no risk of health was involved; and that a subsequent report about the originally reported quantity of cadmium in the product was found to be erroneous.

This decision (which was concurred by Justice Shoham) constitutes a major deviation from Rabi which requires proof of subjective consequential damage due to the behavior of the defendant. Moreover, the definition of damage to the autonomy was classified as a head of damage and not an independent

tort.

Justice Arbel gave a separate judgment, dissenting from the majority judgment. She pointed out that whereas in the past, a personal cause of action of the petitioner had to be proven in order to qualify him as a class action claimant, this was no longer necessary and in requisite cases, the court can replace the petitioner with one more suitable, without dismissal of the action. However, she pointed out the great advantage of the class action that the court could hear a case brought by a suitable claimant, which would represent the claims of many persons in a similar position, which would not be able

to submit individual claims in relatively small sums which would be unreasonably onerous for them and swamp the courts with a deluge of claims. Consequently in order to prevent the public of consumers to be misled, Justice Arbel was of the opinion that in the circumstances, the contents of cadmium in the product, albeit in small quantities as of natural causes and not harmful, should nevertheless have been disclosed on the labeling of the product.

The majority decision in this case signifies a new trend in the class actions decisions of the Supreme Court. It may be expected that this has not been the final word in this intriguing subject.



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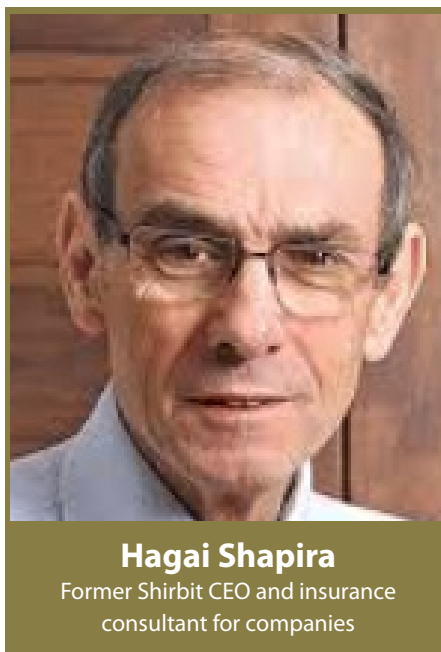
MOTOR PROPERTY TURNAROUND BUT ELEMENTARY PROFITS SLASHED BY A QUARTER

• Compulsory sector still most profitable – 1.065 billion shekel contribution to profits in 2013 – 33.6% down on previous year • Motor property goes from 31 million shekel loss to 197 million shekel profit in 2013

By Hagai Shapira

Production in the elementary section as a whole totaled 18.43 billion shekels in 2013, and earnings totaled 1.512 billion shekels. Production grew by 4.4% compared with the 2012 production of 17.65 billion shekels. On the other hand, profits were down 24.8% compared with last year's figure of 2.01 billion shekels – a decrease of 500 million shekels. The interesting and important factors that influenced 2013:

a. The capital market. The main factor that affects elementary earnings is the capital market, and despite it having been relatively good, is failed to reach the levels of 2012, which was an especially good year. Thus, we see a drop in profits – particularly in the compulsory sector, but also in the liabilities sector. The companies combined investment earnings came to 1.76 billion shekels,



compared with 2.14 billion shekels in the previous years (a 380 million shekels drop).

b. Winter damages. We unusually

had two severe winter events in 2013 (January and December), which caused damages and had a marked negative effect on the results, especially in the property and others sector. Claims increased in this area (and a change in pendings) by around one billion shekels. Even though most of the damages were paid by the reinsurers, the impact on the companies' retention totaled some 150 million shekels.

c. Increase in the index. The index went up by 1.8% and was relatively high, and negatively impacted on the compulsory motor and liabilities sectors.

d. Deterioration in liabilities. Most companies showed a deterioration in this area. The underwriting results look almost unchanged relative to the previous year (which was also not good from an underwriting point of view), but if we take away the unusual results posted by the Phoenix, we can see a marked deterioration in most of the companies.

e. Motor property underwriting turnaround. The improvement in motor property underwriting is the big news and in my opinion was the most significant insurance event. The insurance companies proved that it is possible to deal with a problematic area in underwriting, and some of them made courageous decisions. The fact that this competitive sector went from an underwriting loss of 250 million shekels to break even is a refreshing phenomenon. The sector, which went from a loss of 31 million shekels in 2012 to a profit of 197 million shekels this year made it into

2013 Elementary Sector Results by Company (thous. NIS)

Company	Gross premiums	Investment gains (losses), net and financing income and (pre-tax) other comprehensive income	Pre-tax income net of investment income	Total pre-tax comprehensive income
Phoenix	2,269,013	287,257	78,523	365,780
Clal Insurance	2,727,532	311,869	-114,493	197,376
Migdal	2,021,532	220,070	-66,163	153,907
Harel	3,100,988	249,109	-95,599	153,510
Direct Insurance	1,118,029	55,441	91,026	146,467
Shomera	776,224	68,045	69,943	137,988
Menorah Solo	2,064,863	138,318	-1,673	136,645
Hachshara	949,808	93,207	-1,322	91,885
Ayalon	1,519,141	174,942	-91,631	83,311
AIG	582,763	35,212	799	36,011
Bituach Haklai	444,186	47,010	-27,957	19,053
Shlomo	347,847	32,067	-31,468	599
Eliahu	-8,988	20,906	-25,522	-4,616
Shirbit	517,831	30,173	-35,926	-5,753
Total	18,430,769	1,763,626	-251,463	1,512,163

the elementary sector's second most profitable branch.

Decrease in compulsory earnings

The compulsory branch is the elementary sector's most profitable area, contributing 1.065 billion shekels in 2013 – 33.8% down on the 1.6 billion shekel earnings posted in 2012. Compulsory production increased to 4.54 billion shekels (4.44 billion shekels last year), but taking into account the rate of inflation and the growth in the vehicle population, it can be seen that there is competition and tariff erosion. Despite the decrease in profitability, due mainly to the capital market, this remains the elementary sector's most profitable area, contributing over 70% of elementary profits. At the end of 2014, the accumulation moneys will be transferred to profit and loss and the sector, which will be different from a balance

sheet point of view, needs to deploy for 2015. The sector is competitive and all of the companies (large and small) participate in the competition. Despite the changes, it looks as if it will continue to be a major factor in earnings. Despite representing only 24.5% of total elementary production, its contribution to profits was over 70%.

The motor property sector is the largest sector in elementary insurance, with production totaling 6.4 billion shekels – over 6% higher than in 2012 (6.03 billion shekels in the previous year). The sector underwent a big change in 2013, in its approach to underwriting, and moved from a 31 million shekel loss to a profit of 197 million shekels. The underwriting changes included a change in tariffs,

in the handling of vehicle fleets and problematic collectives, dealing with losing agents, a change in the claims handling, dealing with security systems and so on.

There were also improvements deriving from an improvement in the frequency of claims and the fall in the dollar exchange rate and also a decrease in second-hand car prices as a result of the flooding of the market with lease cars. The underwriting change was of the order to 250 million shekels, and was significant. Even so, the sector only broke even in underwriting terms, and thus the trends need to continue.

2013 Elementary Sector Results by Sectors (thous. NIS)

Sector	Gross premiums	Investment gains (losses), net and financing income and (pre-tax) other comprehensive income	Pre-tax income net of investment income	Total pre-tax
Compulsory motor	4,539,080	990,723	74,424	1,065,147
Liabilities and other sector	2,608,669	506,546	362,480	144,066
Motor property	6,405,128	189,743	7,942	197,685
Property and others sector	4,890,260	76,614	28,651	105,265
Total	18,430,769	1,763,626	-251,463	1,512,163

Production in the other property and others sector increased by 5.2% to 4.89 billion shekels (4.64 billion shekels last year). The sector posted a profit of 105 million shekels, but profitability was seriously affected by the winter damages (last year's earnings totaled 242 million shekels). The current year saw two severe winter events which resulted in a marked increase in claims payments, which had a negative effect of the results. The fact that the sector presented an underwriting profit after the two unusual events proves that the sector is profitable and stable over time.

The sector is reinsurance-rich, and the reinsurers paid most of the damages. Reinsurance premiums totaled 2.9 billion shekels in 2013 (around 60% of gross production), and claims

payments, including changes in pendings totaled 2.2 billion shekels. This is an increase of some 900 million shekels compared with the previous year. If we take into account the commission payments (within the framework of the contracts) and the fact that part of the premium is for earthquakes – this was not an easy year for the reinsurers. We expect the sector to correct the 2013 distortions in the near future and the sector to go back to being the number 2 earner.

The liabilities branch posted production of 2.6 billion shekels, up only 3.4% on last year's figure of 2.52 billion shekels. Profits totaled

144 million shekels, compared with 195 million shekels last year (a decrease of 26%). The sector is investments-rich and there was a 50 million shekel decrease in investment profits in the current year (559 million shekels last year, compared with 559 shekels in 2012). However, the Phoenix's results, which related

mainly to an adjustment in past pending claims (and without ignoring the underwriting improvements) resulted in a degree of distortion from the point of view of the overall results, and if we neutralize the Phoenix's results – there is real underwriting problem in most of the other companies. The main problem is in third party and employers liability and a reform needs to happen in most of the companies in the way they relate to liabilities. If we neutralize the results of the Phoenix, which attained a profit of 165 million shekels, the result of all of the other companies is negative, and after applying investment profits, they are running at a loss of 21 million shekels. Without the investment profits, the companies would have posted a loss, mostly underwriting, of 400 million

LIABILITY OF AN INSURANCE BROKER FOR PRESCRIPTION OF THE INSURED'S CLAIM

By **Adv. Tammy Greenberg**

On 23rd February 2005 the business premises of Yochanan Ben-Yosef were burgled. Ben-Yosef approached his insurer, which declined the claim arguing that the policy covers "burglary" damage only and the circumstances of the event do not fall within the "burglary" definition, i.e. there were no signs of the use of force and violence when the burglars gained entry into the business premises or while leaving.

On 2nd June 2008 Ben-Yosef filed a claim against the insurer and alternatively against the insurance broker.

The Court dismissed the claim against the insurer based on an allegation of prescription - more than 3 years had elapsed since the insured event. However the Court did not turn away the insured empty-handed and imposed on the broker the duty to pay the insurance benefits. According to the Court, the insurance broker had a professional duty to advise the insured that the prescription period for submitting a claim for insurance benefits is 3 years and not 7 years.

At the end of the day, the insurance benefits were paid by the broker, and not the insurer (less 20% for contributory negligence imposed on the insured (CC 2163/08 **Ben-Yosef Yochanan v. Phoenix Insurance Co. & Others** – PDI dated 21 April 2009)).

Review of later court decisions reveal that cases can also be found in which the Court refused to impose liability on the broker for the prescription period of an insured's claim. One of these cases is CC 20595-09-09 **Gabbay Avi v. Clal Insurance Co. & Others** (March

2013).

Gabbay was insured with Clal and with Phoenix. After he was injured in a work accident, Gabbay approached Clal and Phoenix, but his demand was declined due to the time bar. Both companies reached a compromise settlement with Gabbay and he filed a claim against the insurance broker for the unpaid



Adv. Tammy Greenberg

Levitan, Sharon & Co.

balance.

The Court declined the claim against the broker and ruled that the insurance broker did not breach his duty of care and hence does not bear any liability for the prescription of the claim.

From analysis of the reasoning of the judgement in the matter of Gabbay, one can distinguish between it and the judgement in respect of Ben-Yosef in three prominent differences:

The first – Gabbay was represented by a lawyer starting several months after the accident and in these circumstances,

the insurance broker was entitled to rely on the lawyer advising him about all relevant legal issues, including questions of the prescription period.

The second – at the relevant time, there were conflicting judgements in respect of the prescription period regarding a claim for insurance benefits relating to disability, until this issue was determined by the Supreme Court (C.A. 1806/05 **Harel Insurance Co. v. the Estate of the deceased David Amitai**). Therefore it was not the broker's duty to be aware of the exact legal terms.

The third and last one being – Gabby was a "serial" plaintiff who has submitted several claims against his insurers in respect of accidents, and therefore he is considered to be acquainted with the legal issues.

An appeal was filed on the judgement which has not yet been heard.

Analysis of the precedent shows that the extent of the broker's duty to advise the insured about the existence of a short prescription period depends to a great extent on the specific circumstances of each and every claim – the extent of the insured's experience and familiarity of the subject matter, whether the insured is represented by a lawyer or not, whether the answer to the question when the claim is prescribed is clear and unequivocal, etc.

Other relevant questions regarding the insurance broker's responsibility for prescription of the insured's claim relate to handing over the policy.

C.C. 3967-06-10 **Izikovitz v. Migdal & Others**, which was handed down on 12th December 2013, relates to a claim filed by the insured following a heart

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customers in Israel.**

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wish a rewarding and pleasant
visit to Israel.**



MICKEY KOPELL, IKOPELL CEO: WE WILL MARKET REDUCED RATE PACKAGES FOR FOREIGN CALLS VIA INSURANCE AGENTS

In a conversation with Policy, Mickey Kopell, CEO of IKopell, said: "We will market reduced rate packages for overseas telephone calls, SMS messages and surfing, via insurance agents". According to him, there are still opportunities for making decent profits whilst further reducing prices to the end user in the cellular sector, following the opening up of the sector to competition by former Communications Minister Moshe Kachlon.

• What is the essence of the new product you are marketing?

Kopell: IKopell, together with the SimGo start-up company will start marketing the Kopell Global product in the near future – a smartphone device that will enable the company's customers to make calls, surf and send and receive SMS messages from all over the world. This entails a component installed on the mobile phone, and automatically connects to the cellular networks all over the world. The instrument is suitable for iPhone 4 and 5 and Samsung 3 and 4 instruments that form 75% of the smartphones market in Israel.

• What will be the cost of the package you are marketing?

Kopell: Our product will "break the market" in the future. We are offering the customer a price at 50% of the overseas usage package rate offered by the cellular company. It is important to point out that the price for the surfing and calls package does not include, in most cases, all of the additional costs, and thus the saving will be more than 50% on the package price.

• Is this IKopell's first venture into the cellular sector?

Kopell: No. A number of years have gone by since former Communications Minister Moshe Kachlon opened up the market to competition, resulting



Mickey Kopell

IKopell CEO

in a dramatic drop in prices, but the cellular companies are still making excessive profits. The competition for the customers is continuing, and this is a sign that the minister was not wrong in opening the market up to

competition.

We went into the repairs service area two years ago at a cost of 13 shekels per month, compared with a market average of 30 shekels a month, and we are currently serving over 100 thousand customers. We are now launching a new product, and our intention is to supply our customer with quality service at a reduced price.

• How are you going to market the product?

Kopell: We intend marketing the service via insurance agents. The agents have an in-built advantage in marketing this type of product, since they are in any case marketing travel insurance to their customers. As part of this service, they are able to grant their customers better service and make a sale commission. The insurance companies all over the world can sell this product, which is suitable in all countries.

In addition, the product will be sold in our 120 Kopell Smart laboratories.

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→ Liability of an Insurance Broker for Prescription of the Insured's Claim | by Tammy Greenberg

attack. The insured received insurance benefits in respect of loss of working ability. Ten years after the occurrence, in a conversation with a fellow worker, the insured learned that there is an extension for severe illness within the framework of his insurance policy. The insured's claim against the insurer was declined due to time bar. However his claim against the broker was accepted inter alia, based on the fact that he was unable to prove that the policy wording, including the extension, was in fact provided to the insured. The indemnity paid to the insured was reduced by 50% in view of his contributory blame. An

appeal on the judgement is currently pending.

The subject of prescription period of a claim for insurance benefits recently arose in respect of insurance cover which includes disability. According to an amendment to Section 31 of the Insurance Contracts Law, 1981 (enacted on 24th March 2014), the inception date of a claim for insurance benefits due to disability of the insured is not the date of the accident/disease which caused the disability, but rather the date on which the insured was entitled to file a claim for insurance benefits – mainly when his permanent disability materialized.

Shirbit Insurance Company

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you!

As always,
Shirbit Insurance Company welcomes you
to the **Tel Aviv Re 2014** conference
and wishes you a good insurance year.



SHIRBIT שירביט
Insurance Company LTD.

ITURAN SAFETY – RISK EVALUATION TECHNOLOGIES FOR MOTOR INSURANCE

- The system gathers data on the behavior of the person driving the vehicle and assists in improving driving quality and safety
- Insurance companies will be able to identify careful drivers and "tailor" smart and economical policies for them

By **Shahar Sheratzki**

Parents allowing their children to use the car are not always able to assess the level of care and safety employed by the young drivers. Ituran has developed for them, amongst others, a system which contributes to peace of mind, gathers data on driving quality and safety and gives real time warnings in case of an accident. The Ituran Safety system is designed not only for parents – but also for insurance companies interested in obtaining information on young drivers and in "tailoring" smart and economical policies.

WEIGHTED GRADE FOR DRIVERS BASED ON DRIVING QUALITY AND SAFETY

Ituran Safety is a tracking system which is based on GPRS. The system includes a "black box" which contains a three-dimensional acceleration sensor which measures the forces acting on the vehicle when it is in motion every ten thousandths of a second. The system monitors the vehicle's movement and is

designed to identify careful driving or alternately aggressive or dangerous driver behavior – sudden abnormal braking, lane swerving, abnormal slowing or speeding up, dangerous overtaking, excessive speeding



Shahar Sheratzki

Insurance sector manager at Ituran

and so on.

Using an advanced and easy-to-use BI (business intelligence) interface, the system provides continuous control and analysis of the data received from the vehicle, including the driving times, characteristics of the roads on which the driver drives a lot.

A report is issued, at a pre-set frequency, according to chosen profiles and obtains a driver "grading", based in driving quality and safety.

According to Ziv Golan, engineering VP at Ituran and responsible for developing the company's products, the system gathers statistical data that are combined and weighted into a grade. Of course, as time goes by and the number of kilometers driven increases, more and more data accumulate, and more information accumulates about driving characteristics. At the same time, it is possible to get information on a single trip and know whether the driver's behavior is dangerous or abnormal.

"The grade starts at 100% and goes down according to the standard of the trip", Golan explains, "where each type of event has a different weighting according to how serious it is. For example, sudden braking, when it occurs infrequently, does not necessarily point to aggressive or dangerous driving, but even to towards driver alertness and avoidance of accidents. On the other hand,

where driving is characterized by frequent sudden braking, the grade drops accordingly".

All of the abnormal events (at two levels – aggressive and dangerous) are reported to the Safety computer system, with a grade being put together for

the driver. Ituran reports that experience shows that the system helps to prevent accidents, since the mere existence of the system challenges the driver to improve his driving in order to obtain a better grade, and as a result pay a lower premium.

OBTAINING FEEDBACK AND EDUCATION FOR BETTER DRIVING

The user of the Safety system is able to see the information coming from the vehicle via the Ituran website, via a password. The website gives detailed information used in calculating the driver's grade, according to ten categories, and is accompanied by wording pointing to the dangerous points and what needs to be improved. Access to the site is simple, discrete and safe, from any computer connected to the internet. The data can be restored up to one year back.

"The system as a whole gives real time indications also to the driver of every event reported to the control center", Golan says. "It is possible to install on the vehicle display system a light which indicates abnormal or normal driving. The parent is also able to get an indication on the vehicle's last trip in accordance with the color of the light which goes on when he presses the switch".

IMMEDIATE ACCIDENT WARNING COULD SAVE LIVES

The Safety system includes an accident sensor which sends a warning in real time to Ituran's control center when an accident occurs. The control system, which operates 24/7, acts immediately to assist the driver

PROUD TO BE THE FIRST COMPANY IN ISRAEL TO GO INTO THE UBI AREA – IN COLLABORATION WITH AIG ISRAEL

We at Ituran are proud to be the first company in Israel to go into the area of UBI (Usage Based Insurance) – in collaboration with AIG Israel. Until now, the Ituran Safety system was marketed to big vehicle fleets, including the IDF, police and prison service. Collaboration with AIG represents a milestone in the insurance sector, and we are in discussions with other insurance companies with the aim of expanding activity in this area. In addition to adapting premiums to driving characteristics, Ituran Safety offers additional advantages to insurance company customers. The policyholder can go into the company's website and see his driving data, including his driving safety grading and fuel savings.

The data will appear in general and in detailed format for each trip – suited to situations where there are a number of drivers on the car. In addition, there is the option of receiving SMS messages in real time on exceeding a certain speed or a warning on a series of safety events. In order to bring in AIG Israel customers, Ituran has set up a special unit, which in the future will serve all of the insurance companies and their policyholders. The unit will provide customer service and will contact the driver in real time in case of an accident in order to ascertain the driver's needs – medical assistance, towing or other needs.

In addition, we also operate a photographic team to document the accident, subject to the customer's consent.

Continued On Page 62 →

circulars in attaining the regulator's objectives. We expect a dialogue which does not commit the regulator even prior to issuing the draft circular, so as not to throw the baby out with the bathwater, but we have yet to persuade the regulator that this is the correct path.

• How far in your opinion is the regulation influenced by press populism?

Even Chen: For the time being, we do not see any erosion in regulation resulting from the populist opinions that are frequently expressed in the media and I hope that the regulator will continue to stand firm and not get caught up in populist trends which can bring harm to insureds and members

• What is your opinion about insuring land value as part of the standard structure and contents homeowners' insurance policy?

Eliahu: The regulator has published a draft amendment to the standard structure and contents homeowners policy, which includes "land value insurance", in other words, in the case of an earthquake the policyholder is able to receive indemnification not only in respect of total loss of the building but also in respect of the value of the land, without any damage having occurred to the land itself. In other words, if the building is damaged at a level of 60% or higher, the policyholder is able to force the insurer to purchase the land from him. We understand what is driving the regulator in this proposal, to solve the problem which arises as a result of the fact that in many condominiums, only some of the apartments in the building are insured, and thus it is not possible to rebuild the house which has suffered severe damage and thus the insured cannot realize compensation according to reinstatement value. However, there are other solutions, and we should not adopt the solution that requires the insurer to purchase land that has not

been damaged and exposes it to the pecuniary risks entailed in holding stock of real estate – an insurer by definition is not supposed to take risks with volatile assets, which are speculative risks that are suited to an entity involved in trading and not in insurance. It needs to be mentioned that the forced purchase of land creates problems from the point of view of the reinsurers and it not clear how land value insurance can be provided. I hope that the regulator will come to its senses and not force this insurance on the insurers, but rather promote legislation which will enable insurance of the entire condominium and thereby solve the problem. Why create a model which exists nowhere else and which could damage the stability of the insurance companies, when simpler solutions exist?

• How do you see the future of health insurance in light of the direction that the German Committee seems to be going?

Even Chen: We assume that the German Committee is a long way off reaching conclusions. Despite various comments being made in the press, we believe that the members of the German Committee will understand the importance of health insurance and its contribution to health services in Israel including the fact that private health insurance gives cover over and above the public health basket and thereby complements the essential health services.

Private health insurance operates in a competitive market and thus works efficiently whilst being free of the consideration of purchasing medical expenses the purpose of which are to increase the revenues of the service providers – but are aimed at paying only for necessary medical services. Private medical insurance is for whole life and the insurers are not permitted to reduce the scope of the insurance. Private medical insurance prevents the growth of inequality in obtaining

medical services, since it allows large populations to obtain health services from Israel's leading doctors, which benefits not only the policyholder who would not otherwise be able to afford them, but also prevents "black market medicine", since all of the payments via the insurance companies are documented and paid against invoices and receipts.

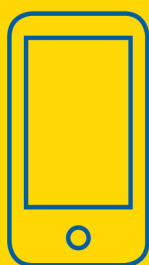
• There is no doubt the awareness of the press and perhaps also of savers regarding pension funds and provident funds has increased recently. How is the sector dealing with this phenomenon?

Even Chen: We welcome the fact that awareness of pension savings amongst the savers is on the increase. We are also of the opinion that it is right and proper that there is discussion of the problems relating to pension savings, such as for example increasing life expectancy and the problem of low interest rates in the economy, outlined by the bank regulator – which harms yields and thus the amount of pension accumulated. At the same time, I want to warn about populist tendencies in the media, which will prejudice this important area of social savings. For example, the crusade against "haircuts" arrangements is inappropriate. In an economy where bank interest is low, other investment horizons giving a higher yield need to be sought out, despite the greater risk entailed in them. Even when considering the situation post facto, avoiding investment in corporate debentures over time would have resulted in greater damage to the savers than not investing in them, which – when they were carried out – represented a better alternative for preserving the pension savers' cash. It also should be emphasized that the investments were made in the debentures of companies with a high financial rating.

The interview took place on March 27, 2014

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הסמארטפון נפל לך לשירותים?

רק ב-

13

לחודש

שירות תיקונים
לכל סוגי הסמארטפונים

המחיר הוא שנתי וניתן לשלמו בשני תשלומים

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טעות - לעולם חוזר (בראשי תיבות: טל"ח) הוא ביטוי שמשמעותו היא כי במקרה של טעות, רשאי הטועה לחזור בו מטעותו. מקובל לשים את הציון 'טל"ח' או 'ט.ל.ח.' בשוליהם של מחירון, דף חשבון ומסמכים עסקיים דומים, כדי להבהיר שטעות שנפלה בהם בתום לב לא תחייב את הטועה. לביטוי זה משמעות חוזית, משום שהצגת מחירון או הגשת חשבון הן חלק מהמהלכים הכרוכים בכריתת חוזה ובמימושו, כך שטעות עלולה להפוך למחייבת ללא הסתייגות זו. השימוש בביטוי על גבי חשבונית בישראל הוא בעקבות הביטוי באנגלית, המשמש בעיקר בבריטניה ובאירלנד.

of tens of years which was created by the controlling shareholder, Mr. Levi Rachmani, who serves as the company's chairman and President of the group. Rachmani has built up close relations with the world's leading reinsurers. In addition what makes Ayalon's connection with the reinsurers special is the mutual commitment based on business fairness that has been built up over many years of working together.

• **What is so special about the relationship?**

Vainshel: The controlling shareholder's fairness, professionalism and integrity are very important for the reinsurers. The company makes a point of not transferring all of the risk, but acts responsibly and fairly, over many years of activity at the highest level of professionalism from a long-term point of view. It sees the reinsurers as true partners. Ayalon has always been ready to take on a not inconsiderable share of the risk. This is something that is known and appreciated by the reinsurers.

For example, 2013 was an unusual year because of the two storms that hit the Israeli industry – at the beginning of the year and at the end of the year. Our share of the damages was significant and we were a material partners in the total claims from these events..

• **Which reinsurers do you mainly work with?**

Vainshel: The main companies that we work with are **SCOR, Swiss Re, Everst, Mafre, R and V and Munich Re**, but we also work with many other highly rated companies.

Have there been changes in the company's arrangements with the reinsurers?

Vainshel: We carried out a commutation at the beginning of 2014 with a **Berkshire Hathaway** group reinsurer, as a result of which, we recognized about a 40 million shekel profit (pre-tax). The agreement was for a loss portfolio transfer in the area of Motor Bodily Injury line of business. After carrying out an actuarial re-evaluation and an examination of the company's capital position and in accordance with a clause in the agreement, we did a cut-off, in a manner where both we and the reinsurer realized a decent profit.

• **The move declared by the controlling shareholder two years - to act to "return to former glory" gives the impression of having been quite successful.**

Vainshel: The move is indeed working well. We are acting energetically to return Ayalon to the position it is worthy of in the insurance and finance market in Israel.

The activity are in a number of fields. First – we are back on the growth track. We have grown significantly in all lines of activity in the past two years. In 2013, we grew at the highest rate of the top six companies, recording a growth of 17% in the written premium, compared with an average of 8%-10% of the other companies. In life insurance, we grew in the written premium by a higher percentage of approximately 24%, including a significant increase in life risks and health sales.

Another very important aspect is profitability. After the crisis in

2011 we have seen an ongoing improvement in comprehensive income - a profit of 50 million shekels in 2012 and approximately 70 million shekels in 2013 - an increase of 40%, representing a return on equity of 15%. If we neutralize the one-time effect of a revaluation of fixed assets, comprehensive income increased by 88% in the period. The improvement in profitability came as a result of improved underwriting, particularly in the private lines of business in the non life side. Also in the life and health sectors we posted decent profits.

There was a significant improvement in investment management. We attained the highest yields in the sector for the provident and study fund members, and we came in ranking second in the profit participating policies yields in the market.

One of Board of Directors Chairman, Mr. Levi Rachmani's key emphases is improving the service to agents and customers and a big change has indeed occurred. This is testified to by our rating in first position in the survey carried out by the Association of insurance agents in March 2014 in the industries insurance agents service satisfaction of life insurance and pensions.

• **How did you achieve this?**

Vainshel: We initiated many projects in this area. We introduced a smart telephone exchange in order to improve the important area of availability in real time. We have implemented top of the arts CRM system in the area of long-term savings and we have been carrying out intensive service oriented training of the company's employees. All of this, alongside quantitative

measurement of service-related parameters created the difference . We have also made a substantial improvements in the non life insurance service parameters across most of the indexes as we were ranked second in the previous survey which was carried out six months ago by the Association of insurance agents in the non life segments of operation , only slightly behind Harel, which came in first.

• What added value do you give to agents?

Vainshel: We provide the agents with solutions in areas that the other companies do not necessarily give. For example, in areas requiring a high degree of professionalism, such as, in the area of commercial insurance to contractors and engineering insurances – an area in which we are historically very strong, by comparison with the rest of the competitors, and also professional liability to architects, insurance agents and attorneys.

We are attentive to the needs of the agents. We hold a quarterly round-table meeting with our agents. Each time we focus on a different group of representative agents . There is real transparency and openness towards the agents. I think that our position in the agents satisfaction surveys, both in life insurance and non-life insurance says a lot. Just one example, on the question of which company's managers are most accessible to the agents, Ayalon was in ranked in the first place, the ongoing dialog creates an improvement in the processes.

• What for example?

Vainshel: In light of an understanding of the needs of the agents and also the dialog with the Insurance Agents Association, we have created tracks that enable the agents to cope with the direct insurance companies. The tracks are called "Winning Comprehensive Motor policies " and "Winning Comprehensive Homeowners policies ". We are prepared to match the direct insurance price that the customer brings to the agent from the direct companies, on top of which we give an additional 100 shekel special discount on these policies. The agents are not yet making extensive use of it, but this is an additional tool that we are giving the agents to compete. We have developed fast tracks for handling non-life claims, we have developed a system which enables the agents to open claims via the intranet and also obtain statuses information on claims by means of these tools.

In the area of long-term savings, the agents need assistance in logistic activity vis-à-vis the employees, and we provide them with a solution which enables them to act as a small pension arrangement manager.

• How many agents do you work with?

Vainshel: We are currently working with around 1,000 agents, with half of whom we are the dominant company.

• The Commissioner recently issued a draft circular permitting the sale of insurance not via agents. What is your position on this?

Vainshel: The subject is less relevant for us, since we are an agents company. Ayalon was rated by the agents as the company that is least harmful to theme and the least active in direct marketing which competes with the agents. . There are a variety of marketing and sales channels for insurance sales, and the main channel is the agents and the brokers channel. Use is indeed made in Israel and around the world of new technologies such as the internet and mobile telephones for insurance perposes, – but this does not negate the need for the agent and integrating advanced tools that are able to serve the company and the agent. The smart thing is to do this together. Our job is to give the agents innovative and advanced tools. We still have a lot to do in this area. The smart thing is to involve them as partners in these updated processes.

• According to the policy on senior executive remuneration that was published by the Commissioner, senior salaries are to be linked to the companies' performance. How do you regard this?

Vainshel: The Commissioner's circular seems to be right and proper, and is reasonable and logical for the most part. The level of remuneration reached in the industry has passed the limit of good taste. Managers need to be suitably remunerated, but there has to be proportionality between the fixed and variable remuneration. There needs to be a correlation between performance and remuneration and a long-term view needs to be taken of the parameters used.

mainly with Swiss Re. In the area of homeowners insurance, in which we have recorded significant growth, we work mainly with Hanover Re, RNV and Shelter Re.

• **How is the activity of the agents club progressing?**

Omid: After a few months of activity I say that it has been a huge success. Approximately 75% of the 100 agents chosen are succeeding in attaining their targets, with most of them having committed to a 30% increase in production. In addition, we give the agents ongoing updates on their attainment of targets, and all of us work according to an orderly work program.

We are re-educating the market. Working according to targets and work programs goes on in every market, but for some reason only in the insurance sector has this mode of conduct not yet been assimilated.

• **Are you recruiting new agents?**

Omid: At a moderate rate of only 10% a year. We make a point of growing in a manner that enables us to give proper service to each of the agents we have chosen to work with.

• **What does the future hold in store for Shlomo?**

Omid: The coming years will be characterized by much higher profits. When I took over at the company, apart from my own personal faith that the company could be nursed back to health – I knew that the developments in the market would be good for us. All of my predictions from two years ago have been realized. We decided to focus on households and on the commodity, and we will continue cherry picking the market.

• **When and how will you expand the areas of activity?**

Omid: We are looking into entering the life insurance sector in risk coverages. I believe that it is possible to sell risk at half the price at which it is currently being sold. Whilst the insurance companies do currently give discounts, these are only for two or three years. The big companies have very large life insurance portfolio, but they are unable to significantly reduce the price, because they will damage their existing portfolio. We don't have this problem.

We are considering working with investment houses and selling life insurances to their clients. We have the advantage over the big companies in not having an investment house, and thus it is possible that investment houses will choose to work with us rather than with insurance companies that are competing with them.

• **What about health insurance?**

Omid: We are currently launching a personal accidents policy, the special feature of which is that it includes the information that the customer gave for compulsory insurance, including payment details. When the customer chooses to purchase personal accidents insurance – all the agent needs to do is to mark this on the compulsory insurance form. In the future, we will be going into the critical illnesses branch. We prefer compensation policies over indemnity policies, since they are easier to operate and understand, and this is what the Israeli customer is looking for. The way I see things, holding a private health insurance policy as well as an additional health services plan as well as paying health tax is not double insurance but triple insurance.

• **What is your position on the circular permitting the sale of insurance not via insurance agents?**

Omid: In my opinion, this is a very serious matter. It undermines the function of the agent. From our point of view, the agents are the ultimate sales channel and the only way to operate. There are people in the regulator's office who possibly have not thought things out fully, and this needs to be prevented.

As a result of the circular, "leads traders" will start operating in the market, which will seriously damage the sales process. The selling profession is an honorable one, and we are committed to standing by our customer in times of distress. Adding another intermediate layer in the middle will only cause harm, since contractors and sub-contractors will be created. This will cause problems of communication and misunderstandings.

The process of selling insurance is one which is very complex, and the agent, whose profession this is, knows how to avoid going into grey areas where for some reason or another there is no insurance coverage. I am sure that the Commissioner wants to help the consumers, but I am worried that additional entities will come in, causing damage to the consumers.

There is an anomaly. On the one hand, it is very difficult to take out an agent license. On the other hand the sale of insurance via websites is being made very easy. The Commissioner has a great interest in there being agents and for them to be professional. There are hundreds of thousands of people in the country for whom the agent was there in their times of deepest trouble. It is impossible to keep on kicking the insurance agents.



Erniel G. Samrock

Welcome to Tel Aviv Re 2014

Bituach Haklai Ltd bids a warm welcome to all of our esteemed reinsurers and guests. We appreciate your attendance and hope you will enjoy a fruitful and enlightening conference and a pleasant stay in Israel.

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Studies show that a significant section of the Israel public are underinsured, especially in life insurance. The problem is that many Israelis believe that they have life insurance via the mortgage or pension fund. It is important to understand that these insurances will not be enough for the survivor to be able to maintain the standard of living they were used to before the death event.

The pure risk product that we are marketing is a simple product, even "dumb". The insurant passes away and the beneficiaries receive money. In my experience, many customer believe that this is an expensive product and that somehow risk insurance is for the wealthier members of the public, but if you look at the tariffs, they are cheap and attractive and allow anyone to buy the product at a relatively low cost.

Since it is nowadays difficult to cope with the cost of living, you can imagine what happens when the main earner dies before his time. In this situation, the ability of the family to cope with the loss of income is very difficult and, thus at a relatively low cost, it is possible to purchase peace of mind and economic security for the family. The moment that people realize how insufficient the pension fund coverages are and the price at which they can purchase life insurance, they understand that this is a need which becomes a must from age 30 on.

• The pension problem is thought to be one of the most difficult problems facing the western world. What is your position on this? Is enough being done to deal with the problem?

Yogev: First, I must say that Israel is relatively advanced, compared with the rest of the world. The transition to cumulative pensions in 1995 is a step that many western countries have yet to carry out. We can be proud of the government's initiative is coping with this problem.

At the same time, there is still a long way to go, since not enough has been done to deal with it. We have defined the pension problems on many occasions as one which is no less serious than the housing problem. It's just that the pension issue is less sexy and one which is limited to discussion only in the financial press, and this is unfortunate.

In my opinion there is a lot that can be done. Integrating financial education into Israel is very important and the public is realizing more and the more the mistakes it has been making, if on withdrawing severance pay when moving between jobs or drawing study fund moneys even when there is no real need to do so. All of these harm the public's long term savings. Another problem that needs to be placed at the government's door arises from the late entry of many young people into the labor market and the fact that they start saving for pensions only at age 30. This represents a loss of income of hundreds of thousands of shekels as a result of the compound interest effect. At Psagot, we call this phenomenon – the "lost decade". Thus, there is room for the states to start developing mechanisms that will encourage young people to start saving, for example via the creation of tax benefits directed at the young people or even creating a requirement, such as with the mandatory pension extension order. These actions could certainly change matters. There is no doubt that there is also a serious problem with the self-employed who do not save enough for pensions and it is important for there to be a pension law for the self-employed, and not just for employees.

• What are you doing to make the Psagot pension fund more attractive, in order to compete with pension funds offered by the older companies?

Yogev: We set ourselves a goal of managing assets at a level of half a billion shekels by the end of 2013,

and we attained the goal. We are the fund with the highest rates of growth and for the past two years, our comprehensive pension fund has been chosen as the investment house-owned pension fund of the year.

We have won a large number of tenders and with the help of the agents and our in-house agencies we are doing a lot of work in the field and recruiting new customers. Pensions are today the growth engine in long-term savings sector, with the managers insurances becoming less relevant and Amendment 3 rendering the provident sector into a state of run-off. A new pension fund is based on mutual guarantee, which means that all of the fund members are guarantors for the rest of the members. In other words, in a situation of an accumulation of cases of death or disability or where there are many deaths at an advanced age, the rest of the members bear the excess costs.

In order to provide better protection for the members' moneys and reduce the "demographic risk", the pension fund can buy reinsurance, in which the reinsurer is the one paying the claims and thus all of the risk is transferred from the policyholders to the reinsurer. In general, the pension funds that choose to purchase reinsurance at a high rate are the smaller ones, and they thus transfer the risk from the members to the reinsurers, thereby protecting the policyholders' assets.

We are currently also carrying out a significant improvement in our pension fund's by-laws and we have also significantly upgraded our business policy on accepting new members in the fund.

There is no doubt that this is very significant news for the agents, who will be able to present their customers with Pasagot's new advantages and expand their business with us and I also expect that we will continue seeing our pension fund growing at the high rate we have been seeing in the past two years.

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policy encouraging the policyholder to exploit his rights in the public system – exists in many places in the world.

• How will the move affect the insurance sector?

Sirote: At the end of the day, the result will be realization of the main worry: less choice for the policyholder, at higher prices.

• Concerns are being expressed that the insurance companies in Israel will be unable to cope with a major earthquake.

Sirote: Unlike the commonly held view, the fact that there has not been an earthquake for a long time does not increase the risk of a big one

happening. The opposite is true – there have been small earthquakes, which have released the accumulated pressure.

In answer to your question – I don't know. The insurance companies are buying enough reinsurance. The ones that are not buying sufficient insurance are the members of the general public. The government is also not sufficiently prepared. There is another unknown – regarding construction in Israel. We know that the building standards are good, but we don't know whether the contractors are building in accordance with them. Regarding large buildings – I do not believe they will collapse. But we are not so sure about the smaller and medium-sized buildings.

• What is your principle concern about the insurance market in Israel?

Sirote: The area of long-term care insurance. Swiss Re got out of the sector a few years ago, and we are now seeing losses in the sector and rising prices at other reinsurers. This is a problematic product, with people buying it age 60 and claiming at age 80. It is impossible to know today whether the price will be correct in 10 years time. The prices here are almost totally guaranteed. Permission from the Commissioner is needed if they need adjusting, and the insurance companies are afraid to ask. We are doing our best to help the market, but we are considering our position carefully.

the company is innovative, growing and never slacking behind. In order to maintain the corporate expertise

which holds the client base together, the broker needs to develop and strengthen his staff and provide them

with sufficient job satisfaction and challenges to ensure they remain loyal and dedicated to the company. And all that is before we have mentioned reporting to shareholders in the ever-increasing regulatory environment, as well as other management related tasks.

In a nutshell – the insurance broker needs to be a multi-talented individual and a top-notch insurance professional, constantly aware of precedents in the local market and the development of new insurance products in the global insurance market.

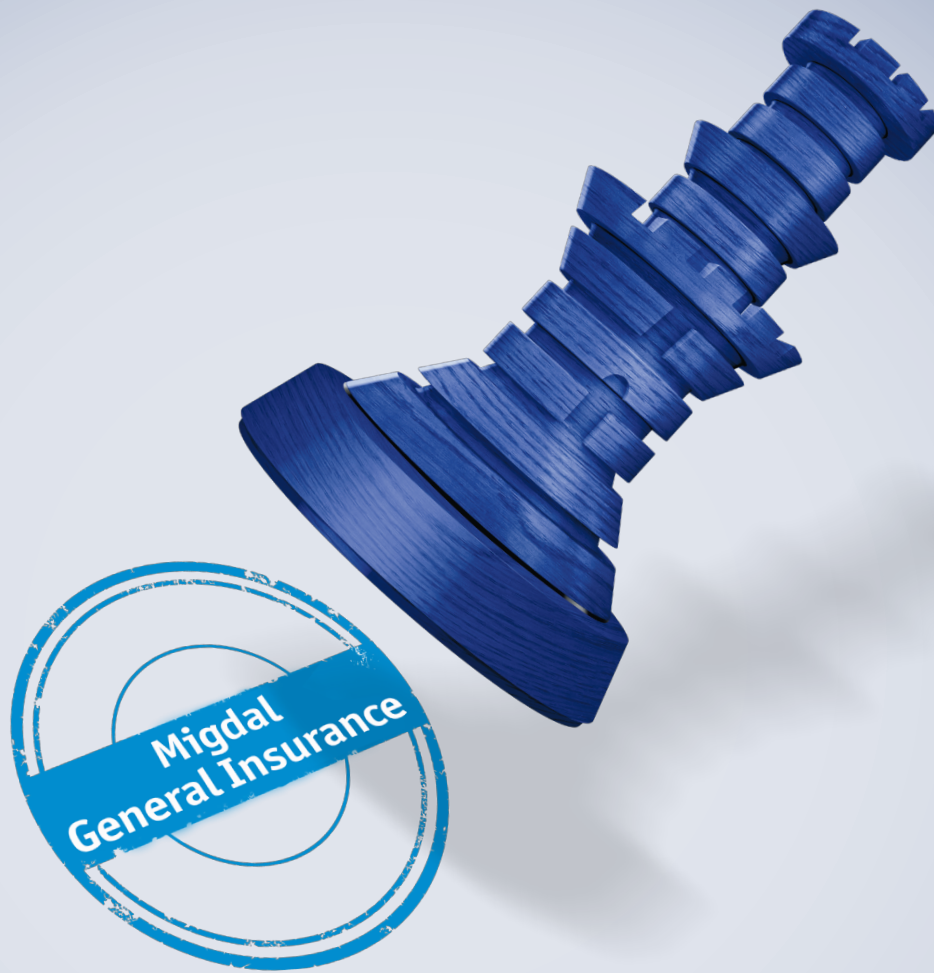
So can the broker take any comfort in hearing from a client that other business sectors are experiencing an identical trend? I think not, since in the same breath the client will ask the broker how he can reduce insurance costs to help streamline and maintain profitability...

Best wishes for a successful and enjoyable conference



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of provisions, regulations or laws and that it could cause damage – is sufficient in order to transfer it from the area of insurance coverage to the responsibility remaining with the insurant. This legal situation will encourage the insurant to act with "uninsured prudence" and take responsibility for his actions.

In the Momentum case, a portfolio manager, who ignored the investors' instructions as to the level of risk and went even further, giving the investors false reports giving a positive picture of a successful investment (whilst the investment was losing heavily), over a number of quarters and did not enable them to limit their damages, until their money was almost entirely depleted. Judge Ronen found that the portfolio manager's intention was "to act in a manner that would increase the plaintiff's profits (or later to reduce the damages) and that the purpose of the law requiring insurance is to protect the investing

public and increase the faith of the clients in the portfolio managers, and therefore, "the fact that there is insurance coverage also for actions of a portfolio manager that are in breach of his agreements with his clients, does not, in my opinion, create a significant incentive to portfolio manager not act in this manner".

But this incentive, to ignore the clients' instructions, laws and regulations, which increases the chance of enhanced profits and increasing the insurant's reputation, when the risk is passed on in its entirety to the insurer, is a direct incentive which contradicts the social purpose of educating professionals to act *bone fide* and not act knowingly in a manner which could cause damage. It can be seen that in the USA, false reports to investors resulted in Barney Maidoff being sent to prison for many years, and Ponzi-type events being dealt with the utmost severity, in order to create significant deterrence.

The basis of insurable events is the element of non-expectedness. Events that are foreseeable in advance are not insurable. If the courts come to the conclusion that damage which could have been expected in advance can be insured under insurance policies, the insurants will be encouraged to act outside the law, without having to pay the price, which they would in any case have had to pay, were it not for the insurance.

This trend will lead to insurers avoiding giving insurance coverage and marketing policies covering foreseen events.

The insurance requirement, in the case of portfolio managers, testifies to the public interest in the existence of parties who are prepared to grant insurance coverage for negligence torts, and thus rulings on this point need to be given with due sensitivity, in view of the collision of interests, as detailed above. The tendency of the courts to rule against the "deep pocket" in order to attain "justice" in a specific situation, sometimes ignores the wider impact, which could completely undermine the position of both the insurants and the investors.

And so, on the one hand, the intention of the lady (the insurer) is clear, but on the other hand, the legal system chooses to give words a life of their own and interpret the intention of retired Judge Barak in the Apropim ruling, by preferring "what ought to have been intended" over its real intention. Not exactly politically correct and also there is an opposite wind blowing from the direction of Judge Danziger which is already beginning to nibble away at this mode of interpretation...

Jonathan Marcus Translations

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the rate of increase in GNPI for the same period. A possible explanation for this is that in 2009 & 2010, the reinsurance market was relatively soft, and reinsurers offered tempting terms prompting insurers to increase their reinsurance utilization.

Reinsurance Claims vs. Reinsurance Premium

As can be seen in Table 3 and the following chart, there is no correlation between the rate of reinsurance utilization and the rate of reinsurance claims (Loss Ratio).

The highest Loss Ratio was reported by ILD (96.32%) and the lowest Loss Ratio was reported by Eliahu (32.21%). This is consistent with the study ten years ago when Eliahu had also the lowest Loss Ratio (65.92%). Analyzing the accumulated data as such will demonstrate an over-simplification of matters. In order to understand the wide spread of results one has to resort to the performance of each of the published branches, namely Motor Bodily Injury (MBI), Other Property Branches and Other Liability Branches. There is no reason to analyze Motor Physical Damage (Kasko) as only two companies reinsure this class of business.

Class by Class analysis Motor Bodily Injury

As can be seen in Table 4, Loss

Reinsurance Claims vs. Reinsurance Premium

During the Period 2008 to 2013
(all figures in Thousands NIS)

Cedant	R/I Claims	Ceded Premium	Ceded Loss Ratio	Reinsurance Utilization
Harel	6,294,868	7,170,805	87.78%	42.13%
Migdal	1,353,837	2,832,934	47.79%	30.60%
Clal	2,896,814	4,682,219	61.87%	27.63%
Menorah	2,267,769	3,724,573	60.89%	27.16%
AIG	640,260	754,774	84.83%	24.49%
Phoenix	1,297,235	2,505,091	51.78%	21.03%
Ayalon	759,362	944,159	80.43%	12.08%
ILD	503,376	522,605	96.32%	10.31%
Eliahu	91,453	283,947	32.21%	7.34%
IDI	177,748	262,067	67.83%	4.81%
Totals	16,282,722	23,683,174	68.75%	25.16%

Table 3
Source: Cedants' Annual Reports

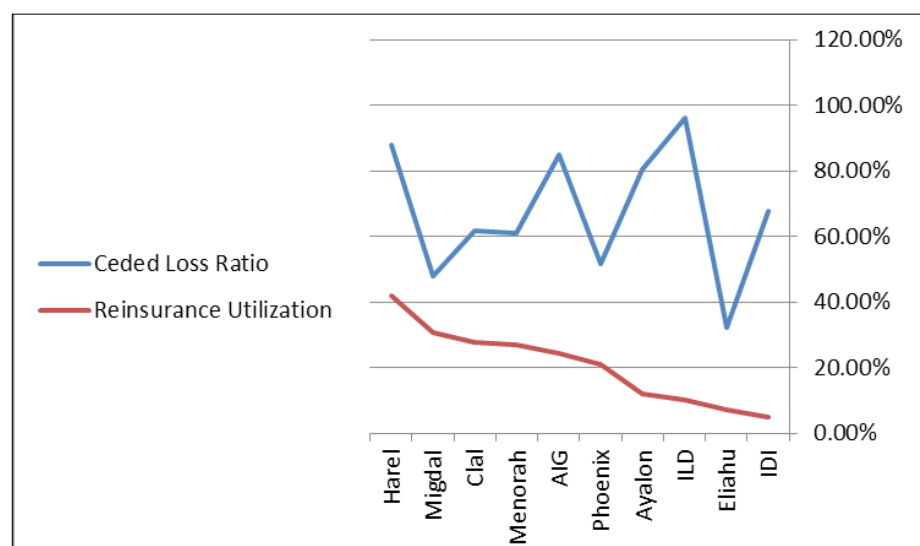


Chart 2

Ratios of retained exposure range between 56.27% (AIG) and 103.47% (Harel). If we remove two extremes on each side, the range becomes quite narrower. Yet it is very difficult to make an intelligent deduction from the reported figures with respect to

reinsurance claims. One has to be privy to inside information, which the writer is not, or to speculate based on the information revealed in the Statements. Companies have changed their policy of releasing reserves according to regulatory guidelines, moving

Claims vs. Premium in Motor Bodily Injury

During the Period 2008 to 2013
(all figures in Thousands NIS)

Cedant	R/I Claims	Ceded Premium	Ceded Loss Ratio	Retained Claims	Retained Premium	Retained Loss Ratio
AIG	127,508	9,620	1325.45%	384,755	683,722	56.27%
Ayalon	340,312	52,742	645.24%	1,462,252	2,069,163	70.67%
Clal	55,860	100,824	55.40%	3,285,121	3,453,476	95.13%
Eliahu	25,372	68,224	37.19%	1,201,362	1,775,156	67.68%
Harel	460,347	567,261	81.15%	2,810,512	2,716,240	103.47%
IDI	137,402	124,791	110.11%	1,345,422	1,687,075	79.75%
ILD	294,223	101,403	290.15%	1,869,438	2,040,867	91.60%
Menorah	173,382	193,909	89.41%	3,028,948	3,421,343	88.53%
Migdal	881	38,641	2.28%	1,578,111	1,907,649	82.73%
Phoenix	16,347	76,282	21.43%	2,022,428	2,176,419	92.92%
TOTAL	1,631,634	1,333,697	122.34%	18,988,349	21,931,110	86.58%

Table 4
Source: Cedants' Annual Reports

Claims vs. Premium in Other Property Branche

During the Period 2008 to 2013
(all figures in Thousands NIS)

Cedant	GNPI	R/I Claims	Ceded Premium	Reinsurance Utilization	Ceded Loss Ratio
AIG	704,881	169,458	291,249	41.32%	58.18%
Ayalon	1,823,239	347,068	745,122	40.87%	46.58%
Clal	6,690,048	2,293,947	3,600,245	53.81%	63.72%
Eliahu	444,447	53,388	203,681	45.83%	26.21%
Harel	4,304,533	1,925,152	3,234,043	75.13%	59.53%
IDI	635,969	37,972	130,362	20.50%	29.13%
ILD	766,506	180,283	372,051	48.54%	48.46%
Menorah	3,243,828	993,812	1,852,694	57.11%	53.64%
Migdal	3,247,973	1,127,365	2,311,291	71.16%	48.78%
Phoenix	3,536,154	1,158,289	1,920,723	54.32%	60.30%
TOTAL	25,397,578	8,286,734	14,661,461	57.73%	56.52%

Table 5
Source: Cedants' Annual Reports

from five open years to three and now they may choose any length they wish.

Therefore, there is a very low correlation between the magnitude of reinsurance cessions and related Loss Ratios.

Other Property Branches

Table 5 and the chart that follows easily demonstrate

a high degree of correlation between the rate of reinsurance utilization and the ceded Loss Ratios. It is important to emphasize again that the correlation is between ratios, not between absolute figures i.e. it is not the size of the company that influences its reinsured Loss Ratio. It is the degree of reinsurance utilization.

Other Liability Branches

Unlike in Other Property Classes, there is a positive correlation between the rate of reinsurance utilization and the ceded Loss Ratios (See Table 5

Jonathan Marcus Translations

Hebrew-English-Hebrew translations of insurance and financial documents

- Insurance policies
- Appraisals and loss-adjusters reports
- Proposals
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- 25 years of professional experience in the insurance sector



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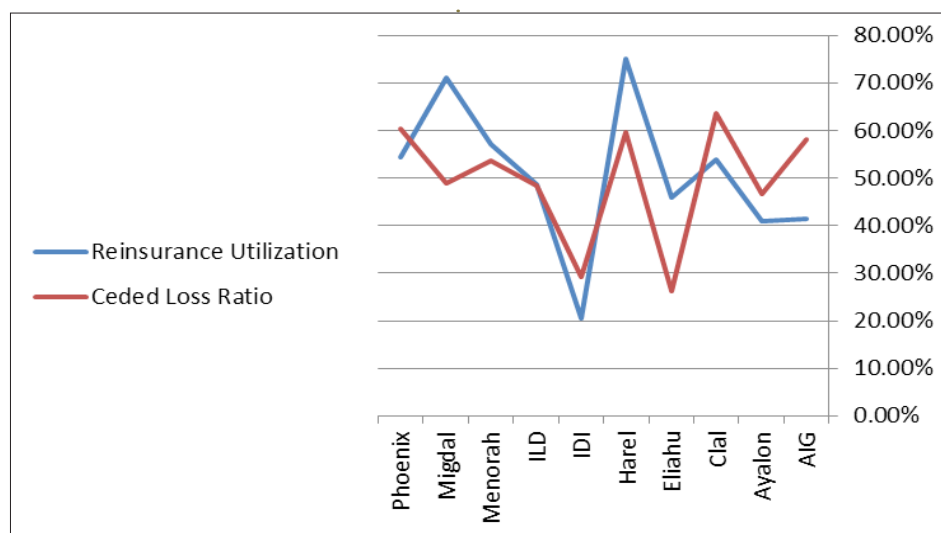


Chart 3

no determinate correlation between the various companies' policies regarding purchase of reinsurance and their underwriting results to those of the reinsurers. With this in mind, one can also enumerate the following from the findings previously mentioned:

1. There is a positive correlation between the size of the company (measured by its GNPI) and rate of its reinsurance utilization. The larger the company, it buys relatively more reinsurance, i.e. a larger percentage of its GNPI.

2. Over time, the rate of reinsurance utilization is generally on the rise.

3. In Motor and in Other Liability Branches there is no significant correlation between the underwriting results of the reinsurers and the scope of reinsurance purchased. Such a positive correlation exists in

and the chart that follows), but is not significant as in the Other Property Classes.

Comparison of Periods

As can be seen in Table 7, there is no real relation between companies' reinsurance

purchasing appetite 15 years ago and at present.

Summary and Conclusions

The single unequivocal conclusion that can be drawn from this study is that there is

Claims vs. Premium in Other Liability Branches

During the Period 2008 to 2013
 (all figures in Thousands NIS)

Cedant	GNPI	R/I Claims	Ceded Premium	Reinsurance Utilization	Ceded Loss Ratio
AIG	526,224	343,294	453,238	64.30%	75.74%
Ayalon	1,251,408	69,112	136,199	7.47%	50.74%
Clal	2,414,560	506,703	921,845	13.78%	54.97%
Eliahu	120,467	12,693	12,042	2.71%	105.41%
Harel	4,215,221	3,256,837	2,444,309	56.78%	133.24%
IDI	15,114	1,475	1,460	0.23%	101.03%
ILD	317,165	24,894	43,813	5.72%	56.82%
Menorah	1,524,800	358,029	648,979	20.01%	55.17%
Migdal	1,562,521	224,351	478,153	14.72%	46.92%
Phoenix	1,971,636	118,530	508,104	14.37%	23.33%
TOTAL	13,919,116	4,915,918	5,648,142	22.24%	87.04%

Table 6

Source: Cedants' Annual Reports

Property Branches only.

4. Companies that maintain retained underwriting results that are better than average, provide their reinsurers with business that is better than average.

5. There is no relation between the companies' reinsurance purchasing policy 15 years ago and at present.

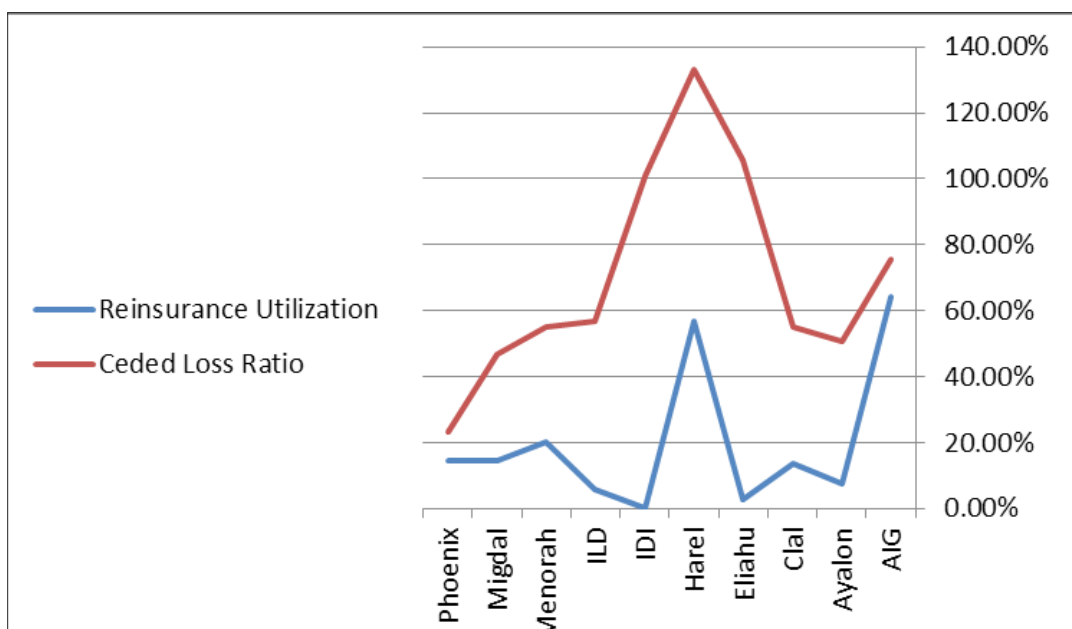


Chart 4

All in all, it can be

clearly seen that the past six years have been profitable for cedants and reinsurers alike. The average ceded Loss Ratio was 68.75% and the average

Combined Ratio was 85.70%.

There is, however, still much room for improvement in the efficiency of reinsurance placement.

Reinsurance Utilization

2008 to 2013 vs 1987 to 1991
(all figures in Thousands NIS)

Cedant	2008 to 2013	1987 to 1991
Harel	42.13%	34.45%
Clal	27.63%	32.26%
Menorah	27.16%	41.47%
Migdal	30.60%	28.99%
Phoenix	21.03%	26.31%
Ayalon	12.08%	29.42%
Eliahu	7.34%	18.40%
Totals	25.16%	30.90%

Table 7
Source: Cedants' Annual Reports

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shekels.

Running up to 2015, and in a manner similar to the changes in compulsory insurance, a number of changes need to be made, since the situation could get worse in the absence of the necessary changes in adapting the tariffs to the risk.

Production

The largest company in elementary insurance in 2013 was **Harel**, with production totaling 3.1 billion shekels, up 7.2% on 2012 (2.89 billion shekels). The company is active in all areas, and is the largest in motor property and liabilities (mainly professional liability). The company grew in all areas of activity, apart from compulsory motor insurance.

The second largest company was **Clal Insurance**, with production totaling 2.7 billion shekels (2.83 billion shekels in the previous year), an decrease of 3.8%. The decrease experienced by Clal Insurance was mainly in business insurances and also to a minor degree in private insurances. The reduction in activity is part of management policy aimed at improving profitability and altering the portfolio mix, which includes, amongst other things, concentrating on private insurances and small and medium businesses at the expense of large and liabilities-rich businesses.

Production totaling 2.27 billion shekels, up 7% on last year's figure of 2.12 billion shekels, brought the Phoenix to third place. The company topped the elementary earnings rankings and its growth rate was also profit-oriented. This being the case, it can be seen that the company prefers to grow faster in private insurances but more slowly in the business branches. The focus on profitability is expressed in the large business policies (including the liabilities component) undergoing special actuarial control, including on renewal.

Menorah came in fourth, with

production reaching 2.06 billion shekels. It posted the most impressive growth amongst the top five companies (11.35%) over last year's production of 1.85 billion shekels. The company grew both in private and in business insurances. If we add to Menorah's production that of Shomera, which totaled around 776 million shekels (the company also generating unusual profits) the Menorah group's production totals 2.85 billion shekels, taking it to second place in the production rankings.

Migdal posted, together with Eliahu, production totaling 2.02 billion shekels, a 7.7% decrease in the combined production of the two companies. The combined production of the two companies in 2012 totaled 2.19 billion shekels (Migdal on 1.4 billion shekels and 0.78 billion shekels for Eliahu). The main decrease in production was in the private insurances, principally in the compulsory motor branch, and relates to the absorption of the Eliahu agents into Migdal in the first quarters of the merged activity. The problems were solved in the later quarters and Migdal plans on expanding in the elementary insurances, including focusing on private insurances, and there is no doubt that it has the ability to achieve its objective, and I expect that the new management will act make Migdal into a leading company in elementary insurance.

The big five companies' combined production came to 12.18 billion shekels, representing 66% of total elementary production. The big companies take up around 60% of motor insurance production and 80% in the other areas. If we add in the production of Shomera as part of the Menorah group – the big companies' share goes up to 70%.

The small and medium successfully compete against the bigger players in compulsory motor and motor property, whilst in the business and liabilities insurances, the stage belongs to the big five and also Ayalon, to a certain

extent (the exception is Bituach Haklai, the majority of the business portfolio of which is concentrated in a single sector – the kibbutz industries).

The sixth largest company, and leading the small and medium companies is Ayalon, with production totaling 1.52 billion shekels, up 17% on last year's total of 1.3 billion shekels. Ayalon grew in all areas of activity, especially in motor insurance. The company is active in the business sectors, competing with the bigger players, and is closer to the bigger companies than the small and medium category. The company is also active in the collectives and in large car fleets.

Hachshara, which (apart from the direct companies) is the second largest in the small and medium category, with production totaling 949.8 million shekels (up 4.2% on last year's production, which totaled 911.7 million shekels). The company grew in the business and motor property branches, but decreased slightly in the compulsory sector. Hachshara is one of the only companies where the compulsory premium is higher than the motor property premiums, as a result of its leasing activity (**Albar** and **Kal Auto**, the main premium of which is compulsory) and activity with niche vehicles (such as taxis, with a relatively high compulsory premium) and also as a result of the company having focused in compulsory insurance in recent years, as a result of the profitability in the sector.

Shomera, with production totaling 776 million shekels, showed an increase of 14.2% (676 million shekels in 2012). The company grew in all areas of activity whilst strengthening profitability and insisting of improved service (coming in top in the agents service survey). This has made it a model for the small and medium companies in a competitive market, by presenting remarkable profits which giving good service to its agents and customers. There is no doubt

that Menorah group's professional and other infrastructures helped in attaining this goal. The company is focused on private insurances, although it does have a relatively small business portfolio. The agents speak of it as a pleasant company to work with.

Shirbit posted production totaling 517 million shekels – a 6.4% decrease on last year's production of 553.4 million shekels). The decrease was due mainly to the drastic reduction in the number of government employees – as a result of a move initiated by the company. The company still has a large collective (government employees), but with a small number of policyholders. The company's other distribution channels have stepped up their activity, mainly with agents.

Bituach Haklai continues to focus its activity on the kibbutz business sector, and its production was up slightly on the previous year, and totaled 434.8 million shekels in 2013. The company is slowly increasing its activity with agents, but in a controlled manner and with strict underwriting.

Shlomo, with production totaling 347.8 million shekels is the smallest company, and showed an increase of 8.5% on last year's figure of 320.4 million shekels. The compulsory production for the group's vehicles (which include the leasing cars) forms a very significant part of the company's production, but is less significant in its comprehensive production, where the main premium income is generated by the agents. The company has undergone a revolution in its underwriting approach, and thus the first quarters of 2013 saw a decrease in activity, as a result of change in the company's agent mix, which included ceasing activity with many agents, in particular the ones who were problematic in terms of the results, and those who were loss-makers or opportunistic agents. Production increased in the last quarters, the company having

recruited new agents and as a result of a different style of working and adapted to the company's needs. At the same time, the company impressively improved its motor property results. Despite it being a small company, the growth at the same time as dealing with profitability is worthy of note.

The direct companies posted an increase in production, with **Direct Insurance** reaching 1.11 billion shekels – a 12.8% increase, taking it seventh place in the companies rankings, the main increase being in motor and household insurances. **AIG** posted production of 582.7 million shekels, up 5.2%, and placing it in tenth place out of 13 companies. The growth was principally in private insurances – motor and homeowners. The company also works with agents in the business and liabilities sector, in which it is able to take advantage of being part of an international entity with appropriate infrastructures. The direct companies' combined production came to 1.7 billion shekels, representing 9.2% of the total for all areas of activity, although their impact in motor property and homeowners insurance is more significant.

Profitability

In terms of profits, there is no doubt that 2013 was the Phoenix's year, posting earnings totaling 365.7 million shekels, up 56% from last year's total of 233.8 million shekels. The Phoenix managed a profit of 165 million shekels in the liabilities branch, which is an extraordinary achievement, as a result of a claims adjustment and created a clear advantage over the market as a whole. The Phoenix came in top in the profitability rankings also in the property and others branch (amongst the non-direct companies) despite a decrease in profitability in this sector. The Phoenix reported that the profit came mainly from significantly high capital market yields, and adjustment of estimates regarding pending claims,

especially in the liabilities sectors and an improvement in underwriting profitability in motor property. It is noteworthy that the Phoenix improved investment profits compared with the previous year, contrary to the general trend.

Clal Insurance came in second, on 197.3 million shekels, the main profit being generated in the compulsory motor sector (195 million shekels). Apart from this area, all of the other areas of activity more or less broke even. The company reported an improvement in real underwriting profits (after inflation). Clal Insurance's profit in the previous year was 214.9 million shekels – taking into account the drop in investment profits.

With earnings totaling 153.9 million shekels, Migdal's profits took it to third place. The earnings in 2013 were 16% lower than in 2012 (184.1 million shekels). Eliahu still has yet to make an impact on profits in the compulsory and liabilities areas.

Harel posted a result similar to Migdal – a profit of 153.5 million shekels (a drop of more than 40% in comparison with last year's total of 266.3 million shekels). Harel is the largest company but the profits line was affected by falling investment profits, which principally affected compulsory insurance earnings and also a decrease in profits in the liability and other property sectors. A very large claim was recorded in the liabilities sector and well as the release of excess revenues from 2010 this year having been lower than the 2009 revenues surplus that was released in the previous year. An underwriting improvement was felt in the motor property sector.

Menorah's earnings fell 50% from last year's figure of 282.2 million shekels to 136.6 million shekels in 2013. The decrease was mainly due to lower investment income, which mainly affected compulsory motor insurance. The motor property sector showed a marked improvement, and

the company is the most profitable one in this area, whilst showing an improvement in underwriting. The Shomera sister company posted earnings of 137.9 million shekels (28% up on the 2012 figure of 106.8 million shekels). The change derived mainly from compulsory insurance and also, to a lesser extent, for motor property. This is the second year running in which the company has posted extraordinary profits. The company is undergoing positive changes and in combines growth and improving profits, and the management of the company is worthy of praise.

Hachshara doubled its profits from 46.4 million shekels in 2012 to 91.8 million shekels in 2013, the main change being felt in compulsory insurance, and was due to an improvement of the release of excess revenues from 2010 and an opportunistic profit from real estate of 31 million shekels. It is worth bearing in mind that the company posted a one-time profit in 2012 of 20 million shekels (as well as an improvement in equity) as a result of selling pending claims to a reinsurer.

With earnings totaling 83.3 million shekels, Ayalon posted an increase of 18%, deriving mainly from improved investment earnings (going against the general trend), which impacted positively on the compulsory motor sector, together with an underwriting improvement in motor property. On the other hand, liabilities and other property saw a decrease in profits (in other property – an increased loss).

Bituach Haklai posted a slight drop compared with the previous year (19 million shekels in 2013 compared with 21.9 million shekels in 2012). The change was felt mainly in property and others (transition to a small loss, due to the winter damages) and in compulsory motor (smaller profit). Bituach Haklai posted high profits in the non-insurance sector resulting from the sale of its share in ICIC, which significantly enhanced the company's equity and comprehensive earnings.

There was also an improvement in motor property underwriting, which moved from loss into profit.

Shirbit's loss was in the region of 5.7 million shekels (compared with a loss of 1.7 million shekels last year). The increased losses came from poorer investment profits, affecting mainly the compulsory motor and liabilities branches (the latter being affected by a deterioration in the development of claims). There was an improvement in motor property underwriting, but not enough to lead to profitability.

Shlomo's improvement was the most significant, the company breaking even (and even posting a profit of a few hundred thousand shekels) after having posted a 13.5 million shekel loss in 2012. The change was mainly in the motor property sector, the company managing within one year to move from a 20 million shekel loss to posting a small profit. The result was attained by noteworthy underwriting activity, particularly in the motor property branch. The company posted a one-time profit in the compulsory motor sector relating to the sale of claims (which also improved its equity), which also needs to be neutralized when making a comparison – in other words the extent of the improvement at Shlomo was greater than 20 million shekels. In the other areas of activity, such as homeowners and personal accidents (very recently) the portfolio is only just beginning to be built up and had no impact on the results.

AIG and Direct Insurance posted earnings totaling 182 million shekels, and made up 12% of all of the earnings of all of the companies over all the areas of activity. Direct Insurance's earnings totaled 146.4 million shekels, and was split between motor property, compulsory motor and homeowners, whilst AIG posted income totaling 36 million shekels (in 2012, the company's earnings totaled 80 million shekels in compulsory motor insurance as a result of the move from five-year

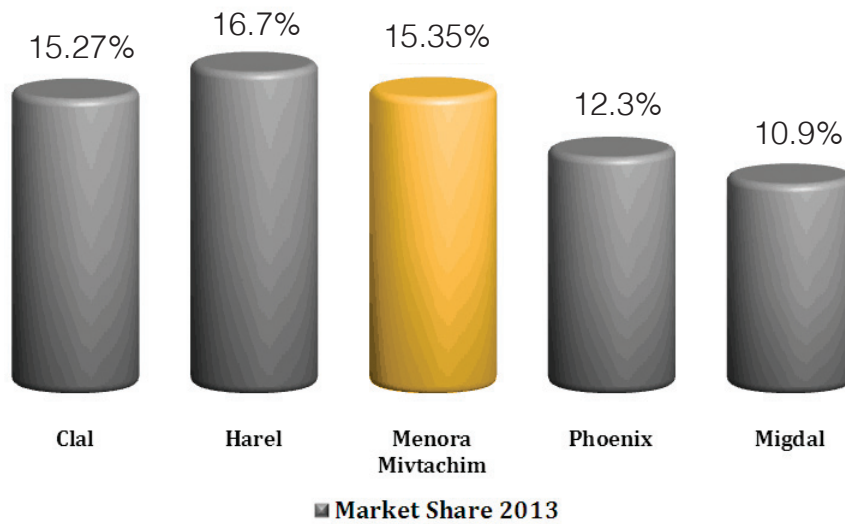
to three-year accumulation of excess revenues, a one-time event which of course could not be repeated this year. The company, which is also involved in the business and liabilities sector, was hit by liabilities damages totaling around 12 million shekels. Direct Insurance posted respectable earnings in homeowners insurance and is in fact the most profitable company in the property and other branch (the Phoenix came in first out of the non-direct companies). The direct companies have a clear profitability advantage in the motor property and homeowners sectors as a result of working directly with policyholders. The share of the direct companies was more significant in the private insurances sector.

The agents claim that the fact that the companies pay more property claims that are accompanied by agents proves that agents are better at protecting the rights of the policyholders. They argue that the situation of claims being handled by an interested party who receives a salary from the defendant company (the direct companies employees) is inappropriate. According to the insurance agents, this method of working harms the policyholders and thus they do not need to apologize for the policyholders getting better results as a result of the agents being involved.

In conclusion: The top five companies added another company to their ranks as a result of a merger (Eliahu) and thus the share of the smaller and medium companies fell. The small and medium companies compete with the bigger players in the area of private insurances, whilst in the business branches the competition is mainly between the larger companies. There were no changes in 2013, with 80% of business sector production being split between the big companies.

In profit terms, this was the Phoenix's year and most of the companies are to be congratulated on the change in underwriting activity in the motor property sector.

In 2013 **MENORA MIVTACHIM** became the **2nd largest** Non Life insurer in Israel



And to reassure about profitability,
we let the numbers speak for themselves:

**Profit/Premium Ratio
2009-2013**



and send assistance, if needed. This assistance can save lives in the case of a serious accident, especially if the accident occurs on a remote or dark road, and gives a response in case of less serious accidents. The world of medicine recognizes the huge importance of rendering first aid in the "golden hour" – the first hour after the accident occurs, which dramatically increases the chances of survival and in reducing the damage caused.

The system is able to send out an automatic warning when an accident occurs, also to pre-determined parties, via SMS and e-mail, enabling assistance to be rushed to the location.

The accident warning also allows the insurance companies to take immediate action, at any time of day, including sending out a loss adjuster to the accident location to check on the state of the vehicle as soon as possible after the accident.

Another application of the system enables the insurance companies to investigate the accident after it occurs, since the system records the last 60 seconds before the accident and the 20 seconds after it, enabling retroactive information to be obtained on the accident locations and the reasons for it.

COST REDUCTIONS FOR CAREFUL DRIVERS

Another entity which could be interested in the Safety system is the insurance companies.

According to Oren Shmaltz, insurance sector marketing manager at Ituran, **"information on driving characteristics, the length of the journey and its quality, which could indicate the likelihood of an accident, is of huge value to insurance companies, and could result in reduced premiums for careful drivers"**.

"If we take for example two drivers aged 30, both travelling 20 thousand kilometers a year, it should be possible to assume that they both stand the same chance of being involved in an accident. However, if it is found that 75% of the first driver's trips are concentrated at weekends, mainly at night, whereas 90% of the other driver's trips are to and from work – during morning and afternoon hours, on crowded main roads, then our initial assumption would be proved to be less reasonable. In these circumstances, the first driver is at higher risk of being involved in an accident".

The ability to characterize the driver's behavior and the state of the vehicle enables the insurance company to make an informed evaluation of the driver's risk and the likelihood of him being involved in an accident, and accordingly develop a precise and inexpensive policy that is adapted to his character. This allows the insurance company to extend the range of services and tool provided to its customers and to spot profitable customers via better differentiation.

In addition, real time information on accidents could be of great value to the insurance company with significant savings on property and bodily claims.

At the same time, Shmaltz emphasizes that Ituran does not pass on information about users from the system to the insurance companies, and clarifies that it is up to the customer what use is to be made of the information that accumulates about him. It is of course in the customer's interest to pass on to the insurance company details proving that he is a careful, low-risk driver, and enjoy a lower premium.

According to Shmaltz, **"the vision behind developing the Safety system is that an insurance company can suggest that drivers install the system in their vehicles and it will be able to observe the data received from it, in manner similar to the driver, and obtain a weighted grading of his behavior. During a period of a year, for example, the insurance company is able to assess the quality of driving safety and give the driver a retroactive discount"**. Thus, there will be no need to rely automatically on the driver's age and experience, which do not always correctly forecast the level of the driver's risk, but it is possible to obtain reliable personal information on each driver and tailor a more precise policy for him".

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