



Israel

General

Four or five thousand years ago people lived here and, bearing in mind hiccups along the way, Israel is one of the few countries still around to retain its name and identity for such a long time. The country has a solid economy and is a seat of learning for the whole world. Everyone is aware of the many tensions experienced by its inhabitants and amidst all this the insurance industry, with well-qualified professionals is developing quietly.

With a population of 7.5 million people, Israel is a parliamentary democracy. There are 120 members in the Knesset (the parliament); they are the representatives of about ten parties (there are three or four main parties). There is only one chamber. The Governor of Insurance occupies a senior position at the Treasury Office and he is in charge of all the insurance entities (insurance companies, insurance agencies and insurance agents) including: licences, regulations, customers' complaints, etc.

There is no common law in Israel. A long time ago, Israeli law was based on English law, but in the last 30-40 years most of the English law (and even one Turkish law that was still in force in Israel) was replaced by original Israeli law. One could say that the Israeli law is partly based on the old Jewish law, which is partly similar to English law, partly similar to the continental law and partly similar to U.S. law!

Current state of the local insurance market

There are four major insurance companies in Israel ("Clal", "Migdal", "Harel" and "Phoenix"). The Israeli insurance market is an agency market and very few western style brokers operate here. That said, many of the world's large insurance brokers either have offices or correspondents here while the global carriers are not the well-known names they are in many other countries. Non-admitted insurance is only prohibited for compulsory insurances (like Motor and Worker's Compensation), and so local risks are sometimes insured directly overseas.

In 2007 total premiums generated locally exceeded US\$8.85 billion.

As a result of the on-going soft market worldwide, the Israeli market is also soft for new business and renewal policies. Even the market for financial institutions insurance is still soft (or at least stable), though the leading bank in Israel has written off hundreds of millions of U.S. dollars as a result of the sub-prime crisis. The conclusion is that there is a lot of money in the insurance market worldwide and the results are that underwriting is very flexible and sometimes the premium rates in Israel are not compatible with the risk exposure. In addition, the competition among Israeli insurance agents/agencies is very strong and that leads to further premium reductions.

Another factor which affects the low insurance rates in Israel is the role of the insurance consultant. In Israel the players in the insurance market are: the insurance company, the agent/agency and the consultant. Corporate insureds usually utilise the services of an insurance consultant, believing that their insurance expenses will be reduced and the insurance terms and conditions will be improved (on an odd occasion the consulting fee is sometimes higher than the premium savings). Most of the consultants are very professional and the insureds benefit from their services, but in one or two cases consultants demand unreasonably low premiums from carriers so that the savings justify their fees.

The rates will probably be reduced further through 2008 and maybe even on into 2009. One thing is almost certain: the rates will not be increased unless the claims record of the insured is a disaster!

There is a local market for terrorism insurance and Israeli insurance companies sell this cover but only for property damage. The government covers bodily injuries and death. This cover for property is expensive and the insurance companies purchase reinsurance from European reinsurers. The terror cover is excluded under D&O and BBB policies.

There is no insurance tax on premiums.

Legislation

In the last few years, after many years of rather loose supervision, the Israeli insurance market has changed considerably and it is now tightly regulated. This applies especially to Life and Pensions insurance.

As is so often the case to the outside world, some of the regulatory changes are confusing and do not appear to favour the individual insureds.

Some of the regulations and their affects are:

1. The banks were forced to sell all their holdings in the Pension, Provident and Study Funds. The result is that most of those Funds were bought by the Israeli insurance companies and the power just moved from one kind financial institution (banks) to another (insurance companies)
2. On the other hand, the Israeli banks are now allowed to give consulting services to their customers in the area of Pensions insurance. The regulations' final goal is that the banks will sell insurance and become strong competitors to the insurance companies, for the benefit of the consumer
3. The Insurance Inspector is preparing to issue new regulations forcing the insurance agents to disclose their commission to the customers. At the moment the Insurance Agents Association is fighting these new regulations, which, however, will probably be in force very soon.
4. Another new regulation gave all Pensions and Life insureds the ability to choose and change the investment route of the premium they pay - as many times as they wish. This may sound wonderful since everybody can decide where their money is invested, but there is also a major risk of bad investments if the assured is advised in unprofessional manner.

Summary

During the last five years the Israeli economy has been blooming. The Hi-Tech and Bio-Tech industries are worldwide leaders. The local currency (Israeli Shekel) is getting stronger. The security problems have had a very minor affect on the economy and foreign investment money is pouring into the country. There are new businesses needing insurance and there are also

established businesses which are extending their activities and need to extend their insurances accordingly.

Taking into account the low rates, the small agents' margin and the mass of new regulations, it is quite clear that most of the "small" agents will start to disappear and that the bigger agencies will survive. In the last three years many of the "small" agents have tried to sell their business to the bigger, consolidating, agencies and they either become the agency's employee or retire.

The conclusion is that there are changes afoot and it is not easy at the moment in the "crowded" insurance industry in Israel. However, the future will be interesting and beneficial for those who will survive.

Written by Tal Nahari-Amrami, Attorney at law & MBA, Managing Director of Toren Insurance Agencies Ltd. a leading established 43 years old Israeli insurance agency, specializing in D&O, BBB, PI and E&O policies.