



# Long-Term Savings Institutional Investors (T7IA)

## EU Twinning Project



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## Topics of This Presentation

- Background and Financial Overview
- Table 7IA – Report and Meta-data

## Israel's Institutional Investors Who They Are?

- 1,900 institutional investors manage approximately 1.4 trillion NIS (400B \$)

Type of Institution	Total Money Managed 2013 (Billion NIS)	Number of Institutions
Pension funds	533	40
Provident funds	204	393
Advanced-training funds	142	233
Insurance	280	24
Mutual Funds	230	1,202
<b>Total</b>	<b>1,390</b>	<b>1,892</b>

## Regulation

- ***Pension & Insurance*** entities are being regulated by the Ministry of Finance (MOF)
- ***Mutual Funds*** are being regulated by the Israel Security Authority (ISA)
- ***The Bank of Israel (BOI)*** receives and analyze data for macro economical purposes

## **Definitions - Pension Funds**

### **2 Types of pension funds in Israel:**

- **Old** - closed for new members since 1995 because they ran up enormous actuarial deficits.
- **New** - funds established since 1995. If such a fund earns a profit on its activity, the profit is recycled to the insured and added to pension savings.
- **The retirement age** in Israel is 67 for Men and 64 for woman.
- Israel's old and new pension funds are entitled to **earmarked government bonds** that pay 4.86 percent real interest per year and must invest 30 percent of assets managed in such bonds at any given time.

## **Definitions - Provident Funds**

### **3 main types of provident funds in Israel:**

- **Benefit-type fund** for wage-earners or self-employed - employees and employers make regular monthly contributions.
- **Severance-pay fund** - employers make contributions in order to assure employees' severance-pay rights.
- **Advanced-training fund** - employees and employers make monthly contributions to the fund out of employee's current wage. The employee's contribution relates to the employer's contribution at a 1:3 ratio at least. Saving takes place during a six-year term.

## **Definitions - Life & Non-Life Insurance**

### **2 Types of insurance in Israel:**

- **Life insurance companies** in Israel include both participating policies and policies with a guaranteed return.
- **Non-life insurance companies** sell general insurance policies covering risks such as personal accidents, health, fire, etc. This category should also include reinsurance companies, which as of now do not exist in Israel.
- In Israel, it is possible for an insurance company to deal in both life and non-life insurance. The Ministry of Finance defines such companies as **composite companies**.

## **Structural Changes and Reforms**

1. **Phasing out of earmarked bonds** - termination of such bonds for provident funds (1986) and insurance companies (1990) and downscaling the share of such bonds in pension funds' portfolio to 30 percent (2003), coupled with imposition of exposure limits.
2. **Establishment of new pension funds and nationalization of old ones** - transition to a regime of new funds (1995) and nationalization of old funds that were unbalanced due to enormous actuarial deficits.
3. **The Bachar reform** - reform which forced banks to sale their provident and mutual funds in order to mitigate concentration and conflicts of interest (2005).

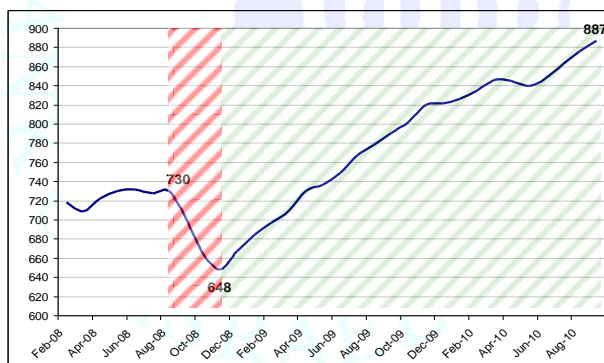
## Structural Changes and Reforms

4. **Amendment 3** - provident funds pay out at retirement age and not after 15 years of contributions (2006); a lump-sum withdrawal allowed only after a 3,850 NIS minimum monthly payment is established (2008).
5. **Compulsory pension for employees** - For each employee, employers must contribute a minimum fraction of employee's wage to pension insurance (2008).
6. **Savings portability** - the possibility of portability and merging of funds from different savings tracks (provident, advanced-training, insurance, pension) and not only among similar ones (2009).

## Financial Survey

### *Distribution of Investments Change during and after the Crisis*

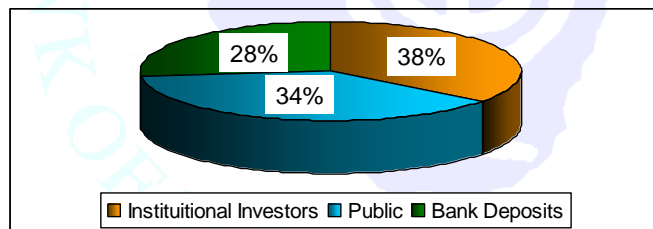
- The institutional investors, as large investors in the relatively small Israeli economy, have much influence on the domestic capital market, the credit market, the forex market, and more.
- As the global crisis mounted the value of assets managed *decreased* by 11 percent but *increased* since by 75 percent after the crisis reached the lowest point.



## Financial Survey

### Share of Institutions in the Public's Portfolio of Financial Assets

- **12/2013:** Institutional investors manage 38 percent of the public's financial assets, as against 28 percent that the public keeps in bank deposits.
- Total: NIS 1.1 trillion out of NIS 3 trillion



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## Financial Survey

### Share of Institutional Investors in the Credit Market

53% of government debt    28% of the total national debt  
48% of corporate bonds    19% of business-sector debt

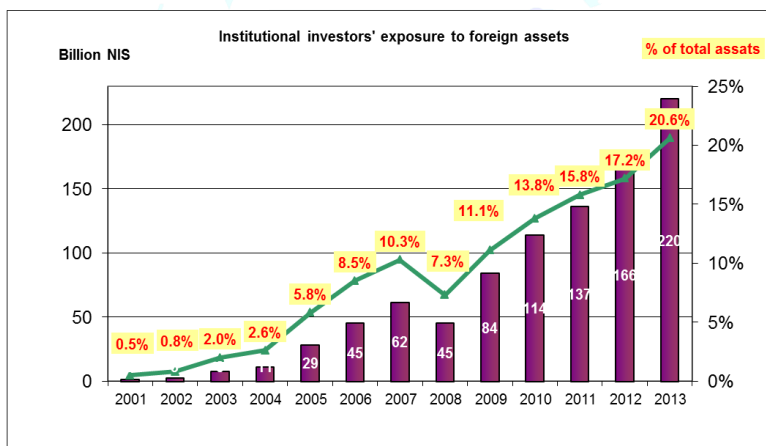
	Borrowers			
	Households	Business sector	Government	Total debt
<b>12/2013 Billion NIS</b>				
<b>Total debt to banks</b>	369	386	82	837
Credit to the public, excl. housing	105	383	18	506
Housing credit to the public	264			264
Tradable bonds		2	64	66
<b>Total debt to Institutional Investors</b>	7	150	381	538
Loans	7	44	7	58
Tradable bonds		74	218	292
Nontradable bonds		32	156	188
<b>Total debt to Credit card companies</b>	10	1		12
Loans	10	1		12
<b>Total debt to nonresidents</b>	0	145	98	243
Loans	0	126	4	130
Tradable bonds		19	72	91
Nontradable bonds		0	22	22
<b>Debt from government sources</b>	23	4		27
Earmarked credit	23	4		27
<b>Debt to households and others</b>	90		154	244
Tradable bonds		90	154	244
<b>Total debt</b>	410	777	714	1900
<b>According to debt instrument</b>				
Loans	410	559	29	997
Tradable bonds		186	508	694
Nontradable bonds		32	178	210

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# Financial Survey

## “Going Abroad”

Net investment abroad has been trending upward steadily but remains small by global standards.



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## Table 7IA – Report and Meta-data

			Investment Funds					
06/2013			Total	Open-end Companies (mutual funds)			Closed-end Companies	
OECD codes	ASSETS	SNA codes		Total	Money market funds	Other mutual funds	Total	of which Real estate funds
ANF	Non financial assets	AN	0	0	0	0	0	n.a
AF	Financial assets	AF	204,607	204,607	58,538	146,069	0	n.a
AF2	Currency and deposits	AF.2	28,130	28,130	19,832	8,299	0	n.a
AF33	Securities other than shares	AF.33	162,222	162,222	38,707	123,515	0	n.a
AF331	short-term	AF.331	37,293	37,293	20,210	17,083	0	n.a
AF332	long-term	AF.332	124,929	124,929	18,497	106,432	0	n.a
AF33R	Securities issued by residents	AF.33.r	156,259	156,259	38,346	117,913	0	n.a
AF33NR	Securities issued by non residents	AF.33.nr	5,963	5,963	361	5,602	0	n.a
AF4	Loans	AF.4	0	0	0	0	0	n.a
AF41	short-term	AF.41	0	0	0	0	0	n.a
AF42	long-term	AF.42	0	0	0	0	0	n.a
AF4R	Loans issued by residents	AF.4.r	0	0	0	0	0	n.a
AF4NR	Loans issued by non residents	AF.4.nr	0	0	0	0	0	n.a
AF5	Shares and other equity	AF.5	14,255	14,255	0	14,255	0	n.a
AF5R	Shares issued by residents	AF.5.r	8,821	8,821	0	8,821	0	n.a
AF5NR	Shares issued by non residents	AF.5.nr	5,434	5,434	0	5,434	0	n.a
AFNEC	Other, not elsewhere classified	AF.nec	0	0	0	0	0	n.a

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## Table 7IA – Report and Meta-data

			Insurance Companies and Pension Funds					
06/2013								
OECD codes	ASSETS	SNA codes	Total	Insurance Companies				
				Total	Life insurance companies	Non-life insurance companies	Autonomous Pension Funds	Other Forms of Institutional Savings
ANF	Non financial assets	AN	2,427	2,409	n.a	n.a	17	10
AF	Financial assets	AF	733,853	354,370	n.a	n.a	379,482	326,978
AF2	Currency and deposits	AF.2	89,125	27,154	n.a	n.a	61,971	29,675
AF33	Securities other than shares	AF.33	462,408	205,898	n.a	n.a	256,510	233,842
AF331	short-term	AF.331	8,015	4,081	n.a	n.a	3,935	12,408
AF332	long-term	AF.332	454,393	201,817	n.a	n.a	252,575	221,434
AF33R	Securities issued by residents	AF.33.r	372,008	168,846	n.a	n.a	203,162	195,901
AF33NR	Securities issued by non residents	AF.33.nr	90,400	37,052	n.a	n.a	53,347	37,941
AF4	Loans	AF.4	35,712	21,611	n.a	n.a	14,102	10,161
AF41	short-term	AF.41	n.a	n.a	n.a	n.a	n.a	n.a
AF42	long-term	AF.42	n.a	n.a	n.a	n.a	n.a	n.a
AF4R	Loans issued by residents	AF.4.r	35,712	21,611	n.a	n.a	14,102	10,161
AF4NR	Loans issued by non residents	AF.4.nr	0	0	n.a	n.a	0	0
AF5	Shares and other equity	AF.5	72,104	43,240	n.a	n.a	28,863	44,859
AF5R	Shares issued by residents	AF.5.r	60,035	36,958	n.a	n.a	23,077	36,691
AF5NR	Shares issued by non residents	AF.5.nr	12,069	6,282	n.a	n.a	5,787	8,168
AFNEC	Other, not elsewhere classified	AF.nec	74,504	56,467	n.a	n.a	18,037	8,442

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## Table 7IA – Closed-end Companies

- **Closed-End Companies:**

Legal infrastructure for such funds exists in Israel, but currently there are no funds of this type.

- **Real Estate Funds:**

In Israel are legally defined as a separate legal entity, not as closed-end companies, and Israel therefore has no closed-end real estate companies.

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## Table 7IA – Insurance Companies

- **Insurance Companies:** In contrast to overseas, In Israel it is possible for an insurance company to deal in both life and non-life insurance, which the MOF defines as **composite companies**.
- 13 out of the 24 insurance companies in Israel are so defined, and they manage 96% of all the insurance companies' total assets.
- Due to this fact, and the difficulty in separating balance sheet figures and assigning them to either solely life or non-life insurance, reporting for this section is only at the level of the total for insurance companies at the moment.

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## Table 7IA – Other Forms of Institutional Saving

- **Other Forms of Institutional Saving** include the advanced training funds and provident funds data only.
- These other entities can also be investment portfolio management entities and funds managing private investments of which we have no information at the moment.
- Provident funds are not considered by the MOF as part of pension funds ,as unlike the pension funds they are not exposed to life expectancy risk.

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Thank You