



Deductible / Ron Stein

Rises in the markets gave the insurance sector a jump of 140% in profits since the beginning of the year

The income from premiums increased despite the concerns of a recession in the economy • In the third quarter of 2012, the insurance companies recorded a net profit of approximately NIS 634 million, as compared with a combined loss of approximately NIS 335 million in the corresponding quarter • Harel leads with almost twice the profit of its closest competitor in the first nine months

A strong and profitable third quarter, as compared with mostly a losing corresponding quarter, led the insurance sector to present strong results in the first three quarters of 2012. The insurance companies — the large public companies and the medium-sized and small private companies — had good returns in the capital markets and increased growth in their income from premiums in all of the main types of insurance.



Globes's analysis shows that in the third quarter of 2012, the insurance companies recorded a net profit of approximately NIS 634 million, as compared with a combined loss of approximately NIS 335 million last year. The picture becomes even clearer when you examine the total profit, which combines investment profits credited to capital funds — and not directly to the statement of earnings. In the third quarter of the year, the total profit of the insurance sector amounted to approximately NIS 1.2 billion, as compared with a total loss of approximately NIS 762 million in the third quarter of 2011.

Following the strong quarter, and further to the positive first half of the year, the insurance sector has completed the first nine months of 2012 with a jump of approximately 140% in the net profit, which grew from approximately NIS 489 million in this quarter in 2011 to a sum of approximately NIS 1.2 billion.

The total profit shows even better results, as a result of the investment profits from the capital markets. Since the beginning of 2012, the profit has amounted to approximately NIS 1.8 billion, as compared with a loss of approximately NIS 709 million in the corresponding period of 2011.

Despite the concerns of a serious recession in the economy, the income of the insurance companies shows that there is no real slowdown in their activity — activity that largely relates

to the state of the economy as a whole. Thus, for total premiums the companies recorded in the first nine months of the year total income of approximately NIS 34.8 billion from premiums in all fields of activity. This is an increase of 6% in relation to the corresponding period last year.

Looking at the different sectors of activity, it appears that the five largest insurance groups — Migdal, Clal Insurance, Harel, Phoenix and Menora Mivtachim — recorded since the beginning of the year an increase of approx. 5% for life insurance premiums, which amounted to approximately NIS 15.3 billion. There is a two-digit increase in health insurance premiums for the five largest companies and the two direct companies (AIG Israel and Direct Insurance), which jointly show a jump of 14% in premiums that amounted to approximately NIS 5.2 billion between January and September 2012.

In the elementary insurance sector (general insurance — [property and liability] there was an increase of 4.2% in premiums, which amounted to approximately NIS 14.1 billion. In this sector, as compared with a two-digit increase in premiums recorded by Menora Mivtachim (the third largest in this sector), Shirbit and Agricultural Insurance, there were only two companies with a decrease in activity in the field — Migdal (a decrease of 2.5%) and Shlomo Insurance with a fall of approximately 15% in the premiums that it recorded.

In this context, we should point out that Shlomo Insurance of Shlomo Shmeltzer appears to be having considerable difficulties. Not only did the company transfer its compulsory car insurance portfolio to a foreign insurance company, so that to a large extent it is acting in the field as a kind of insurance agency, it is also the only company that presents a decrease in its general insurance business and that presents losses.

Harel widens the gap

With regard to the results of the companies themselves, 2012 appears to belong to Harel, which is controlled by the Hamburger family, which recorded in the first nine months almost twice as much profit as its closest competitor. In the third quarter, the company recorded a net profit of approximately NIS 166 million, and the total profit amounted to approximately NIS 262 million.

No insurance company made a loss in the third quarter. An analysis of the results of the first three quarters shows that Harel presented a net profit of approximately NIS 336 million,

Profits of the insurance companies in the first three quarters

In millions of sheqels

Company	Net profit 2012	Net profit 2011	Total profit 2012	Total profit 2011
Harel	336	143	492	-70
Menora Mivtachim	195	5	275	-105
Migdal	95	282	260	-21
Phoenix	114	127	198	14
Clal Insurance	8	-97	172	-315
Total five largest	748	462	1,397	-498
Eliyahu Insurance	161	78	161	-125
AIG Israel	113	15	113	15
I.D.I. Insurance	76	26	76	26
Shlomo Insurance	-18	-43	-18	-43
Shirbit	10	-17	13	-17
Agricultural Ins.	35	20	35	20
Ayalon	12	-12	34	-44
Hachshara	29	-40	32	-44
Total market	1,165	489	1,844	-709

Results of the five largest groups in long-term savings and health

Since the beginning of the year; in millions of sheqels

Company	Profit in life insurance	Profit in pensions	Profit in provident funds	Profit in health from beginning of year	Percentage profit of premiums in health
Migdal	39	61	16	62	12%
Clal Ins.	-34	40	72	61	5%
Phoenix	55	6	35	95	10%
Harel	129	36	43	194	9%
Menora Mivtachim	0	71	21	66	21%
Total five largest	189	213	187	479	10%

Capital, value and Leumi Partners' recommendations for the five largest groups

In millions of sheqels

Company	Net worth	Market value	Value increase	Gap between target price and current
Migdal	4,653	6,351	1.36	7%
Harel	3,950	3,381	0.86	22%
Clal Insurance*	3,720	3,012	0.81	45%
Phoenix	2,823	2,378	0.84	21%
Menora Mivtachim	2,485	2,063	0.83	29%
Total / average	17,631		0.97	25%

* Clal Insurance paid so far this year, under the previous management, dividends of NIS 430 million as compared with NIS 150 million at Migdal and approximately NIS 64 million at Harel

whereas its total profit amounted to approximately NIS 492 million.

Harel enjoys a large profit margin in the old life insurance policies and large general insurance reserves. Its total profit, which derived from good investment margins in the nostro account, was the largest in the sector by a considerable amount. The company presented a higher total profit than the total profit of approximately NIS 446 million recorded by all the eight medium-sized and small insurance companies (including the profitable Eliyahu as usual, the large Ayalon and the two direct companies some of which also had one-time profits).

One-off factors

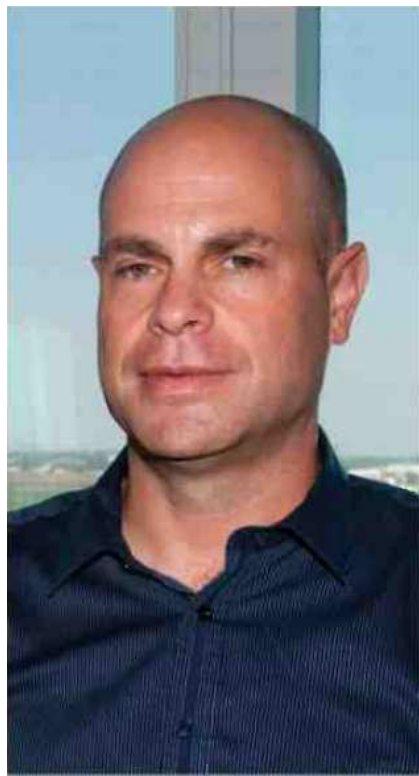
Even when deducting one-off factors, and particularly the provisions made for the increase of life insurance reserves for the change in life expectancy estimates (losses for all of the companies), Harel still presents the highest total profit since the beginning of the year.

The company, managed by Michel Siboni, presented a total profit less one-off factors, of approximately NIS 491 million (and it also had a one-off profit of approximately NIS 27 million from an increase in the value of the Crystal Building).

Far behind comes Migdal, which had it not been for the deduction for the increase of reserves, would have presented a total profit without one-off factors of approximately NIS 377 million since the beginning of the year. Phoenix is third, with a total profit of approximately NIS 240 million, followed by Menora Mivtachim with a total profit of approximately NIS 224 million (not including one-off profits of approximately NIS 86 million from a tax benefit for the purchase of the Industry Development Bank and from reinsurance transactions), and Clal Insurance with a total profit of approximately NIS 222 million.

The small companies also recorded a one-off profit, which positively influenced the profits of two of them: AIG Israel recorded a profit of approximately NIS 51 million for a change in the manner of maintaining the compulsory car insurance reserves, and Ayalon benefitted from a payment of NIS 22.5 million from the controlling shareholder Levi Rahmani, which he returned to it following a derivative action for past payments of the company that were found to be irregular.

In the long-term savings sector, which includes life insurance, pension and provident fund operations, the large companies presented an increase of approximately 347% in



From left to right: Michel Siboni (Harel), Shlomo Eliyahu (moved to Migdal), Raviv Tzoller (Yashir I.D.I.), Motty Rosen (Menora Mivtachim) and Izzy Cohen (replaced Shai Talmon at Clal)

total profit before tax, to approximately NIS 589 million since the beginning of the year.

All of the five groups presented profits in this period. The field of life insurance contribution to the five companies profits of approximately NIS 189 million since the beginning of the year (as compared with a loss of approximately NIS 221 million in the corresponding period), and the activity of provident funds has resulted in an increase of approximately 14% in profits, which have amounted to approximately NIS 187 million since the beginning of the year.

The field of pensions has given the five large companies a combined profit of approximately 213 million sheqels — an increase of approximately 11% in relation to the corresponding period. In order to illustrate how significant the pensions have become to the large companies, with the exception of Phoenix, we should point out that Menora Mivtachim, Migdal, Clal Insurance and Harel are showing in their pension operations a profit of 25%-29% of the management fees.

With the increase in the amounts accumulated in these funds (a trend that seems certain at the moment), the management fees that they charge the policyholders will also increase, and a quarter of this income will become profit. We are speaking of a stable and significant source of profit that can only become stronger.

The turnaround to profit becomes even clearer when you examine the total profit, which amounted in the third quarter to approximately NIS 1.2 billion, as compared with a loss of approximately NIS 762 million in the corresponding quarter

In the general insurance sector, Menora Mivtachim (and its subsidiary Shomra) is particularly good, alongside the direct companies and Eliyahu Insurance. All of the four presented underwriting profits (profit from the sale of insurance that does not derive from investment profits). In fact, Menora stands out with the highest amount of profit from general insurance premiums among the large

companies (11%), and AIG Israel, Eliyahu, Yashir I.D.I. (Direct Insurance) and Migdal also stand out with two-figure profits.

The field of health continues to be a growth engine from the viewpoint of all of the large companies, which since the beginning of the year have shown an average growth of approximately 14% in premiums in the field. These amounted in the first nine months of the year to approximately NIS 5 billion. Harel, the traditional leader in the field, grew in the field by approximately 16% and had total premiums of approximately 2.1 billion, followed by the other large companies, which showed growth rates of approximately 12%-13% in premiums. Direct Insurance and AIG Israel grew by an even greater amount, although they are much smaller.

The field of health was a good source of profits, and the large companies showed in this field a combined profit of approximately NIS 478 million — an increase of more than 12 times the profit in the first three quarters last year. From the viewpoint of profits, there was an average profit of 10% of the premiums. The highest profit rate was at Menora and Direct Insurance

In the total premiums category, the companies recorded, during the first nine months, income of approximately NIS 34.8 billion, an increase of 6% in relation to the corresponding period

(approximately 21%), and the lowest was at Clal Health — approximately 5% only. Harel presented the highest profit in this field — NIS 194 million since the beginning of the year, followed by Phoenix, with a profit of approximately NIS 95 million.

As for finances, like the trend felt in the whole of the investment houses sector, the financial services of the

Insurance companies also saw a decrease in income. This is because of the decrease in income from management fees, particularly in the mutual funds. This decrease is also reflected in the profits of the companies from this field of operations, which decreased since the beginning of the year.

The holding in Excellence gives Phoenix the most significant profit from financial services from among the five large groups, and Clal Insurance continues to 'suffer' from the losses of Clal Finance.

As for the future, the insurance companies are an option on the capital market, and their profits depend directly on what happens in the markets. From this viewpoint, the picture in the fourth quarter appears at the moment to be a continuation of the first three quarters, and it would appear that the companies are expected to present strong results in the whole of 2012.

In this context, we should point out that the companies already see the light at the end of the 'pit' tunnel in the variable management fees in the managers' insurance policies, and most of them have already started charging these management fees again.

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What will happen to the insurance shares after the gains that they have already made in 2012?

The analysis Merav Fisher Sharoni from Leumi Partners is optimistic with regard to the shares of the five largest insurance groups and the shares of Direct Insurance. In her opinion, they are still attractive investments even after they have already increased tens of percent this year.

'The insurance sector has benefitted relatively from the fact that other sectors are expensive in their pricing, and from the fact that it is an option on the capital market and the economy, which currently appear positive,' she explains.

According to her, the shares of Clal Insurance are 'the cheapest today of the shares of the five

Largest insurance groups, because it has the largest discount. If and when the new organizational thinking matures, and we understand where it is going, it will be reflected in the company's results and also in the shares. It would appear that the company is making a turnaround in the right direction.' With regard to Migdal's shares, she says that 'Eliyahu is moving to the company and that is a basis for changes in it. The company will increase its basic portfolio and balance to some extent its large life portfolio. There is also an expectation of a larger than average dividend, in my opinion between NIS 300 and 500 million. It is not bad that an

Insurance person is coming to the company, although after the dividend the share will apparently be less interesting.'

With regard to Harel, Fisher Sharoni says that it is 'the most underrated company in the insurance market. Not only from the viewpoint of value, because with Clal the discount is bigger, but because the company has the right structure, and it works very well and is more profitable than others. There is room for this share.'

She also speaks well of the shares of Menora, which is 'a good company. The share has already made a jump and the company has still more to do, especially on the side of expenses,'

she says, and adds that 'the new Mivtachim has already become a milk cow.'

With regard to Phoenix she says that 'there is more promise there, although the company has exhausted its program at this stage. The shares are still recommended because most of the sectors already have high pricing.'

The shares of Direct Insurance are also praised by Leumi Partners: 'They know how to work and also how to identify mistakes, if there are any, and to correct them quickly. The real estate in Direct Insurance is also in my opinion priced cheaply. It is an excellent company.'