Market Presentation

Israel

April 2015

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| Conclusions                |               |
The Market

Economic Highlights
Insurer Ranking
Distribution Trends
Regulatory Changes
The Market

Economic Highlights

**Economic growth: +2.6% (2014)**

GDP growth rate exceeded average growth rate of advanced economies

► Inflation rate: -0.2% (2014)
► Strong currency
► Decrease in unemployment rate from 5.9% in 2014 to **5.2% in 2015**
► Forecasted impact of March 2015 elections on economy:
  ─ Rating will not be affected (S&P)
  ─ Rating will remain A+ with stable forecast

Areas to focus on

► Israeli economy shows strong resilience & steady growth, despite external and internal challenges
► Natural Gas - Preparations to extract gas from the Leviathan & Tamar fields are at an advanced stage
► Regulator evaluates anti-trust issues

The Market

Economic Highlights

Israel is a World Leader in Science, Technology & Innovation

► Entrepreneurship; strength of investor protection; innovative capacity; research; research and development; cyber security; Nobel Prizes per capita

2014 – A Record Year for Israeli High-Tech

► Significant Increase in Initial Public Offerings (IPO)
► Many Merges & Acquisitions (M&A) with international companies
► Largest concentration of startups per capita
► Significant foreign investments in Israeli companies

2014 Global Survey – Rated Israel no.2 in the world in Venture Capital confidence

The Market

Economic Highlights

- **Israeli insurance industry** - one of the largest & most developed in Western Asia

- **Premium growth**: Steady: + 4.6 % (2013)

- **High competition** leading to soft market in insurance & reinsurance

- **Growing demand for innovative products**

- **Premium per capita & penetration** – among the highest in the region but relatively low compared to other developed markets

Source: PwC Israel [http://www.pwc.com/il/en/index.jhtml]; Market Intelligence calculation based on: Ministry of Finance of Israel (2015);
The Market
Insurer Ranking

- 19 insurance companies (including 2 new additional companies Psagot and Altshuler (Provident Funds))
- High level of concentration: (+4%) Market is driven by 5 large Insurance Companies who have increased their total written premium from 60% in 2012 to 64% in 2013.
- Local market depends on international reinsurance capacity. No local reinsurance companies.
- 3 out of the 5 major insurers are undergoing major ownership changes:
  - Migdal ➔ Generali to Eliahu
  - Phoenix ➔ Delek to Fosun (Chinese Group)
  - Clal ➔ IDB to ??

### 2013 Market Premium of top insurers
GWP in million USD (not including life and A&H)

<table>
<thead>
<tr>
<th>Insurer</th>
<th>Premium (m USD)</th>
</tr>
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<tbody>
<tr>
<td>Harel</td>
<td>850</td>
</tr>
<tr>
<td>Clal</td>
<td>765</td>
</tr>
<tr>
<td>Phoenix</td>
<td>635</td>
</tr>
<tr>
<td>Menorah</td>
<td>576</td>
</tr>
<tr>
<td>Migdal</td>
<td>566</td>
</tr>
<tr>
<td>Ayalon</td>
<td>405</td>
</tr>
<tr>
<td>IDI</td>
<td>315</td>
</tr>
<tr>
<td>ILD</td>
<td>267</td>
</tr>
<tr>
<td>AIG</td>
<td>164</td>
</tr>
<tr>
<td>Shirbit</td>
<td>142</td>
</tr>
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</table>

Detailed Analysis can be downloaded in the Class Review Lite – Israel

The Market
Distribution Trends

► Main channel through insurance agencies - increase of 6% from 2012

► Decreasing number of one-man broking companies

► Increase of direct sales of insurance through internet- websites and mobile applications

► New online insurance providers - use of comparison websites

Key Broker Trends

► New trend - interest in mergers of insurance agencies and brokers

► Expanding on new areas of activities, e.g. claims administration

► Increase of absolute 16% in total commissions paid in 2013

► Commissioner withdrew model of “Tied Agencies”

► Unique stakeholders - insurance consultants in commercial insurances

In Israel brokers and agents are deemed agents of the insurer

Source: Ministry of Finance of Israel (2015); Commissioner of Insurance (2013)
The Market Regulatory Changes

New Procedure for Approval of Wordings

Transfer of compliance responsibility to insurers
- Transition from active approval by Commissioner to submission of policies

Regulatory Requirements - Policy Wordings

New Circular - principles for all policy wordings:
- Transparency; appropriate cover; clear wordings; fair cover
- No more need for warranties/conditions precedents!

Other regulatory changes

- Sanction Clauses
- Deposits
- Personal lines guidelines - no automatic renewals, insurance agents

Source: Market Intelligence and local soft intelligence
## The Market

### Regulatory Changes

### Claims Management Survey

Survey rating local Insurers in claims handling

<table>
<thead>
<tr>
<th>Name of insurance company</th>
<th>Grade- time</th>
<th>Grade- quality</th>
<th>Final Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>AIG</td>
<td>79</td>
<td>90</td>
<td>84</td>
</tr>
<tr>
<td>Hachshara</td>
<td>69</td>
<td>98</td>
<td>83</td>
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<tr>
<td>Clal</td>
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<td>94</td>
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<td>IDD</td>
<td>61</td>
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<td>Shirbit</td>
<td>57</td>
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<tr>
<td>Ayalon</td>
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<td>98</td>
<td>77</td>
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<tr>
<td>Pheonix</td>
<td>59</td>
<td>95</td>
<td>77</td>
</tr>
<tr>
<td>Bituach Haklai</td>
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<td>90</td>
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</tr>
<tr>
<td>Shlomo</td>
<td>55</td>
<td>95</td>
<td>75</td>
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<tr>
<td>Harel</td>
<td>56</td>
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<td>Shomera</td>
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<td>Menora</td>
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<td>The Pull</td>
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<td>Migdal</td>
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<td>65</td>
<td>60</td>
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<tr>
<td>Karnit</td>
<td>66</td>
<td>21</td>
<td>43</td>
</tr>
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Source: Official Commissioner of Insurance (2013)
The Market
Summary

Financial stability and growth

- High-tech industry is a major growth engine of the economy
- High proportion of GDP is spent on R&D

Evolving insurance market remains very stable

- The Israeli market is amongst the largest and most highly developed insurance markets in the region
- Insurance market is expected to evolve in view of the ownership changes

Sophisticated insurance market

- Sophisticated insurance market with the high levels of penetration. Yet, there is still potential for deeper penetration and appetite for new products

Source: Market Intelligence and local soft intelligence
Lloyd’s

Background
Business Profile
Reinsurance
Local Presence
Lloyd’s Background

Lloyd’s Premiums in Western Asia Region

- Cyprus 21%
- UAE 20%
- Israel 21%
- Turkey 13%
- Bahrain 4%
- Qatar 4%
- Saudi Arabia 6%

2014 Western Asia Lloyd’s Premiums USD 1,010m

Lloyd’s position in Israel

- Israel is the source of 1/5 of Lloyd’s premium in the region
- Special Status allows Lloyd’s Underwriters to write direct business. No license or deposits required.
- Coverholders & Open Market Correspondents (OMCs) must obtain a licence from Regulator
- Lloyd’s Underwriters have been approved by all local insurers to reinsure all lines of business (facultative & treaty)
- Lloyd’s reputation in Israel as a market leader in sophisticated products & specialist lines
- Lloyd’s is an important source for the local market when high capacity is required

Source: Market Intelligence based on *Gross Signed premiums; Xchanging (2013); unaudited figures based on country of origin and processing by calendar year; see Appendix for details
Lloyd’s

Business Profile

2008-2014 Total Premiums
Gross Signed Premiums (USD m)

- Steady growth of premium originating from Israel
- Main premium is in direct insurance (60%)
- Increase of 20% in reinsurance premium in 2014
- Lloyd's main reinsurance involvement is within facultative reinsurance
- Lloyd’s participation in treaty reinsurance is marginal

2014 GROSS SIGNED PREMIUMS*

<table>
<thead>
<tr>
<th>Total</th>
<th>USD 214m</th>
</tr>
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<tbody>
<tr>
<td>Reinsurance</td>
<td>USD 90m</td>
</tr>
<tr>
<td>Direct</td>
<td>USD 124m</td>
</tr>
</tbody>
</table>

*Policyholders are based or headquartered in this territory;
Premiums may be written outside this territory;
Not necessarily where risks are located
May differ to what is reported to local regulator
(dependent on local requirements)

Source: Market Intelligence based on *Gross Signed premiums; Xchanging (2015); unaudited figures based on country of origin and processing by calendar year; see Appendix for details
Lloyd’s
Business Profile

2009-2014 COB Premium Trends
Gross Signed Premiums (USD m)

- General Liability - Significant increase in reinsurance
- Motor - increase in direct insurance
- Property Damage - increase in direct and reinsurance - +72% since 2009

Source: Market Intelligence based on *Gross Signed premiums; Xchanging (2015); unaudited figures based on country of origin and processing by calendar year; see Appendix for details
Lloyd’s Reinsurance
2013 Top Reinsurers in Israel

Key Trends:

High Growth Potential for Lloyd’s:
- Lloyd’s share in Reinsurance is still low
- Lloyd’s share in Treaties is still low
- Lloyd’s share in NAT CAT is still low

- High Growth Potential for Lloyd’s in facultative and treaty reinsurance
- Penetration potential in view of Lloyd’s well established reputation in the local market
- Lloyd’s high rating, chain of Security, capabilities should be key messages to the market

Source: Market Intelligence based on "Gross Signed premiums; Xchanging (2015); unaudited figures based on country of origin and processing by calendar year; see Appendix for details"
Lloyd’s
Local Presence

Coverholders & Open Market correspondents

► In Israel the status of OMCs is similar to Coverholders - both must be licensed by the Regulator

► Increase of absolute 40% in the number of Coverholders & OMCs

► 7 Coverholders

► 26 OMC (approved + pending)

► 3 expansions to new classes

Lloyd’s Coverholders & OMCs operating from Tel-Aviv & vicinity across the country

► Coverholders/ OMCs are active mainly in complementary solutions which are not provided by the local market

Source: Market Intelligence and local Soft Intelligence

Coverholders

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<tr>
<th>Fine Art &amp; Specie</th>
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<tr>
<td>Peltours Insurance</td>
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<tr>
<th>Cargo, Marine</th>
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<td>AON</td>
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<th>Overseas Motor</th>
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<td>KESH.</td>
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<table>
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<tr>
<th>Cargo, Marine</th>
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<tr>
<td>Grin Insurance Co.</td>
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<tr>
<th>Motor, Property, Heavy Equipment, Goods in Transit,</th>
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<tbody>
<tr>
<td>ATLAS INSURANCES LTD</td>
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<table>
<thead>
<tr>
<th>Cargo, Marine, Hull, Yachts</th>
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<tbody>
<tr>
<td>National Insurance Office LTD.</td>
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See: www.lloyds.com/directories for further details
Lloyd’s Summary

Main role of Lloyd’s in Israel - Speciality & Innovative Products

- Lloyd’s is perceived as a leader mainly in specialist lines and an important source when high capacity is required

Steady growth of Lloyd’s Premium Income in Israel

- Steady increase in direct insurance
- 2014 - significant increase in reinsurance - mainly facultative

Israel is a Major Market for Lloyd’s in the Region

- Strong cooperation with local insurance companies, and a solid network of Coverholders and OMCs puts Israel among the top markets for Lloyd’s in the region

Source: Market Intelligence and local Soft Intelligence
Opportunities

Key Areas
Key Actions
Opportunities
Key Areas

"Creating uncontested market space rather than battling competitors"

Cyber Insurance
► Israel is placed 5th as a target of Cyber attacks globally but 1st in cyber security
► Israeli Banking Supervisor published draft regulations-report every cyber attack & establish information procedures

High Tech Insurances
► Designated products related to High Tech Industry
► Special products for M&As, Warranty & Indemnity

Source: Market Intelligence and local Soft Intelligence; Blue Ocean Strategy http://www.blueoceanstrategy.com/
Opportunities
Key Areas

Reinsurance
Key Drivers:
► Lloyd’s involvement in treaty reinsurance – high growth potential
► Lloyd’s sees increase of facultative business

Liability
Key Drivers:
► Growing demand for higher limits
► Appetite for innovative product liability, general liability & professional liability covers
► New legislation regarding environmental liability increases awareness and need for environmental insurance

Energy & Natural Gas
Key Drivers:
► Significant natural gas discoveries and explorations - continued need for insurance capacity

Source: Market Intelligence and local Soft Intelligence
The Lloyd’s Country Development Plan contains Key Market Development Activities and a clear Vision

Key Priorities 2015:

► Increase Lloyd’s business in direct insurance in niche classes:
  • Identify new opportunities for niche classes or where the local market does not provide solutions
  • Facilitate new Coverholders

► Increase Lloyd’s share of reinsurance business
  • Examine local cedants’ appetite to increase Lloyd’s shares as a reinsurer - facultative & treaty
  • Educate Lloyd’s underwriters about reinsurance opportunities in the Israeli market.

Event Summary

Future Events:

► Class of Business round table
► Reinsurance seminars to local Insurance Companies
► J Gross Memorial Scholarship

New Meeting Facility in Israel

Service for the Lloyd’s Market Meeting Facility available for the Lloyd’s market to host meetings and serve as your local office in Israel.

Source: Market Intelligence and local Soft Intelligence
KNOWING WHAT MATTERS

MARKET INTELLIGENCE
YOUR GLOBAL ADVANTAGE

www.lloyds.com/marketintelligence
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Appendix

Limitations & Disclaimer

Lloyd's Data Limitations

Please note the information contained in this document is based upon data collected from Xchanging and may be incomplete for some classes of business; for instance a substantial figure, which is missing from the REG 258 data set is comprised of UK Motor, which is not processed by Xchanging.

Gross Premiums: Original and additional inward premiums, plus any amount in respect of administration fees or policy expenses remitted with a premium but before the deduction of outward reinsurance premiums.

Lloyd's figures are based on gross written premiums based on figures processed by Xchanging by processing year and country of origin.

Country of Origin: denotes the country from where demand for the insurance / reinsurance emanates; i.e. the coverholder or policyholder, irrespective of the country to which the risk is classified for regulatory reporting purposes.

Processing Year: relates to the calendar year in which the premium, additional or return premium is processed by Xchanging, irrespective of the actual underwriting year of account of the risks (which is determined by the inception date of each risk).

Example: A policy holder in the UK insuring a holiday home in France would be classified as a UK risk by Country Of Origin, but French for regulatory reporting purposes. Similarly a risk incepting on 1st December 2007 would be classified at 2007 underwriting year of account but may not be processed by Xchanging until 2008 and so be allocated to the 2008 processing year

Exchange Rate Policy

Annual average exchange rates are used in all conversions.

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<tbody>
<tr>
<td>PLZ to US$ Annual Exchange Rate</td>
<td>0.3019</td>
<td>0.3118</td>
<td>0.2452</td>
<td>0.2573</td>
<td>0.2679</td>
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<td>0.3221</td>
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<td>0.3320</td>
<td>0.3389</td>
<td>0.3070</td>
<td>0.3185</td>
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<tr>
<td>USD to EUR Annual Exchange Rate</td>
<td>1.0842</td>
<td>1.0615</td>
<td>1.0606</td>
<td>0.8851</td>
<td>0.8048</td>
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<td>0.7968</td>
<td>0.7306</td>
<td>0.6826</td>
<td>0.7190</td>
<td>0.7546</td>
<td>0.7188</td>
<td>0.7781</td>
<td>0.7532</td>
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