



ISRAEL - TERRORISM RISK INSURANCE PROGRAMME

Name of programme	Compensation Fund according to the Israeli <i>Property Tax Act</i> .
Date of establishment	1941
Basic structure	<p>Compensation is to be partially paid by the State of Israel and partially by the insurance industry. The idea of compensation paid from tax law embodies the idea of insurance with the state providing compensation for damages by war and hostile acts (which includes terrorism). There is great ministerial discretion under §36 of the <i>Property Tax Act</i> whereby the Financial Minister is given the authority to determine the entitlement of compensation, the compensation level and the paying mechanism. The compensation payments are for both direct and indirect damage.</p> <p>All direct damage that has occurred within Israel due to hostilities or war will be compensated by the compensation fund (Property Tax Law Applicability Territorial Compensation Fund), according to the conditions stated in the regulations. For example, household properties, such as electrical goods, that endured direct damages will be valued based upon market value.</p> <p>The relevant minister determines the regulations in relation to indirect damage and the effects on tourism and agriculture.</p>

Property Tax and Compensation Fund Law and the Victims of Hostile Action (Pensions) Law

History and Purpose

The Property Tax and Compensation Fund Law was set up for the purpose of providing compensation to losses occasioned by war damage. It was subsequently extended to encompass property damage arising from hostile action (which includes terrorism).



The OECD International Platform on Terrorism Risk Insurance shares information and identifies good practices on terrorism risk financing to contribute to more rapid economic recovery in the event of attacks.



This country profile is regularly updated. It is the product of joint work between national terrorism insurance schemes, the OECD and the World Forum of Catastrophe Programmes.

www.oecd.org/daf/fin/insurance/terrorism-risk-insurance.htm



The Compensation Fund in Israel originated in 1941 with the foundation of a national fund for war damages. Over the years the coverage has expanded for additional damages- not only war damages, but damage from hostile actions and terrorism as well. The law compensates for direct damage, household objects, damage outside of Israel (such as aircraft and ships) and indirect damages.

Definitions

War damage: direct damage- damages to assets due to acts of war caused by -

1. Foreign armies;
2. Hostile actions (terrorism) against the State of Israel;
3. Other acts of war by the Israel Defence Forces.

Hostile action: The Property Tax and Compensation Fund Law does not provide a definition of 'hostile action', but the Israeli Supreme Court classifies damage from hostile action as 'damage to property that is designed to deliberately harm the state of Israel and is motivated by hatred, hostility, vengeance etc. Hostile actions include terrorism against Israel – actions with intent to intimidate or coerce the civilian population, in furtherance of political or social objectives. The Israeli Supreme Court in referring to terrorism mentioned the F.B.I definition of terrorism as provided on the Terrorism Research Centre website.

Indirect damages: Loss of revenue or prevention of profits as a result of war damage caused by foreign armies, hostile actions or other acts of war by the Israel Defence Forces.

Operation, Extent, Lines Covered & Perils Covered

The compensation fund provides special arrangements for:

- Compensation settlement for direct damage
- Compensation settlement for damages outside of Israel (such as aircraft and ships);
 - In order to claim compensation for damages caused outside of Israel, there needs to be evidence that the damage arose from a connection with Israeli national identity.
- Compensation settlement for indirect damage.

Entitlement to compensation for Direct Damage: Citizens as well as foreigners are entitled to compensation for direct damage.

Entitlement to compensation for Indirect Damage: Businesses located at the border region of the affected area, as well as entities whose employees live at that region are entitled to compensation for indirect damage. In addition, entities and businesses located outside of that region are entitled to compensation for damage that occurred from inability to utilize assets that are placed at the affected area. The specific range of the region is determined ad-hoc by the financial minister.

How Claims are Processed (Direct Damages): The determination of damage must be done by recognized engineers who will examine and evaluate the situation. After the evaluation is made, the owner has to choose between financial compensation and restoration.

How Claims are Assessed (Indirect Damages): According to the regulations since 2006, businesses at the affected area can file a claim for indirect damages through four different means:



- 1) Wages Based Track – The amount of compensations will be derived from a calculation of the employees' salaries that were absent from work due to the event for which compensation is being sought.
 - a) Determine the total wages of the absent employees (base of the calculation);
 - b) Evaluate the employees work (assessed at the rate of 45%);
 - c) The total compensation rate will thus be paid at 145% of the daily work salary for each day of absence.

$\text{Per diem salary of the worker} \times \text{total days of the employees absence} \times 145\% = \text{Compensation}$

- 2) VAT based compensation – This compensation mechanism assessed based upon the VAT difference between the current year and the VAT which was collected in the same month in the previous year (when the war damage or hostile event had not occurred).
 - a) Maximum compensation for each claim is €0.5 million.

$\text{Business cycle in the same month last year} \times \text{Index (+/-)} - \text{Business Cycle in the Event Month} \times \text{Avoided costs coefficient} = \text{Compensation}$

- 3) Tailor made compensation – A specific solution can be devised for the relevant business based upon their particular circumstances. If a tailor made solution is to be achieved then the relevant business must provide data to the tax officials to adjust compensation to the specific circumstances.
- 4) Special Efforts – this method suits for businesses that had no change in the revenue comparing to previous period, but had special expenses paid in order to maintain the business activity at the same level. In those cases, a business is entitled for compensation to the extent of the expenses of special measures that were undertaken in light of the event.

Exclusions

There is no entitlement to compensation for:

- State Budgeted Body (although there is currently legislation exploring the possibility of having a separate fund to compensate these bodies);
- Health Corporation;
- Government Corporation;
- Health Maintenance Organization;
- Higher Education Facility;
- Public Institution;
- Non-profit organization.

State Involvement & Layers of Cover

Coverage:

- Compensation for direct damage to property, other than household, is unlimited (actual damage + costs of mitigating the damage).
- Compensation for direct damage to household contents (not including jewellery, art and antiques) is limited to about €20,000.
- Additional coverage can be purchased- insurance of up to 0.3% of the property value is



available with a limit of €140,000. In addition, it is possible to purchase coverage for property outside of Israel at a rate of 0.5% - 4.5% of its value. Insurance cover is not limited for incorporated businesses.

Marine Insurance:

In 2006 a committee was appointed in Israel to determine the best means of facilitating marine insurance and war risk emergency situations. It was decided that a model entitled the 'Sri Lanka Model' would be employed. This back-to-back approach suggests that the policy lies with a foreign insurance company, in this case the London insurance brokers at Lloyd's which would be backed by the State of Israel. Aon Brokers was appointed to prepare the necessary infrastructure and bring the model to fruition. Aon devised a model where the State of Israel would share in the risk taking, in which the government will bear responsibility of direct damages for up to \$100 million. In essence, this arrangement did not require any substantive changes in the current Israeli law, since such expenditures were already covered in the Israeli Property Tax Regulations. The only difference is in the mechanism through which the State of Israel plays her role.

The insurance premium for assets outside of Israel (including aircraft and ships) is 4.5% per year.

Examples of abnormal events in the near past-

The 'Second Lebanon War' (2006):

During the war hundreds of aid workers were mobilized to restore the economy of northern Israel. Tax Authority employees were often the first to reach the missiles fall sites, under fire, to provide immediate evaluation and compensation to those businesses and residents whose property and/or homes were damaged. After the war ended, in order to facilitate payments and to assist in the compensation, seven centres were established with Tax Authority personnel employees and volunteers. The total compensation payable was NIS 182,029.

Total	Indirect Agriculture	Indirect Tourism	August Salary Track	August Business Cycle	July Salary Track	Direct Damage	
182,029	2,504	3,178	47,791	35,814	69,233	23,509	Total Claims Paid
3,241	198	197	585	803	1,107	351	Total Amount (millions NIS)

Compensation on the Rocket Attack on Israel in November 2012:

As a result of 1,500 rockets being fired towards civilian areas there were 2,500 claims for compensations with estimated value of €20 million on account of direct damage and €100 million on account of indirect damage.

Compensation was given to communities that were within 40km of the border with the Gaza Strip.

Period of Operation

The system was set up in 1941 as a permanent regime under the *Property Tax Act*.



Main features

Layers of coverage	Certain percentage of the purchase tax collections is allocated every year to a compensation fund. The specific number of percentage can and has been changed over the years due to unexpected events. In 2013 the rate is fixed to 15%.
Limitation of exposure of private sector	N/A
Temporary /permanent government participation	Permanent legislatively entrenched regime under the <i>Property Tax Act</i>
Gratuity of government coverage	The Israeli government collects taxation to help facilitate compensation and uses this in distributions made under the Property Tax Compensation Fund.
Voluntary / mandatory	A certain level of coverage is provided to all Israeli residents although an individual can decide to obtain additional coverage above the threshold amounts.
Minimum sum insured	No
Coverage of NBCR terrorist attacks	Yes
Lines covered	<ul style="list-style-type: none"> • Direct Damage including household objects • Damages outside of Israel (for example aircraft and ships) • Indirect Damage (including business interruption cover)
Pricing mechanism	
Other public sector victims compensation schemes	<i>Victims of Hostile Action (Pensions) Act.</i>