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Model survey on Insurance Services :

A framework for improving information on Insurance Services.

Methodological Manual of Statistics on Service Enterprises :

Chapter "Insurance"

by John Walton

STATISTICAL OFFICE OF THE EUROPEAN COMMUNITIES

A FRAMEWORK FOR IMPROVING INFORMATION ON INSURANCE SERVICES

Paper for the seventh meeting of the Voorburg

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Introduction

1. This is a cover note to the attached near-final version of the chapter on insurance services, in Eurostat's methodological manual on statistics of service enterprises. Insurance is one of seven groups of activities which are included in the manual. Another is "financial services" (other than insurance). The title "insurance" includes pension funding (ISIC/Rev. 3 6602). The chapter also touches on activities auxiliary to insurance and pension funding (ISIC/Rev. 3 6720).

2. Eurostat has established a General Framework, for obtaining information on the seven groups of activity, which is adapted as necessary to the circumstances of each. The General Framework covers three groups of variables, which are called "variables on the structural characteristics of the units", "accounting data on the units" and "data on employment in the units". The first two have more relevance to insurance than the third. The "accounting data" cover most of the "production account" and of the "generation of income account" in the national accounts (ESA, 111), and also some variables connected with gross fixed capital formation. There is also a variable on the prices of products sold. The variables do not include transactions in, and levels of, financial assets.

3. The adaptation for insurance follows this General Framework as closely as possible. Concentration on production and on the generation of income appears entirely appropriate for insurance, as in a number of EC countries information on insurance enterprises' activities in financial markets is already better developed than information on the resources which they produce and use.

4. Although I have mentioned the important link to the national accounts, the approach in the manual is a disaggregated one, so that the choice of reporting unit is important and gets much attention. For most sectors, the manual is at present only methodological, and establishes guidelines for data collection rather than seeking to prescribe what information should be collected or what survey methods should be used. There is, however, an annex to the chapter on insurance, on sources of information. For this sector, administrative sources are very important.

5. Given the EC context, there is frequent reference to various EC Directives, in particular that of 19 December 1991 on the annual accounts and consolidated accounts of insurance undertakings (91/674/EEC, in the Official Journal L 374, of 31 December 1991), in this cover note refered to as the "1991 Accounting Directive". This is a major step forward in obtaining uniformity, within the EC, in the form of the information in the profit and loss account and in the balance sheet. The required information is very detailed and, with some exceptions, it fits in well with the requirements of economic statistics. Nearly all the accounting variables in the manual's chapter on insurance are defined in terms of the items of the profit and loss account prescribed by this Directive. One of its consequences will be a virtually complete separation of information on life insurance from that on non-life insurance, even if the insurance undertaking continues to operate as a "composite" insurer. Another will be a lot more information about transactions between insurers and reinsurers.

6. Other EC Directives referred to are : 73/239/EEC and 79/267/EEC (for product classifications, non-life insurance and life insurance respectively) and 92/49/EEC in regard to the future freeing of international trade in insurance services within the EC.

7. The remainder of this cover note lists areas of interest and gives short comments on those areas which have caused difficulty. The full discussion of each of the listed topics is in the section, of the chapter on insurance, which is referred to.

Notes on areas of interest

8. The topics covered in this cover note are the following:-

There is also an annex to this cover note on the background to the treatment of investment income, for non-life insurance, and of certain unrealized capital gains, for life insurance.

I. Form of the production account (1).

9. Starting with non-life insurance, there is the familiar concept that part of the premium goes to pay for claims (or indemnities) - sometimes this is called the net premium - and that part is retained to pay for the insurer's own costs and to provide his operating profit. The second part is often called the service charge. In the 1979 ESA (315k) this is formulated, for non-life insurance, as follows:-

Premiums earned (2)	Claims due Balance = services produced

In the case of life insurance and pension funding, where there is also a substantial element of savings, it is formulated (with some rearrangement (3)) as:-

Premiums earned Imputed interest accruing to insurance policy holders Realized capital gains which are in fact distributed	Claims due (4) Variations in the actuarial reserves against outstanding risks and in reserves for with-profits insurance Balance = services produced

The imputed interest accruing to policy holders is defined (432) as that part of the interest accruing from the technical reserves which is credited to the policy holders; this definition is now to be revised, see the annex to this cover note, paragraph A/3.

10. In insurance enterprises' own accounts, as they are to be codified in the 1991 Accounting Directive, there is a slightly different terminology, but a broadly similar treatment in the profit and loss account (Article 34). The terms "technical provisions" (not "technical reserves") and "investment income" are used. The profit and loss account is divided into two parts : technical and non-technical. In non-life insurance, all investment income is credited initially to the non-technical account and in life insurance all investment income is credited initially to the technical account.

(1) And generation of income account.

(2) I have left out the word "gross", which was intended to set the contrast with "net premium", in the sense mentioned above. Unfortunately, there is a completely different sense of "gross", as gross or net of reinsurance.

(3) The rearrangement is to treat the imputed interest and realized capital gains as credits, rather than as deductions from the variations in the actuarial reserves. The effect on the balance is the same.

(4) Including supplementary payments to the insured in the form of distributed profits.

However, there is provision to transfer investment income between the two accounts, at will, unless a Member State decides otherwise. The treatment of investment income is to be standardised in the proposed form of the production account. The reasons for this are covered in paragraph 25 below, in the annex to this cover note and in pages 88 to 89 of the chapter on insurance [Annex 4].

11. The form of the production and generation of income accounts, above and below the "line" of the value of services produced, is given in the Table on the next three pages, which is taken from pages 83 to 85 of the chapter on insurance. Apart from investment income, there are three other points to note. Firstly, insurers receive commissions from reinsurers and from agents. It seems right to treat these as operating revenue, just as the commissions which they pay are treated as operating expenditure; the item introduced to cover this in the Table can also serve as a home for revenue in the form of charges made to subsidiaries etc for headquarters services provided, which is also operating revenue. However, unlike premiums, these elements of operating revenue do not come from policy holders -to this extent, the value of services produced exceeds the "service charge" to policy holders.

12. Secondly, an important matter: insurers incur claims management costs (eg payments to loss adjusters and any internal costs allocated to the settlement of claims). In the codified version of insurance enterprises' accounts in the 1991 Accounting Directive, they will still be included, without being distinguished, in "claims incurred". Ideally, they should be separately estimated and treated as intermediate expenditure ("purchases of goods and services") or as labour costs: they are not like claims paid to policy holders, which are part of the transfer of resources amongst the insured. Thirdly, a separate item is included for the profits of non-resident subsidiaries or branches. These are not part of production or the generation of income proper, but in effect they are a substitute for the direct export or import of insurance services, which in future are likely to become much more common within the EC.

13. In principle, the value of insurance services produced could be measured "top down" or "bottom up". The top down approach is complex, particularly for life insurance, so it might appear easier to measure the value of production from below, as the sum of gross operating surplus, labour costs and intermediate expenditure. However, this is deceptive, as the figure of profit shown in an insurance enterprise's own accounts may not accord with the definition required; in fact "gross operating surplus" is determined from the top down, as is made clear in both SNA and ESA, and in the manual's General Framework.

TABLE 1

INSURANCE : ACCOUNTING VARIABLES ON THE UNITS : TABULAR PRESENTATION : NET OF REINSURANCE

Item number in this Table	Code	Of which: Exports (and code)	(For NACE/70 821) Split life/non-life
1. PRODUCTION ACCOUNT			
Credits (net)			
1. Premiums			
(a) Gross premiums written:			
(i) Direct insurance	81a	No	Yes
(ii) Reinsurances accepted	81b	No	Yes
(iii) Pension contributions:			
- Schemes for individuals	81c	No	Yes
- Schemes for groups (from employers and employees)	81d	No	Yes
(iv) Total	8	Yes: (8b)	Yes
of which: - Regular premiums and contributions	81e	No	Yes
Single premiums and contributions	81f	No	Yes
(b) less Outward reinsurance premiums (premiums ceded to reinsurers)	13a	Yes: (13b)	Yes
(c) equals Net written premiums plus pension contributions	89a	Yes: (89b)	Yes
(d) Change in provision for unearned premiums (net of reinsurance) (+ or -) (aa)	81g	No	Yes
(e) equals Earned premiums plus pension contributions	89c	No	Yes
2. Gross portfolio investment Income (on technical provisions: including investment income on pension funds)	82a	No	Yes
3. Commissions received (aa)	83a	Yes:(83b)	Yes
4. (a) Less Net claims incurred (-) (bb)	84	No	Yes
(b) of which:			
- Claims paid (-)	84a	No	Yes
(c) of which: - Pension & annuities	84b	No	Yes
(d) - Other (cc)	84c	No	Yes
(e) - Amounts recoverable from reinsurers (+)	84d	No	Yes
(f) Change in provisions for claims, net of reinsurance (incr-)*	84e	No	Yes

TABLE 1 (Continued)

INSURANCE : ACCOUNTING VARIABLES ON THE UNITS : TABULAR PRESENTATION : NET OF REINSURANCE

Item number in this Table	Code	Of which: Exports (and code)	(For NACE/70 821) Split life/non-life
5.(a) (Life insurance only). Capital gains, realized and unrealized, credited to the technical account	85a	No	Yes
(b) Less (life insurance only) - Change in life insurance provision (net of reinsurance) (incr.-)	85b	No	Yes
(c) Less change in other techincal provisions (net of reinsurance) and in the equalisation provision (incr -) (dd)	85c	No	Yes
6 Total = Generation of the "Margin" (or value of production of insurance services)	21	No	Yes

NOTES:

* Incr = Increase
(aa) Including other technical income and amounts receivable from affiliates for services provided, if separately identifiable
(bb) For preference, excluding an estimate of claims management costs
(cc) Including capital sums paid from pension schemes and on maturity of life policies.
(dd) Including surpluses of pension funds;and the change in provision for unexpired risks.

Table 1 continued : INSURANCE : ACCOUNTING VARIABLES ON THE UNITS:TABULAR PRESENTATION (continued)

Item number in this Table	Code	(For NACE/70 821) Split life/non-life
II. COSTS OF PRODUCTION AND BALANCES		
6. Value of production of insurance services ("Margin") # B/F	21	Yes
Debits		
7. a. External expenditure on services and services other than from re-insurers (1)	89d	No
Of which:		
8.a. Commissions payable to agents	86a	No
8.b. Other external expenditure on goods and services (2)	86b	No
9. Balance = Gross value added at market prices #	20	No
Debits (continued)		
12. Labour costs (2) :		
(a) Gross wages and salaries	11	No
(b) Employers' compulsory social security contributions	12a	No
(c) Employers' contributions to own (group) pension schemes and other labour costs	12b	No
13. Balance = Gross operating surplus at factor cost	31	No
III. REMAINDER OF PROFIT AND LOSS ACCOUNT (part)		
14. Other portfolio investment income	82b	Yes
15. Profits receivable from direct investments in other countries	87a	No
[Items 17 and 18 are doubtful]		
16. Profits receivable from domestic subsidiaries & trade investments $	87b	No
17. Balance = Total available for distribution (before taxes on income) $	87c	No
IV. CAPITAL ACCOUNT (part)		
18. Net change in fixed capital	88b	No
Memo item		
19. Turnover adjusted to include gross portfolio investment income on technical provisions (This is Codes 8 + 82a)	89e	Yes

Notes:

* Part of item

$ Doubtful Items

\# Including gross portfolio investment income (on technical provisions) and investment income of pension funds

(1) Code 89d = Code 13 less Code 13a

= Total of Codes 86a to 86b, where Codes 13 and 13a are defined as in the General Framework. For Code 13a, see item 1 (b) in the table on the previous page.

(2) For preference, including claims managment costs.

II. <u>Choice of statistical unit</u>

14. This question is covered in paragraphs 808 to 825 of the chapter on insurance. The following points are worth noting. Firstly, for insurance, the "enterprise" is defined to include wholly owned investment subsidiaries, even though these may be separate legal units (see the chart on page 5 of the chapter on insurance). Secondly, the proposal is to "see through" the costs of other common service companies, if they form part of the same corporate group, so that the split between labour costs and intermediate expenditure can be obtained at enterprise level. Thirdly, for the variable on the profits of non-resident subsidiaries, a different reporting unit, the "institutional unit" (ESA 106 and 212-6) is to be used. The proposals for reporting units are summarised on page 21 of the chapter on insurance.

15. A connected matter is the extent of consolidation. The new SNA regards consolidation as something to be avoided as much as possible. This is perfectly consistent with the choice of the enterprise, rather than the corporate group, as the reporting unit. However, a feature of the basic accounting data of insurance enterprises makes them, in one respect, equivalent to consolidated data - the treatment of <u>reinsurance</u>. The basic concepts of earned premiums and of claims incurred are net of reinsurance, and so are the risks carried by a insurance enterprise (as reflected, in the balance sheet, in "technical provisions"). This is tantamount to the consolidation of transactions between enterprises acting as insurers and enterprises acting as reinsurers, as is recognised in the ESA (714c). The reason given there was a practical one, but it is also a matter of the presentation of the insurance enterprise's exposure to risk. Having said this, it is also worth noting that the data on the gross flow of transactions between insurers and reinsurers will now be considerably expanded within the EC, as a result of the 1991 Accounting Directive - see paragraph 23 below.

III. <u>Activity Classes</u>

16. Activity classes are covered in paragraphs 832 to 846 of the chapter on insurance, and in Annex 2. As previously, insurance plus reinsurance is treated as a single activity in the international classifications. There is a case for treating reinsurance as a separate product (see paragraph 19 below). Life insurance and pension funding are separate sub-activities which are often conducted by the same enterprise. This raises the question of the basis for classifying to one or the other as the primary activity - see paragraphs 836 to 846 of the chapter on insurance. When life insurance is regarded as the primary activity, pension funding can still be distinguished as a separate <u>product</u> and it is proposed that this should be done, for the single variable "gross premiums written" or "pension contributions", by reference to the nature of the contracts with the policy holders.

IV. Product Classes

17. The chapter on insurance contains proposals for the EC's CPA ("Classification of Products according to Activities") which seeks to refine the CPC by placing product classes within activity groups (which is not to say that all products must be part of the primary activity of the activity/product group).

18. (a) Non-life insurance. See Annex 3 of the chapter on insurance. The classes are defined in terms of the more numerous classes in the 1973 EC Directive (73/239/EEC). The same link has been shown by the OECD Insurance Committee, who are already publishing figures of premiums by product classes. In OECD's publications the classes are identical with the CPC. Two changes are proposed for the CPA. The first is to alter the present wording of CPC 81294 (freight insurance services), which seems too narrow in the light of the corresponding class in the EC 1973 Directive; in the country notes of OECD's publication there are signs of some variation in the definition, from one country to another. The second is to introduce a new class "travel and assistance", which would include the EC class "assistance" but would be wider. It is clear that package insurance policies of this kind are sold very widely, by every bank and every travel agent, and it seems preferable to regard what is sold as a single package as one product rather than to allocate it to four or five different risk classes.

19. The question whether reinsurance (on all types of risk) should be treated as a single separate product has not yet been resolved. If so, the classification by classes of risk would apply only to direct insurance. That is the approach of the 1991 Accounting Directive (Article 63). The present draft of the chapter insurance takes the line - the same as that followed by the OECD Insurance Committee - that it is more informative to break down reinsurance by classes of risk, as well as direct insurance. This can be provided for through the variables, by taking the breakdown as far as "net written premiums". The difficulty lies in reinsurances accepted, which cannot always be broken down by class, for instance in the case of "treaty" reinsurance. For this reason, a separate category, reinsurance of non-life risks n.e.c., is shown at the end.

20. (b) Life insurance and pension funding. The proposals for the CPA - see Annex 3 of the chapter on insurance - are quite new; in effect there is no CPC for life insurance etc. As far as possible, the classes are defined in terms of those in Directive 79/267/EC, but a further breakdown, into the main types of life insurance policy, was necessary. The distinction within funded pension schemes for groups, between "money purchase" (or "defined contribution") schemes and "final salary" (or "defined benefit") schemes, is important and is well understood in the industry.

V. Variables on structural characteristics

21. It is considered that there is little meaning in the concept of "local unit" for insurance. An attempt is made to develop one of the ways, suggested in the General Framework, in which the "demography" or the characteristics of enterprises can be analysed. This is in the form of suggested indicators, for each enterprise, on its legal status, its attachment to a corporate group, and on the question whether it conducts reinsurance as well as direct insurance. (See pages 24 to 27 of the chapter on insurance). This provides scope for cross analysis of various kinds. For instance, cross analysis with the accounting variables, which could be a way of approaching the very difficult question of the penetration of domestic markets by non-resident groups, and vice versa - see the discussion on Code 6 (pages 31 and 32 of the chapter on insurance).

22. The following notes relate to the "accounting variables" - those which appear in the tables of the production account and the generation of income account shown on pages 5 to 7 above.

VI. Reinsurance

23. It was mentioned in paragraph 15 above that there will be a lot more information about gross transactions between insurers and reinsurers as a result of the 1991 Accounting Directive. This is shown in Tables 2 (a) & (b) of Annex 4 of the chapter on insurance (on pages 86 and 87). It includes the reinsurer's share of: the gross change in the provision for claims; the gross change in the life insurance provision; and (for non-life insurance) the gross change in the provision for unearned premiums. Commissions are received by insurers from reinsurers (who also make deposits with insurers - see the discussion of investment income in Annex 4 of the chapter on insurance). Reinsurers may be liable for part of payments made by insurers to loss adjusters etc - but this element is not distinguished in the 1991 Accounting Directive. However the overall total of transactions with reinsurers must be shown, both for non-life insurance and for life insurance. It is called the "Reinsurance balance", see Article 63 of the 1991 Accounting Directive.

VII. Changes in technical provisions

24. These are not just the provisions related to premiums and claims. For non-life insurance, there are also provisions for unexpired risks, the equalisation provision and "other". With life insurance, the changes in the life insurance provision will include investment income and capital gains allocated to policy holders, individually or collectively, see the following paragraphs.

VIII. Investment Income

25. This question is covered in detail in pages 88 to 93 of the chapter on insurance. The background to the change in treatment of investment income, for non-life insurance, is also explained, in more detail, in the Annex to this cover note. The origin was macro-economic, but the case is made in the insurance chapter for similar and uniform treatment at enterprise level, and this has been generally accepted, subject to further consideration of the details of implementation. One reason is that figures in insurance enterprises' own accounts are not uniform in this regard; it is left to each

non-life insurance enterprise to decide whether to include all or part of the investment income in the "technical" account, or to include all or part in the "non-technical" account, and this will continue under the 1991 Accounting Directive.

IX. Capital gains (life insurance)

26. In the 1991 Accounting Directive, there is a presumption that capital gains (realised or unrealised), pass through the profit and loss account, before being allocated to policy holders' reserves or to shareholders' reserves. But the distinction is not made, within the profit and loss account, between capital gains on funds which are specific to unit linked policies and other capital gains. The former are automatically matched by increases in technical provisions, the latter not necessarily so. In the national accounts, it is proposed to identify those capital gains which are allocated to policy holders, and to show the increase in technical provisions net of these (see Annex to this cover note, A/2). The allocation to policy holders of capital gains is likely to be determined, except for the unit-linked policies, on an actuarial basis which takes a long view. Unfortunately, the capital gains actually allocated to policy holders are also not identified in the profit and loss account to be compiled according to the 1991 Accounting Directive.

27. In the chapter on insurance for the manual, the presumption is that all or nearly all capital gains carried from the balance sheet into the profit and loss account are allocated to policy holders (though this is only immediate and automatic for the unit-linked type of policy); to the extent that this is done in the same accounting period, they net out within the production account. If any are transferred to shareholders, eg by being included in the balance of the "life technical account" - both the value of production and operating surplus would be wrong, since the definition of the production of services excludes capital gains. But the only way to deal with this problem would be to obtain information, not provided for in the 1991 Accounting Directive, on the extent to which the capital gains carried into the profit and loss account are actually allocated to policy holders within the same accounting period. To exclude such capital gains from the production account is only a change of presentation, and does not solve the problem of identifying them (See pages 93 to 95 of the chapter on insurance).

28. There is a further difficulty when the allocation of unrealised capital gains (to policy holders or to shareholders) has not been made by the end of the accounting period, so that they are held in a holding reserve. There will be separate information on this element of the capital gains carried into the profit and loss account, and it would be possible to deal with them by exclusion from the production account. At present, this exclusion is not proposed, but the effect is the same in the end. See A/6 in the annex to this cover note.

X. Labour costs and intermediate expenditure

29. The distinction between the two elements of costs is not made in insurance companies' accounts. This is continued in the 1991 Accounting Directive, which prescribes a "functional" analysis of total costs (operating expenses, acquisition costs and investment management charges). Each includes an element of labour costs and an element of intermediate expenditure. In the chapter on insurance of the manual, this is covered in the definition of the appropriate items, see pages 36 and 59.

XI. International trade in insurance services

30. See Annex 5 to the chapter on insurance (pages 97 to 104). Cross border trade in insurance services is often replaced by direct investment transactions, but within the EC there will in future be more cross border trade, as an insurance enterprise located in one EC country will soon be able to trade throughout the EC whilst following the regulatory practice appropriate to its own country. The Annex distinguishes the following elements of cross-border trade : reinsurance, direct insurance of "large" risks and of "mass" risks. (The terms "large" and "mass" were defined in an earlier Directive.) It also goes into the criteria for deciding what is a cross border transaction. This can be complicated, for instance, if a multi-national enterprise takes a central decision of policy to insure all or most risks with an insurer located in one country.

XII. Prices of products

31. The General Framework of the manual includes prices of products. Evidently the first step is to have a definition of products, and here there has been some progress. It is hoped to do further work on price and volume measures (following up my paper for the 1991 meeting of the Voorburg group).

32. The main thing to be said now is that it is not yet settled whether in concept there is such a thing as a producer's price for an insurance service. There is always a mixture between an indemnity (a transfer between policy holders) and the insurer's service charge to policy holders. The apparent price - the premium rate for a defined package of cover - can go up because (a) claims become more frequent, (b) the indemnity is in real terms and is affected by a change in either average or relative prices, (c) there is a quality change (eg larger compulsory "excesses" on the cover of risks such as that of the settlement of a house), or (d) the service charge increases as a proportion of the premium. On one argument, only the latter element and - possibly - changes in relative prices are "price" changes. In the interim, no definition of the price of an insurance product is given in the manual.

XIII. Insurance auxiliaries

33. See page 96 of the insurance chapter. Information on their revenues, taking all auxiliaries in aggregate, is potentially available from the framework for obtaining information from insurance enterprises. For information on the costs and profits of auxiliaries, and for disagregated information on their revenue, it is necessary to launch a survey. There is a problem about the register for such a survey: it is unlikely to be available as a by-product of regulation (in contrast to the situation for direct insurers).

34. It should be noted that there is gross recording of premiums paid to insurers and commissions paid to auxiliaries - both in insurance enterprises' own accounts, followed in the 1991 Accounting Directive, and in the framework in the chapter on insurance of the manual. This may not accord with the way in which the auxiliary looks at the matter, since he often collects the cash and deducts his commission, particularly with international business. There may also be a tendency for both parties to "score" export earnings as their own.

XIV. Sources of information

35. There is a brief Annex to the chapter on insurance on this subject : Annex 6, pages 105 to 107. It covers both registers and variables. It will be developed at a later stage. Direct insurance is well regulated, so that the framework can probably be implemented without special surveys, except perhaps on particular points such as capital gains; however, there are problems when the published accounts are consolidated so as to include non-resident subsidiaries. It is more likely that special statistical surveys will be needed in the area of specialist reinsurers and auxiliaries.

XV. Conclusion

36. The main objective up to now has been to establish methodological guidelines on the measurement of the production of insurance services, consistently with Eurostat's General Framework for measuring the production of other services, with the revised concepts of the national accounts, with the international activity and product classifications, and with the definitions set in the 1991 Accounting Directive for the profit and loss account of each enterprise's published annual accounts. The cover note above outlines the principal points of interest and of difficulty, with references to the more detailed discussion in the chapter on insurance.

37. The question of a data collection programme has not yet been addressed. Given that regulation by Member States of direct insurance activities is well established, a unified data collection programme of direct insurance activities may present few problems. But the new developments in the field of international trade, within the EC, in insurance services will have to be taken into account. On the one hand, it might be necessary to establish priorities for collecting certain types of data; on the other hand both the conceptual framework and the published annual accounts cover a "package" of data, so that there may be little advantage in designating some types of data as having higher priorities than others.

ANNEX TO COVER NOTE

Investment income

A/1. The treatment of investment income is covered in detail in pages 88 to 93 of the chapter on insurance. It is worth mentioning the background to the change for non-life insurance, which started from the macro-economic perspective. M. A Vanoli of INSEE wrote a paper which pointed out that, with investment income excluded, the gross operating surplus of non-life insurance enterprises could well be negative and that - because of the growing relative importance of the investment income - the estimated trend of the "volume" of non-life insurance services produced was not realistic. The initial proposition of INSEE was to treat the investment income as the first source from which claims would be paid, so that the definition in paragraph 9 above would be altered as follows:-

Premiums earned	Claims due
	<u>less</u> investment income
	Balance = Services produced

A/2. This was reformulated by Eurostat's working group on national accounts, in April 1989, as the following extracts of the minutes show:-

" ...

(i) For both life and casualty insurance the service charge will be defined as:

premiums earned

\+ net income from the investment of technical reserves

\- claims due

\- changes in technical reserves and reserves for with-profits insurance net of the capital gains and losses allocated to the insured included in these technical reserves.

..

(v) to re-establish the identity between net premiums (5) and claims in respect of casualty insurance, the net income from investment of technical reserves will be shown as distributed to policy holders and returned by them to the insurance enterprises, as is done for life insurance .... "

(5) "Net" in the special sense used in the national accounts - see paragraph 9 above.

A/3. This introduces a change in the previous definition" .... interest accruing to policy holders". However, in non-life insurance as well as in life insurance, the technical provisions (reserves) belong, in a sense, to the policy holders collectively, and their existence certainly serves to keep premiums lower than they otherwise would be. The difficulty with the new definition is that the assets arising from the investment of technical provisions are not usually segregated, so that the income arising from their investment can only be estimated by making assumptions. A way is suggested in the insurance chapter for doing this, largely by using data from the liabilities side of the balance sheet (see pages 90 to 96).

A/4. This treatment in the ESA is tantamount to regarding the investment income which is deemed to be returned by policy holders to insurance enterprises as if it were what might be called an "imputed premium supplement". (But this term has not been adopted as the basic term to describe this imputed flow). There is no particular estimation problem so far as statistics of the output of enterprises are concerned - the amount can be estimated directly. In macro-economic statistics, however, it is necessary to estimate which are the counterpart sectors, as with other imputed flows : for instance, what is treated as a credit to the production account of an insurance enterprise will be a debit to the production account of its policy holder, if he is also a trader. And residents (whether traders or households) may import insurance services. All this is outside the scope of the chapter on insurance, but it can be seen that it shares features with the proposal, in the new SNA and ESA, to allocate the "imputed output of banking services".

A/5. The case is made in the insurance chapter for similar treatment at enterprise level, and this has been generally accepted, subject to further consideration of the details of implementation. The case for uniformity of treatment is pretty strong. In the 1991 Accounting Directive, there is complete freedom either to credit the investment income to the technical account (by transfer from the non-technical account), or to leave it in the non-technical account. The CBS Netherlands has kindly provided information which confirms the diversity of treatment, in that country. About 25% of non-life insurance enterprises transfer investment income to the "technical" account in order to include it in the change in the technical provisions; about 40% transfer part of it to the technical account, without adding it to technical provisions; about 15% transfer all of it to the technical account in the same way, and about 20% transfer none of it.

Unrealised capital gains which are not allocated at the end of the accounting period

A/6. When assets are valued in the balance sheet at market values, some or all of the changes in their value may be carried initially (still through the "technical" part of the profit and loss account for life insurance) to a holding reserve, called the "reserve for future appropriations" (see Article 22 of the 1991 Accounting Directive) - in other words, they are not yet allocated to either policy holders or shareholders. (These value changes are to be carried back to the non-technical account before the balance on the "life technical account" is struck.) In the manual, there is a choice: either this element of the changes in asset values can be excluded from the capital gains shown as credits in the production account, by reference to the known allocations to this reserve, or it can be included above the "line" and offset as a quasi-change in the life insurance provision. At present, the latter option is chosen - see pages 94 and 95 of the chapter on insurance. The effect on the balance is the same, whichever option is chosen.

STATISTICAL OFFICE OF THE EUROPEAN COMMUNITIES

METHODOLOGICAL MANUAL

OF STATISTICS ON SERVICE ENTERPRISES

CHAPTER "INSURANCE"

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CONTENTS

1. INTRODUCTION

1.1 Objectives

800. This chapter on insurance aims to complement the General Framework and take account of the special features of insurance. It should not be seen as a programme but as a set of methodological guidelines to assist member states.

801. Although the manual is only for guidance, its General Framework gives standardized definitions of the statistical units of observation, of activity classifications and of the economic variables. This chapter adapts these definitions to the circumstances appropriate to insurance, and adds definitions of economic variables which are specific to insurance. These definitions are also based on, or reconciled with, the definitions used in other information systems for insurance, in particular the statistics prepared by the OECD Insurance Committee and the layout of the profit and loss account of insurance enterprises, contained in the Council Directive 91/674/EEC of 19 December 1991 on the annual accounts and consolidated accounts of insurance undertakings [(1)], hereafter referred to as the 1991 Accounting Directive.

1.2 General description of the insurance sector

802. The term insurance covers a number of different activities, which are destined to satisfy different needs and to perform various functions in the economy. Two elements characterize the activities of insurance: the diversification of risks, and the allocation of financial resources.

803. The main economic function is to transfer risks to specialized companies which assure risks to a certain amount through the collection of a payment (premium). However, there are differences between types of insurance: the basic underlying principle of non-life insurance is the 'mutualization of risks' transferred by a wide range of insured persons or institutions; in life insurance ; there are two functions: the mutualization of risks and financial intermediation (the management and investment of savings). Reinsurance has as its objective the distribution and compensation of mainly large risks.

804. Insurance companies, especially life-insurance companies, are also financial institutions (although not in the technical sense of the 1991 Accounting Directive) which play a very important role in the allocation of resources. The large amounts of money regularly received in the form of premiums have to be properly invested in various types of assets to ensure the necessary solvency and liquidity to meet claims; part of these amounts has to be invested in assets as determined by legislative technical provisions. In this respect, insurance is subject to economic policy.

805. Life and non-life insurance can be further divided into different classes. Life insurance embraces operations based on capitalization, of which there are a great variety: survival or death insurance, annuities, supplementary insurance against special personal injury or sickness, permanent health insurance, capital redemption operations, management of pension funds, etc. Non-life insurance business can be divided into a number of classes: accident and sickness, motor insurance, transport (with the distinction between insurance of the merchandise and the means of transport itself), fire and natural forces, civil liability of all kinds (motor, industrial, professional, etc.) credit and suretyship, financial losses, legal expenses, etc.

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(1) 91/674/EEC Official journal L 374 of 31 December 1991. p.7

806. The different classes of insurance also vary, as a result of the unique requirements of the industry that is being insured. For example, reinsurance and transport insurance are, by far, the most internationally traded businesses. Transport insurance is a necessary complement to transportation and it is customarily provided by the seller under the usual terms of international trade.

2. THE ENTERPRISE AS THE BASIC STATISTICAL UNIT IN THE SECTOR

2.1 Potential statistical units in the sector

807. The General Framework lists and defines four types of statistical unit, in accordance with NACE 70.

- the enterprise.
- the group of enterprises.
- the local unit.
- the kind-of-activity unit.

As far as statistics on the insurance sector are concerned, these units are of varying significance, as discussed in the following paragraphs.

808. It is suggested that in the case of insurance, as for other financial service activities, the statistical unit should generally be the "enterprise". It is the lowest level of unit which is legally autonomous, which keeps a separate and complete set of accounts and which is assessed for taxes on income.

809. In many member states existing statistical enquiries directed to insurance undertakings are likely to have been designed on the basis that the "enterprise" is the statistical unit: and the situation may well be the same, at present, in respect of returns required by most national supervisory bodies. But in some member countries, where consolidation of published accounts is already the norm, statistical enquiries will have been designed taking the group of enterprises, with non-resident subsidiaries de-consolidated, as the unit.

810. In some member states the legally autonomous enterprises may not qualify as separate "institutional units" (as defined in ESA 212-216) because they do not have autonomy of decision with respect to income distribution and financing. Where the enterprise and institutional unit are not identical, the latter may be the only feasible unit for reporting certain variables - see para 814 below. For preference, the degree of aggregation of the enterprises should still be only to the lowest level at which there is autonomy of decision. So the enterprise is the preferred unit.

811. The arguments against an even lower level of unit (such as the "local unit") seem compelling, in the case of insurance. The underwriting of risks is a centralized function; so is the investment of funds. The sale of insurance is often done by mail or through independent intermediaries (brokers), so that in most countries insurance enterprises have few local offices. There is little point, therefore, in collecting separate figures for the few local offices of insurance companies.

812. The arguments against taking the group of enterprises as the unit are not quite as conclusive. The 1991 Accounting Directive puts emphasis on the consolidated accounts implying that separate accounts for the consitutent undertakings may have less importance than hitberto, and may not even be published seperately. The group of enterprises could therefore be considered as a potential unit.

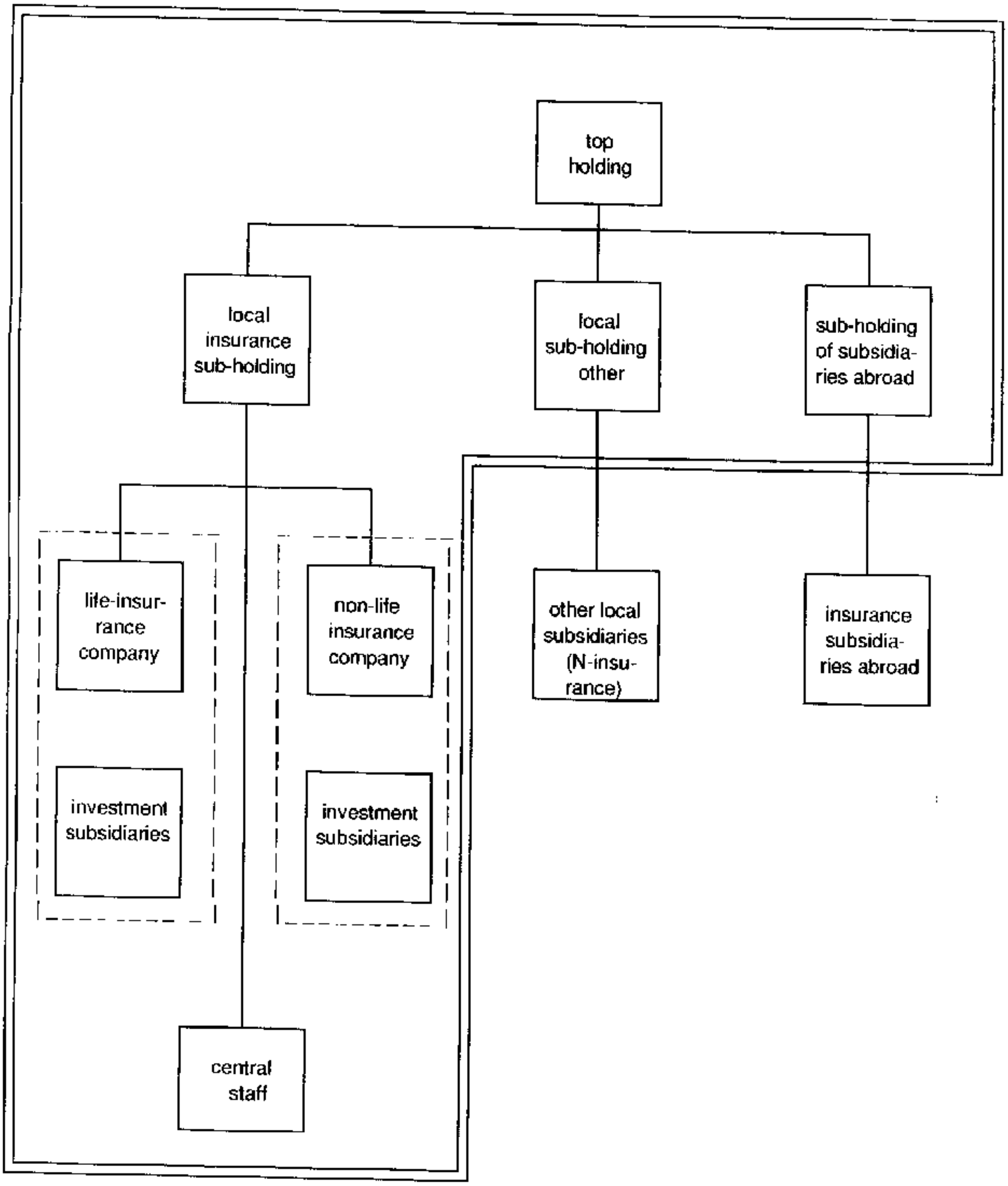
2.2 Structure of enterprises in the sector

813. In general, the structure of the enterprises corresponds to the structure of the activities. Enterprises specialize in life insurance or in non-life insurance. Some specialize in reinsurance but reinsurance is also conducted by enterprises mainly engaged in direct insurance. Lloyd's' of London also specializes in reinsurance; in form it is an association of underwriters but it appears to qualify as a quasi-corporate enterprise (as defined in ESA 223.1 and 235e). In a number of member countries, there exist "composite" insurance enterprises which conduct both life and non-life business and pool their costs. In other countries, whilst life and non-life insurance enterprises are legally separate, they have only a small staff and purchase the services of a separate enterprise, which provides common administrative services to both life and non-life enterprises.

814. In some member states the organization of a typical group of insurance enterprises has the structure of the diagram which follows, in which non-resident subsidiaries are not owned directly by resident insurance enterprises, and in which the "institutional unit" brings together both life and non-life insurance activities. A further characteristic of the institutional set-up in these and possibly other member states is that certain statistical data (variables) may have to be obtained on the basis of the enterprise as the unit, and others (eg. central staff costs) on the basis of the "institutional unit".

815. In the diagram above, the top holding unit is included within the insurance institutional unit, since the institutional unit is used in describing the process of income distribution and financing and the underlying legal units do not have autonomy with regard to this process. Secondly, when (as in some countries) subsidiaries located in foreign countries are owned directly by the top holding unit, the institutional unit excluding the top does not possess information about these subsidiaries.

Figure 1 - The structure of a typical insurance group



Source: CBS, Netherlands

<u>Explanation of the symbols</u>

border of the legal units

border of the enterprise

border of the institutional unit

2.3 Advantages and disadvantages of the enterprise as the basic statistical unit in the sector

816. Analytical advantages and disadvantages: In section 2.1 the tentative conclusion was drawn that, in the case of insurance, the enterprise was preferable as the unit of observation for analytical purposes.

817. If insurance undertakings market subsidiary products, the insurance activity will be accompanied by these subsidiary activities wherever no separate enterprise is established, but this problem would be exacerbated by taking a wider unit of observation. Examples are : insurance broking, the letting and management of real property and the financing of the construction of real property.

818. Advantages and disadvantages in data collection: It is common for a financial institution to engage in financial activities other than the mainstream ones. For instance, it is common for credit institutions to offer insurance to their customers from within the same company group. But a separate insurance subsidiary is usually set up for the purpose - that is, a separate enterprise, with its own accounts; indeed, national regulation of insurance may demand this. This phenomenon points to an advantage of taking the enterprise as the unit; the figures for the credit institutions based on the enterprise unit would then show separately their profits derived from ancillary activities such as insurance.

819. In some countries, however, the regulation of insurance, and the requirements for the publication of accounts, relate to the group. The 1991 Accounting Directive also relates to consolidated accounts, i.e. to accounts for the group of enterprises. In these cases data relating to the constituent enterprises of the groups would have to be obtained separately, as they would not appear in the published accounts.

820. There are serious disadvantages to the use, for economic indicators, of data taken only from the consolidated accounts of groups of enterprises:

   a) Such consolidated data cover group transactions whether in the reporting country, in other member states or in non-member states; but it is fundamental to macro-economic statistics that subsidiaries and branches situated in other countries should be separated from their parents.

   b) The groups may be conglomerates: e.g. banks which own insurance companies.

   c) The coverage of the company group may well change over time.

   d) Generally, data taken from a unit at a high level of aggregation is less informative than that taken from units at a lower level of aggregation.

821. One alternative, where published figures are used as the primary source, is to de-consolidate partially by obtaining separately only figures for those enterprises within the group which are located outside the domestic territory; this is necessary in any event, in order to compile figures for the balance of payments. The result will be to obtain a figure consolidated at the level of the domestic territory, in which only transactions with subsidiaries and branch offices located outside the domestic territory will be treated as transactions with separate enterprises. This may be adequate for macro-economic statistics but is only a second best for other analytical purposes: for instance, the partially consolidated figures relating to the domestic territory would not show separately transactions between direct insurers and any specialist reinsurer which, although a separate enterprise, was part of the same company group. The resulting institutional unit will not be wider in its scope than the resident part of a company group, since by definition institutional units always exclude non-resident entities; also, as with statistics based on the company group, the resident parts of non-resident entities should be included, as "notional resident units", ESA 214.

822. Also, for consistency with the definitions used in the balance of payments and national accounts, the activities of the enterprise should cover only those activities which are conducted on the domestic territory. It may be necessary to adjust the figures in the annual profit and loss account of the parent enterprises, which may include the activities of their branches (as opposed to subsidiaries) resident in other countries. Most multinational activity is however conducted through subsidiaries, which by definition are separate enterprises with separate accounts.

823. A different situation occurs when the principal activity of a financial institution is combined with other kinds of subsidiary activities. In these cases any figures based on group accounts would include both the subsidiary and principal activities. When the subsidiary activities cross the boundary between insurance and monetary intermediation or other financial intermediation, de-consolidation of group figures will be necessary. In that situation, the whole group would be divided into separate institutional units and the top holding unit would then form an institutional unit by itself.

824. Another phenomenon is that of the life insurance company which owns one or more Unit Trusts (or in french SICAV - société d'investissement à capital variable). These may well be set up as separate subsidiaries. The reverse phenomenon, that of the Unit Trust which owns a life insurance subsidiary, for instance in order to qualify for tax relief on pension business, also exists. This clearly illustrates the difficulty of taking figures only at group level. A unit trust will be classified to another heading of the activity classification (probably NACE/REV.1 67.12), so that, if it owns a life insurance subsidiary and figures are only obtained for the whole group headed by the unit trust, it would be necessary to breakdown the group figures into those relating to the primary activity (unit trust) and those relating to the secondary activity (life insurance). If, however, the life insurance business is conducted through a separate subsidiary established for that purpose, figures compiled at enterprise level will distinguish the two activities without further adjustment. Conversely, when an insurance undertaking owns separate investment subsidiaries, it may be convenient to regard both these subsidiaries and the parent undertaking as forming a single "enterprise" (in the sense of a statistical unit), even if the investment subsidiaries take the form of unit trusts (see diagram on page 5).

3. SCOPE AND STRUCTURE OF THE SECTOR

3.1 Main activities of the sector

825. Insurance is generally understood as being the accepting (or "underwriting") and spreading of risks, with the provision of an indemnity in monetary form on the occurrence of specified events. The contract between insurer and insured is set out in a "policy"; the insured person pays, usually annually, a specified "premium" to secure the indemnity or indemnities specified in the policy. Often the insurer lays off, or reinsures, part of the risk with another insurer or with a specialist reinsurer, particularly in the case of large risks which are to be insured against casualty or accident. Premiums received from policy holders are known as "direct" insurance, as distinct from premiums accepted from other insurers for reinsurance. There is a main distinction between life and non-life (accident and casualty) insurance.

826. In several EC countries life insurance enterprises now do much deferred annuity business ("pension funding") in which payment of an indemnity on death is secondary, and the main purpose is the provision of a pension, on survival to a specified retirement age. This is the main method of provision of private ("occupational") pensions in some countries and is a development of two earlier variants of life insurance proper - "endowment" insurance (payment of a capital sum on survival to a specified age) and annuities (payment, in exchange for a capital sum, of an annuity so long as the annuitant survives). In NACE/Rev.1, pension funding is shown separately from other life insurance.

827. In the case of life insurance and pension funding, where the insured events occur in the long-term, the activity of insurance enterprises is to a large extent the investment of the funds received as premiums, to the policy-holder's best advantage. It therefore overlaps with the parallel activity of other financial intermediaries - banks, investment funds managed by intermediaries such as stockbrokers, unit trusts and investment trusts.

828. Such intermediaries also engage, for example, in funding for pension provision. So do large companies (both non-financial and financial) on behalf of their own employees. The companies appoint independent "trustees" to manage the pension fund. Sometimes the trustees themselves manage the investments of the fund; sometimes they hand investment management over to a financial intermediary, which could be an insurance enterprise. When they take the former course, the fund can be called a "self-administered" pension fund.

829. Investment intermediation is classified in NACE/Rev.1 either to 65.23 ("other financial intermediation n.e.c.: ISIC/rev.3 6599") or to 67.12 ("security dealing activities - within which the draft CPC has 81323 "portfolio management services"). In the present state of affairs, however, it is only realistic to regard life insurance as a single activity; and to continue to accept the convention which gives risk spreading precedence over investment intermediation and so classifies the integral activity of a life insurance "enterprise" to one activity heading. This is the approach of NACE and ISIC (NACE/Rev.1: 66.01-66.02; NACE/70: 822).

830. Non-life insurance is included as a single activity in the international classifications (NACE Rev.1 66.03). The breakdown by types is a matter for the product classification.

831. The activity of insurance and pension funding is accompanied by auxiliary activities (NACE/Rev.1 67.20). The main one is insurance broking - independent agents who act for the insured person, advise him on competing insurers and place business on his instructions. They are remunerated by a commission from the insurer who gets the business. Loss adjusting - the negotiation on the value of the indemnity, when a claim is made in respect of non-life (casualty and accident) risks - is another activity which appears to be auxiliary to insurance. The loss adjuster is both employed and remunerated by the insurer; his remuneration may be on a time basis or on a commission basis. Other activities identified as auxiliary are: insurance and pension consultancy services; independent actuarial services and salvage administration services.

3.2 Activity classifications

832. The way in which the services described in 3.1. above relate to the international classifications can be seen in the table below, which relates to the EC activity classification NACE/Rev.1, and in Annexes 2 and 3. Annex 2 compares, for insurance services, NACE/70, NACE/Rev.1 ISIC/Rev.3 and CPC. Annex 3 develops CPC into its Community version CPA (with descriptions) and compares the two.

TABLE 1. Activity classification in Insurance NACE/Rev.1

NACE/Rev.1	
66	**INSURANCE AND PENSION FUNDING, EXCEPT COMPULSORY SOCIAL SECURITY**
66.0	**Insurance and pension funding, except compulsory social security**
	This group includes: - long and short term risk spreading with or without a savings element
66.01	**Life insurance**
	This class includes: - life insurance and life reinsurance, with or without a substantial savings element
66.02	**Pension funding**
	This class includes: - the provision of retirement incomes *This class excludes:* *- non-contributory schemes where the funding is largely derived from public sources cf. 75.12* *-compulsory social security schemes cf. 75.30*
66.03	**Non-life insurance**
	This class includes: -insurance and reinsurance of non-life business: . accident, fire . health . property . motor, marine, aviation, transport . pecuniary loss and liability insurance
67.2	**Activity auxiliary to insurance and pension funding**
67.20	**Activities auxiliary to insurance and pension funding**
	This class includes: - activities involved in or closely related to insurance and pension funding other than financial intermediation: . activities of insurance agents . activities of insurance risk and damage evaluators

833. Units engaged in several types of insurance. Except in the case of reinsurance, the so called "composite" undertakings exist in only seven member countries - Belgium, Greece, Italy, Luxembourg, Portugal, Spain and the United Kingdom; in many of these countries new "composite" companies cannot be set up. They were treated as a separate activity group in NACE/70 where they were classified under heading 821 but NACE/Rev.1 requires their business to be split between the 3 types: life, pension funding and non-life. This will cause difficulty. On the other hand, the OECD statistics indicate that for most countries the split of their premiums (turnover) between life and non-life is available. But data, on their investment income, on their costs and on the numbers of their employees cannot usually be split between the three types of business. However, the 1991 Accounting Directive does envisage that, in the profit and loss account, investment income and total administrative expenses should always be split between life and non-life business.

834. For units formerly classified in NACE/70 821 , it is proposed that, so long as the whole activities of these units cannot be allocated integrally to the three categories in NACE/Rev.1, the approach should be to split the variables between life and non-life wherever possible.

835. In both NACE/70 and NACE/Rev.1, reinsurance is included with direct insurance. Thus NACE/Rev.1 differs from NACE/70 in introducing, as an integral part of the classification, the process of subdividing the reinsurance business accepted by "composite" insurers between life and non-life.(2) The 1991 Accounting Directive also envisages that the reinsurance component should be subdivided between life and non-life, as part of the calculation of both earned premiums and of claims incurred; separate "technical" accounts for life and non-life are to be shown within the profit and loss account.

836. NACE/Rev.1 differs from NACE/70 in introducing a sub-division between life insurance and pension funding. There may be practical difficulties in making this distinction when both activities are conducted by a life insurance undertaking which does not set up separate enterprises for the two activities. This difficulty could arise in two ways:

a) the allocation of the whole, undivided, undertaking to the appropriate activity class (66.01 or 66.02 of Nace/Rev.1: see paragraphs 841 - 844)

b) Irrespective of the activity class, the subdivision of key variables (notably turnover, Code 8) between direct life insurance premiums and pension contributions (see para 845)

It is proposed that the subdivision should be based on the nature of the contracts between the life insurance/pension funding enterprise and its policy holders/contributors.

837. Contracts which are appropriate to ordinary life insurance (Class 66.01 of Nace/Rev.1) are those where the major part of the benefit to the policy holder, on maturity, may be taken as a capital sum. If the option exists - at the outset - to convert this capital sum in whole or in part, into an annuity, the contract should still be regarded as ordinary life insurance, because the maturity value may still be taken mainly as a capital sum. Naturally, contracts which mature only on death should be classified as ordinary life insurance, because the maturity value is available as a capital sum and is only optionally converted to an annuity to the beneficiaries of the deceased person's estate. Contracts which mature on survival for a specified period, or on survival to a specified age, will also be classified as ordinary life insurance, if the option exists to take the main part of the maturity value as a capital sum.

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(2) With respect to premiums (turnover), the same process is followed through in the OECD statistics, in arriving at "net written premiums".

838. Contracts which are appropriate to pension funding (Class 66.02 of Nace/Rev.1) are those where it is inherent in the nature of the contract that the main part of the benefit on maturity must be taken in the form of an annuity ("the provision of retirement incomes"). Often a restriction of this nature is placed upon the contract, to satisfy the requirements of direct tax authorities, who then allow more generous tax privileges (typically, deductibility of all contributions from taxable income, and tax exemption of all the investment income and capital gains of the fund). The direct tax authorities may also demand that the contract specifies no surrender value before maturity and that the contract may not mature before a specified age (typically 55). They may allow a minor proportion of the benefit to be taken as a capital sum (typically 25%), provided that the main part of the benefit is taken as a retirement income for the beneficiary or his/her spouse; this will be taxed as income in the years in which it is received. The concept is that of <u>deferred income</u>.

839. It is not necessary that the retirement annuity should be obtained from the same financial intermediary as that which manages the savings up to the time of retirement - it is only necessary that the main part of the benefit on maturity should be taken in the form of an annuity payable up to death. Also, it is not necessary that the contributions and benefits should be obtained through a group (whether a group of employees or of the members of profession). In the United Kingdom, and possibly in other member states, it is provided by law that membership of group schemes should not be made compulsory as part of an employment contract, and private pension schemes for individuals are actively marketed by financial intermediaries. The contracts will then specify what share the individual contributor has in a pension fund set up by the financial intermediary. It may specify the conditions under which the maturity value may be converted to an annuity.

840. Pension contracts may include additionally rights to an annuity and/or capital sum on premature death or invalidity. The proportion of contributions required to obtain these benefits is typically small, and typically the contract does not allow any choice about obtaining these benefits, or any option to use a separate intermediary. Thus, when the contract is a "package" including (mainly) a retirement income, but also (secondarily) rights to premature benefits on early death or invalidity, the contract is still a pension contract.

841. Many pension funds (66.02 of Nace/Rev.1) have no activity other than pension funding (as defined above). These include pension schemes set up by employers or professional associations. Those set up by large employers may be self-administered. When for a group the management of investments, and/or the insuring of risks of premature death and invalidity is handed over to a financial intermediary acting as agent - which may be a life insurance enterprise, but may be a unit trust or a bank - the pension funding activity is that of the group scheme and should be regarded as remaining in 66.02 of Nace/Rev.1. Likewise for pension schemes where a financial intermediary offers pension contracts to individuals.

842. Activity Class 66.02 excludes, as stated, non-contributory pension schemes - whether funded or not - set up by public sector employers and (if funded) financed entirely by employer contributions. Any other pension schemes which are not funded are also excluded - notably the "régime de répartition" in France. Pension schemes for civil servants and other public sector employees will, however, be included if they are both funded and <u>contributory</u> that is, if the employee also makes a contribution. However, the contributory schemes for some public sector employees in the United Kingdom which are not funded, even though the employee contributions are calculated on an actuarial basis (know as "notionally funded" schemes) are not included, because there is in reality no fund.

843. Often a life insurance enterprise will mix ordinary life insurance with pension funding, without establishing separate enterprises for each. The normal criterion for determining which activity is primary and which secondary is the contribution of each to value added, for which turnover is often taken as a proxy. However, there are various reasons for proposing, in this case (exceptionally), that the enterprise should remain classified to 66.01, unless the proportion of ordinary life contracts is minimal (say under 10% of premium/contribution income).

These reasons are:

a) Supervision of ordinary life insurance may be different from that of pension funding. It is useful to have all enterprises covered by life insurance supervision classified to Nace/Rev.1 66.01.

b) The proportion of each activity may be close to 50:50, thus creating the danger of instability of classification.

844. A life insurance enterprise classified to Nace/Rev.1 66.01 would thus very often have pension funding as a secondary activity (66.02 of Nace/Rev.1). The distinction between the two would be made in the key variable (turnover). It may not be practical to make the same distinction for investment income - often assets are pooled, and this is allowed under the 1991 Accounting Directive.

845. As regarded turnover, the distinction between the life insurance premiums and the pension contributions received by mixed activity enterprises would be made on the basis of the nature of the contracts (see paras 837-840 above). The following schema would result:

	66.01	66.02
Direct Life Insurance Premiums	v	-
Pension Contributions	v	v

Reinsurance

846. The term "reinsurance" is used when part or all of the risks underwritten by one insurer are transferred to a reinsurer on payment of reinsurance premium, the reinsurer accepting responsibility of that part of the risk so transferred. The reinsurer may be a specialist undertaking, or may conduct both direct insurance and reinsurance. Much reinsurance is done for the so-called "large" risks, e.g. the insurance of ships, aircraft and oil rigs and of the civil liability attaching to their operation. This indicates that reinsurance is mainly important for the non-life insurance sector, as is supported by OECD statistics. Reinsurance is similar to the process of sub-contracting. It seems appropriate to confine the term to the transfer (or sub-contracting) of underwriting risks, and not to use it when the management of investments is transferred to another enterprise, eg. by a pension scheme to a life insurance enterprise. In such a case, the life insurance enterprise usually only acts as the agent of the pension scheme.

Self administered pension schemes, while managing their own investments, usually (but not always) insure risks such as "death in service" with an insurance company; that process should be regarded as the purchase of an insurance service by the pension scheme, not as reinsurance. The reason for this is that a self-administered pension scheme will be classified, by its primary activity, to NACE/REV.1 66.02 "Pension Funding", which at fourth digit level is separate from NACE/REV.1 66.01 "Life insurance", the activity appropriate to the insuring of a risk such as "death in service". It might be appropriate to regard it as reinsurance if both the enterprise contracting to provide the pensions and the separate enterprise contracting to insure the risk of premature death had been classified, by reference to their primary activity, to NACE/REV.1 66.01 "Life Insurance".

When pension contributions are handed over in their entirety to a single insurance enterprise, which both manages the investments and accepts the underwriting risk for premature death, it is unlikely to be possible - when the insurance company rather then the pension scheme is the source of information - to break down the sum transferred between the pension contribution proper and the insurance of premature death etc. In that case the total is better recorded as a pension contribution rather than as a life insurance premium, see para. 845 above. Double counting of the pension contribution must be avoided.

3.3 Product classifications

847. This section deals with the relation between a new activity classification and the draft classification by products. In principle a product classification is not just a subdivision of the activity classification, since any activity which has a principal product can be accompanied by subsidiary products which, when they are principal products, fall within another heading of the activity classification. But, it does not appear feasible to subdivide life insurance (considered as a product), between risk spreading (underwriting proper) and investment intermediation. This means that generally the headings of a product classification for insurance will be no more than subdivisions within the insurance activity; but they are very useful as such. The easiest way to study the extent to which the same financial services (products) are carried out by financial institutions (enterprises) falling into different headings of the activity classification, would be to obtain designatory data on the structure and ownership of both insurance enterprises and other financial enterprises.

848. Suggestions are given in Annex 3 for the classification of insurance and pension products. For life insurance and pension funding the identified products relate to the First Council Directive for life insurance (3). The non-life insurance products relate to the First Council Directive for non life insurance (4) ; also if appropriate, they take into account the categories as distinguished in the Second Council Directive for non-life insurance (5) and the 1991 Accounting Directive.

For non-life insurance reference has also been made to the already existing CPC classification. If appropriate the existing definitions of the CPC headings have been specified further as indicated by italics in the text.

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(3) 79/267/EEC Official Journal N° L63, 13.03.1973 p.1

(4) 73/239/EEC Official Journal N° L228, 16.08.1973 p.3

(5) 88/357/EEC Official Journal N° L172, 04.07.1988 p.1

4. ECONOMIC VARIABLES IN THE SECTOR

849. A number of variables are common to all services sectors. They are defined in the "General Framework" but some are adapted to the circumstances of insurance and other variables are specific to insurance ; these are included in the following table and defined in Annex 1.

850. As mentioned in paragraph 814, institutional differences between countries are such that, in some countries, some variables can only be obtained for institutional units (ESA 211-216), and some - notably employment variables - only for a combination of life and non-life enterprises. Table 2 on page 21 sets out the various possibilities; when reporting data it is important that member states identify the variables for which a unit other than the enterprise has been used.

851. Annex 4 includes a tabular presentation for accounting variables on the units; it also shows how investment income and capital gains are treated and indicates how the variables can be adapted for insurance auxiliaries.

4.1. Structural characteristics of the units

852.

Variables on the enterprises	General Framework variables	Variables specific to or adapted to the Insurance sector
1 Number of enterprises (or local units)	X	X
2 Number of local units	X	Not included
3 Variables concerning the characteristics and demography of the enterprises	X	X
4a Division of the units according to the number of persons employed or the number of salaried hours worked	X	X
4b Division of the enterprises according to class of value added	X	Not included
4c Division of the units according to size of technical provisions (life-insurance)		X
4d Division of the units according to the size of gross written premiums (non-life insurance)		X
6 Variables relating to market share and internationalization	X	X

4.2. Accounting data on the units

853.

Variables on the enterprises	General Framework variables	Variables specific to or adapted to the Insurance sector
8 Gross premiums written and pension contributions (turnover)	X	X
8a Turnover by product (part of 8)	X	
8b Intra-/extra EC exports (part of 8)	X	X
9 Prices of products sold	X	X
10 Labour costs (sum of 11 and 12)	X	
11 Gross wages and salaries (part of 10)	X	X
12a Employers' compulsory social security contributions (part of 10)	X	
12b Voluntary social security contributions and other labour costs (part of 10)	X	
13 Purchases of goods and services	X	X
13a Outward reinsurance premiums, otherwise known as premiums ceded to reinsurers (Work subcontracted to third parties) (part of 13)	X	X
13b Imports: premiums ceded to non-resident insurers (included in 13)		X
14 Immaterial investments	X	Not included
15 Fixed production	X	
16 Tangible investments	X	
17 Disposals of fixed assets	X	Not included
18 Leasing used by the units	X	

Variables on the enterprises	General Framework variables	Variables specific to or adapted to the Insurance sector
28 Duties and taxes other than VAT	X	
29 Operating subsidies	X	
30 Change in stocks	X	
<u>Variables calculated</u>		
20 Gross value added at market prices	X	X
20a Gross value added at factor cost	X	X
21 Value of production (or margin)	X	X
31 Gross operating surplus	X	X

4.3 <u>Variables on employment of the units</u>

854.

Variables on the enterprises	General Framework variables	Variables specific to or adapted to the Insurance sector
22 Number of persons employed (part of 22)	X	
22a Number of wage and salary earners (part of 22)	X	
22b Number of persons employed on part-time basis (part of 22)	X	
22c Number of female persons employed (part of 22)	X	
23 Number of salaried hours worked	X	
24 Variables relating to personnel qualification levels	X	

4.4 Sector specific variables

855.

Variables on the enterprises	General Framework variables	Variables specific to or adapted to the Insurance sector
81a Gross premiums written: direct insurance (part of 8)		X
81b Gross premiums written: reinsurances accepted (part of 8)		X
81c Pension contributions: schemes for individuals (part of 8)		X
81d Pension contributions: schemes for groups (part of 8)		X
81e Gross life-insurance premiums written, periodic premiums (life insurance and pension funding only) (part of 8)		X
81f gross life-insurance premiums written, single premiums (part of 8)		X
81g Change in provision for unearned premiums (net of reinsurance)		X
82a Gross portfolio investment income on technical provisions (including portfolio investment income of pension funds)		X
82b Other portfolio investment income		X
83 Commissions received and other technical income		X
84 Claims incurred, net of reinsurance		X
84a Claims paid: gross amount		X
84b Claims paid as pensions and annuities (part of 84a)		X
84c Other claims paid (part of 84a)		X
84d Claims: amounts recoverable from reinsurers (part of 84a)		X
84e Change in provision for claims (net of reinsurance)		X

4.4 Sector specific variables (continued)

Variables on the enterprises	General Framework variables	Variables specific to or adapted to the Insurance sector
85a Capital gains, realized and unrealized credited to the technical account (life insurance only)		X
85b Change in life insurance provision, net of reinsurance		X
85c Change in other technical provisions (net of reinsurance) and in the equalisation provision		X
86a Commissions payable to agents (part of 89d)		X
86b Other external expenditure on goods and services		X
86c Other external current expenditure on goods and services (part of 89d)		X
87a Profits receivable from direct investments in other countries		X
87b Profits receivable from domestic subsidiaries and trade investments		X
Merged variables		
88b Net change in fixed capital (sum of 16,17 and 18)		X
Calculated variables		
89a Net written premiums plus pension contributions (8 less 13a)		X
89b Net written premiums : exports (8b less 13b)		X
89c Earned premiums plus pension contributions (89a less 81e)		X
89d External expenditure on goods and services, other than services provided by reinsurers (13 less 13a; = total of 86a to 86c)		X
Memo. item:		
89e Turnover adjusted to include gross portfolio investment income on technical provisions (8 + 82a)		

856. Table 2 Variables and the statistical unit

Type of variable	Type of statistical unit: Enterprise level only	Enterprise or Institutional unit level (1)	Clusters of enterprises with a combined staff (2)	Composite companies: Life and non-life:- Distinguished	Not distinguished
Structural variables					
Number of enterprises	X	X	E		X
Number of institutional units		X	-		X
Characteristics (ownership)		X	?		X
Division by:					
number of persons employed		X	C		X
class of value added		X	E		X
Market share and internationalization		X	?		X
Accounting data					
Production account (credits) and Value of production		X	E	X	-
Production account (debits) and other balances		X	E(3)	(4)	X
Profit and loss account - income from direct investments		X	?E	(4)	X
Capital account - net change in fixed capital		X	E	(4)	X
Employment variables (5)					
All		X	C		X

(1) When there is a choice, the enterprise level is to be preferred; for instance, credits and debits in the production account may be available at enterprise level, even if data on ownership and on income from direct investments are only available at the level of the institutional unit.

(2) When certain data can be reported at enterprise level (E), but others only for the whole cluster (C).

(3) Where a single charge for services rendered is made to an insurance/enterprise by the service company which employs the combined staff, it should be possible to estimate the sub-division of that charge between the labour costs and the other services received by the insurance enterprise.

(4) No sub-division at present, but the eventual sub-division is envisaged in both NACE/Rev.1 and the 1991 Accounting Directive.

(5) As regards employment data, the reporting unit should be the enterprise, a cluster of enterprises with a centralized staff or the institutional unit, in that order of preference.

ANNEX 1

ECONOMIC VARIABLES SPECIFIC TO OR ADAPTED TO THE INSURANCE SECTOR

Code: 1

Name: Number of enterprises (or other units)

Definition:

Institutional units. In general, a resident unit is said to be institutional if it keeps a complete set of accounts and enjoys autonomy of decision in respect of its principal function.

- In order to be said to keep a complete set of accounts, a unit must keep accounting records concerning all its economic and financial transactions carried out during the accounting period, and also a balance sheet of assets and liabilities.
- In order to be said to enjoy autonomy of decision in respect of its principal function, a unit must be free to decide, within the institutional framework within which it finds itself, how to use its own current, capital and financial resources.

[Source: ESA, 212]

See Figure 1, for the relationship between the legaly enterprise and the institutional unit.

Comments:

When some economic variables relate to "institutional units", the number of these units should also be given - see Table 2 of section 4. When employment variables relate to clusters of enterprises, the number of these should also be reported.

Note
The institutional unit consists of only resident units, and in this respect differs from the company group, even when the group has only one principal function.

Cluster of enterprises A group of enterprises, not forming an institutional unit, which shares a central staff.

Code: 3

Name: Variables concerning the characteristics and demography of the enterprises.

Comments:

On the assumption that data for individual reporting units will be held on one or more computerized data base, there will be great value in obtaining a set of 'designators' for each reporting unit, more particularly when these are "enterprises", but also if the institutional unit has to be used as the reporting unit. Cross analyses of activity indicators with the designate indicators would then be possible.

The designators may be regarded as falling within Code 3.

<u>Code</u>: 3d

<u>Name</u>: Legal status of the enterprise.

This can be subdivided as follows:

1. Enterprise (owned by shareholders, excluding 2 and 3 below)
2. Enterprise owned or controlled by the state
3. Enterprise owned or controlled by a parent enterprise (see (ii) below)
4. Branch office controlled by a non-resident parent company (see(ii) below)
5. Non-profit making undertaking (e.g. mutual or provident association)
6. Association of underwriters (viz., Lloyd's of London)
7. A group pension fund

The phrase "owned or controlled" is used to indicate that the 'parent' organization can exert an effective influence on the policy and activity of the 'subsidiary' organization; this is a fairly wide definition of "control".

Ownership of 50 % or more of the equity capital is usually regarded as conferring control. When less than 50 % of the equity capital is owned, there may still be effective control, e.g. through the power to appoint directors or through the existence of shares with priority voting rights (OJ L 385 of 30 December 1989). If "golden shares" are held by a Government in order to have power to prevent a takeover of a domestic concern by a foreign concern, they should not be regarded as conferring control on the Government, unless in practice control is exercised in non-takeover situations.

Thus control is the predominant criterion, and ownership is primarily an indicator of whether or not control exists. As a matter of practice, Member States may well wish to use the same criteria or guide-lines here as in their balance of payments statistics. The definition of control as taken here is not quite as wide as the criterion of "effective voice in management" used in the IMF Balance of Payments Manual to establish the concept of "direct investment" in non-resident subsidiaries, branches and affiliates.

To take control as the predominant criterion is consistent with Article 3(b) of the Council Regulation on Concentration which refers to "rights or contracts which confer a determining influence on the composition, deliberations or decisions of the organs of an enterprise".

Code: 3d (i) & (ii)

Further Analysis of legal status for reporting units in categories 3 and 4 of Code 3a.

Code 3d(i)

The parent enterprise is either:

1. Resident
2. Non-resident, located in an EC country
3. Non-resident, located in a non-EC country

Code 3d (ii)

It can also be subdivided into:

(a) An insurance undertaking

(b) A "monetary intermediary" (NACE/Rev. 1 6512)

(c) An "Other financial intermediary" (NACE/Rev. 1 652)

(d) Specializes in "Security dealing activities" (NACE/Rev. 1 6712)

(e) A non-financial enterprise

(f) Other (specify)

It may be necessary to combine categories (b), (c) and (d).
When there is a chain of ownership -viz, A owns B, and B owns C - the phrases "parent enterprise" and "subsidiary" should be regarded as referring to the next link in the chain, provided that it is active in itself (or is the world-wide top holding). Thus, suppose that insurance enterprise B is the subsidiary of bank A but is the parent enterprise of insurance enterprise C. Enterprise C would then fall into category (a) - not (b) - of Code 3d (ii) above. It is B which would fall into category (b).

Code: 3i

Name: Relations with subsidiaries and affiliates in which the reporting unit has a controlling interest.

Comments:

The reporting unit is assumed to embrace resident branch offices. (Non-resident branch offices are included in items 4, 5 & 6).

1. None

2. Only resident, all insurance (NACE/Rev. 1 661)

3. Only resident, insurance and other (e.g. auxiliaries, NACE/Rev. 1 672)

4. Resident and non resident - only in EC countries

5. Resident and non resident - only in non-EC countries

6. Resident and non resident - in both EC and non-EC countries

Code: 3j

Name: Reinsurance activities of the enterprise

Comments:

The following may not be collected already, but seem highly relevant and useful if data are collected taking the "enterprise" as the unit.

1. Unit conducts only reinsurance

2. Unit conducts both insurance and reinsurance

3. Unit conducts no reinsurance

If the unit has to be the institutional unit, the item designated, where there is any reinsurance, is likely to be N° 2. If, however, reinsurance transactions are generally conducted through specialist subsidiaries of the reporting parent enterprise, it would be valuable if possible to de-consolidate also the resident subsidiaries specializing in reinsurance, for comparability with data obtained at the level of the "enterprise" as the reporting unit.

Code: 4a

Name: Division of the enterprises (or other units) according to the number of persons employed or the number of salaried hours worked.

Comments:

For insurance this may relate to enterprises, clusters of enterprises, or to institutional units, according to the institutional framework and data collection practices in the various member states. See Table 2 of section 4.

Code: 4c

Name: Division of the units according to the size of technical provisions (life insurance)

Definition:

For the purpose of the analysis of Code 4c, technical provisions consist of the total of items below:

Definition	**Reference to 1991 Accounting Directive**
Provision for unearned premiums	Article 25
Life insurance provision	Article 27
Claims outstanding	Article 28
Provision for bonuses and rebates (unless shown under 2.)	Article 29
Other technical provisions (usually including the provision for unexpired risks*)	Article 26
Technical provisions for life-insurance policies where the investment risk is borne by the policy holders	Article 31

* If not, under unearned premiums

Note: The equalisation provision (Article 30) is apparently not a technical provision proper, even though in Article 34 it is to be included above the balance on the technical account.

The following size-classes are proposed:

	Up to	600.000	ECU
600.000	up to	2.000.000	ECU
2.000.000	up to	5.000.000	ECU
5.000.000	up to	20.000.000	ECU
20.000.000	up to	50.000.000	ECU
50.000.000	up to	100.000.000	ECU
100.000.000	up to	200.000.000	ECU
200.000.000	up to	1.000.000.000	ECU
1.000.000.000	Ecus	or more	

Code: 4d

Name: Division of the units according to the size of gross premiums written (non-life insurance)

Definitions: For the purpose of the analyses of code 4d, gross written premiums consist of the total of the items below:

Gross premiums written: direct insurance - (Code 81a)
Gross premiums written: reinsurances accepted (Code 81b)

The following size-classes are proposed:

	Up to	120.000	ECU
120.000	up to	400.000	ECU
400.000	up to	1.000.000	ECU
1.000.000	up to	4.000.000	ECU
4.000.000	up to	10.000.000	ECU
10.000.000	up to	20.000.000	ECU
20.000.000	up to	40.000.000	ECU
40.000.000	up to	200.000.000	ECU
200.000.000 ECU or more			

<u>Code</u>: 6

Name: Variables relating to market share and internationalization.

Definition:

Either "Part of production carried out by units under majority control by residents as a proportion of the total domestic production of products"

or

'part of the apparent consumption of products which has been produced by units under majority control by residents'.

The General Framework gives the first definition, but the text also suggests the second. The text also refers to the importance of production carried out by subsidiaries established in the rest of the world.

Schematically, if turnover (or turnover less purchases of goods for resale) is taken as a proxy for "production" we have:

Sales of domestically produced products:	Producing units under majority control by residents	Producing units under majority control by non-residents
To residents / To non-residents (exports)	A_1 B_1	A_2 B_2
Total	$A_1 + B_1$	$A_2 + B_2$
Imports	C	
Definition 1	$A_1 + B_1$/sum of $(A_1 + B_1 + A_2 + B_2)$	
Definition 2	A_1/sum of $(A_1 + A_2 + C)$	

All this is difficult to apply to insurance. Firstly, turnover (gross written premiums) is a rather inadequate proxy for the "Value of production". Net written premiums are slightly better as a proxy, but even so, the ratio of claims to premiums can vary widely according to the class of business. Secondly, imports and exports of insurance services have usually been confined, hitherto, to reinsurance and "large" commercial risks. The part of production which is directly imported or exported is conducted through subsidiaries or branches established in other countries, when the return is in the form of profits.

Annex 5 surveys the way in which international insurance business is conducted, in more detail. As regards both direct exports or imports and profits there is difficulty in formulating a criterion for establishing what constitutes international trade in insurance services - see Annex 5. Generally, the criterion in the IMF Balance of Payments Manual, whereby the residence or non-residence of a economic unit is established by reference to the "Centre of economic interest", should be followed.

The table on the last two pages of Annex 5 gives a few clues as to how the ratios indicated above might be compiled. As regards definition 1, the value of production of resident insurers is given by Code 21. The production of those units controlled by residents and non-residents respectively could be obtained by cross-analysis with codes 3(d) and 3d(i). As regards definition 2, if turnover is taken as a proxy for "production", sales of domestically produced services to residents could be obtained as Code 8 less Code 8b. As things are at present proposed, there would be no information, except from other countries on direct imports of insurance services, other than re-insurance (Code 13b)

However, when (within the EC) an insurance enterprise takes advantage of the new freedom, under the 1992 Directive, to operate in another EC Country (or countries) under the supervisory rules appropriate to his own country, it will be obliged to provide information to the supervisory authorities of each importing country, and probably this information could be used eventually.

As regards profits, a comparison can be made between the total gross operating surplus of resident units (Code 31), the profits of the non-resident subsidiaries of domestic (institutional) units (Code 87a), and that part of the gross operating surplus of resident units (Code 31) which is due to non-resident parent enterprises. The latter could be obtained by cross analysis (Code 3(i), 2 or 3).

All this can only be regarded as very tentative.

Code: 8

Name: Gross premiums written and pension contributions *(turnover)*

Definition:

The total of:

Gross premiums written: direct insurance	Code 81a
Gross premiums written: reinsurances accepted	Code 81b
Pension contributions: schemes for individuals	Code 81c
Pension contributions: schemes for groups	Code 81d

Comments:

See Table 1 in Annex 4, on page 84.

<u>Code</u>: 8b

<u>Name</u>: Intra-/extra-EC exports

<u>Comments</u>:

These will mostly be direct insurance premiums written on large commercial risks (eg. ships, aircraft or cargo used by non-residents) or reinsurances accepted from non-resident insurers. See Annex 5, for a more detailed discussion of international trade in insurance services.

Code: 9

Name: Prices of products sold

Comments:

The prices of insurance products remains on unsolved issue. A solution for this problem will be discussed with the representatives of the National Statistical Offices. The current state of the discussion is reflected in the documents S2/92/07-S2/92/08 and S2/92/09 as presented during the meeting of the task force of the working group "insurance services" of 21/22 January 1992.

<u>Code</u>: 11

<u>Name</u>: Gross Wages and Salaries (part of 10)

<u>Comment</u>:

In the profit and loss account indicated in the 1991 Accounting Directive, labour costs generally are not distinguished, being part of "operating expenses" (Article 34, I 7 and II 8). Another source would have to be used. Plainly it is preferable that this source should obtain data at the individual reporting unit level (enterprise or institutional unit) rather than for the aggregate of the appropriate NACE/Rev.1 classes 66.01, 66.02, 66.03 and 67.20).

Where a single charge for services rendered is made to the insurance enterprise by the service company which employs the combined staff of a group of insurance enterprises, it should be possible to estimate the sub-division of that charge between the labour costs and the other services received by the insurance enterprise. The aggregate of labour costs for the whole enterprise group will be unaffected by attribution of the costs to the component enterprises. When a service company is employed by the insurance enterprise which lies outside the some enterprise group, the labour costs will remain with that service company, and the costs paid by the insurance enterprise will be allocated, in total, to Code 86b.

Code: 12a

Name: Employers' compulsory social security contributions (part of 12)

Definition:

"Compulsory social costs for the employer include the employer's payments to social security schemes covering statutory, conventional or contractual contributions in respect of insurance against the risks of sickness, maternity, disablement, old age and widowhood, unemployment, industrial accidents and occupational diseases, and in respect of family allowances. The employer's contribution to employees'life insurance is also included in the total to be declared under this heading." [Industry Handbook, VI,11]

Comments:

Like gross wages and salaries, employer's compulsory social security contributions represent for the production unit the labour cost for the reference period.

The obligatory social security contributions included in this code should include employers' contributions to their own (group) pension schemes, even when these are self-administered, that is, if the assets are not held by insurers, but either as book reserves of the employer, or are held by trustees appointed to represent the interests of both the employer and the employees.

See also comments on Code 11

<u>Code</u>: 13

<u>Name</u>: Purchases of Goods and Services

<u>Definition</u>:

[*Work sub-contracted to third parties*] (outward reinsurance premiums, otherwise known as premiums ceded to reinsurers) (see code 13a) plus external expenditure on goods and services, other than services provided by reinsurers -see code 89d (page 67).

Although sub-contracting is included in general framework code 13, it is doubtful whether in the case of insurance the terminology "purchase of services" would be generally understood.

Code: 13a

Name: *[Work sub-contracted to third parties]* outward reinsurance premiums, otherwise known as premiums ceded to reinsurers (part of 13)

Definition:

Outward reinsurance premiums shall comprise all amounts paid and payable in respect of outgoing reinsurance contracts entered into by the insurance undertaking. Portfolio entries payable on the conclusion or amendment of outward reinsurance contracts shall be added; portfolio withdrawals receivable must be deducted. [Source Article 36 of 1991 Accounting Directive].

<u>Code</u>: 13b

<u>Name</u>: Imports: premiums ceded to non-resident insurers

<u>Definition</u>:

Outgoing reinsurance premiums ceded to non-resident insurers

See Annex 5, for a more detailed discussion of international trade in insurance services.

Codes: 20 and 20a

Name: Gross value added at market prices and at factor cost.

Definition:

The value of production (margin), as adapted for insurance -(code 21) less commissions payable to agents (code 86a) less other external expenditure on goods and services other than from reinsurers (code 86b), less (in the case of gross value added at factor cost) duties and taxes other then VAT (less subsidiary).

Comments:

See Table 1 in Annex 4, on pages 83 and 84.

<u>Code</u>: 21

<u>Name</u>: Value of production (or margin)

<u>Definition</u>:

		Code
	Earned premiums plus pension contributions	89c
<u>plus</u>	Gross portfolio investment income (on technical provisions: including investment income of pension funds)	82a
<u>plus</u>	Commissions received	83
<u>less</u>	Net claims incurred	84
<u>plus</u>	(life insurance only) capital gains, realized and unrealized, credited to the technical account	85a
<u>less</u>	Change in life insurance provision and other technical provisions	85b,c

<u>Comments</u>:

See Annex 4, Table 1 and 2.

This is a derived variable. The definition is consistent with that in the "General Framework" - reinsurance premiums ceded are analogous to purchase of a sub-contractor's service. Insurance has a special feature however: it consists of two elements - the spreading, or transfer of risks, and the incurrence of the costs (including profit) of providing the service. The first element - that of transferring risks - is of course germane to the service, but the value of the service is generally regarded as what it costs (including profit) to provide. The claims incurred - ie. the value of the risks transferred - are therefore deducted from premiums in valuing the generation of the service in the national accounts and - for further consistency with the recent change in the national accounts definition - the value of the service also includes gross portfolio investment income on technical provisions. These are in effect regarded as an amount made available by the policy holders collectively, in lieu of a supplement to premiums.

As regards the deduction of claims incurred, the definition is quite consistent with the practice of the insurance industry in statistics which they publish. Note, however, that the terms "underwriting result" or "profit/loss on underwriting", as used by the insurance industry in statistics for <u>non-life</u> insurance, may differ in two respects from the "Margin": firstly, the term "underwriting result" does not include the investment income on technical provisions which is, however, usually shown separately and alongside it, and secondly - in some countries at least - not only claims incurred but also operating costs are set against premium income in arriving at the "underwriting result". When this is so, the term "underwriting result" is close to, if not the same as, "Gross trading surplus" (Code 31).

For preference, claims incurred should exclude an estimate of claims management costs, which would be transferred to code 86b. See comments on Code 84.

<u>Code:</u> 31

<u>Name:</u> Gross operating surplus

<u>Definition</u>:

The gross operating surplus thus measures:

Gross value added at factor cost (see comments on Code 20)

Less Labour costs (Code 10)

= Gross operating surplus (Code 31)

The gross operating surplus is said to be "gross" because it includes the cost of capital usage (depreciation costs).

[Source: based on ESA, p.200]

<u>Comments</u>:

The gross operating surplus measures the result of production (loss or gain) during the reference period.

Further analysis which is possible (life and non-life insurance)

Code	Definition	Composition (Annex 4)
31a	Gross operating surplus: Contribution of transactions with policy holders	See Tables (2a) + 2(b), including the "balance"
31b	Gross operating surplus: Contribution of transactions with reinsurers	See Tables 2(a) + (b) including the "balance"
31c	Gross operating surplus: Contribution of transactions with other insurers (including affiliates) and selling agents	See Tables 2(a) + (b)
31d	Gross operating surplus: Contribution of transactions with others	See Tables 2(a) + (b)
31e	Reinsurance Balance, Life + Non-life	Life: Art. 63 II, 2 Non-life: Art. I, 5

The "balance" shown in Tables 2(a) and (b), Annex 4 is the difference, in the column headed "reinsurers", between the net total of the items shown higher up in the column and the "reinsurance balance". It has a different make up in the two insurance classes, life and non-life. In the column headed "policy holders", it is the same figure, with its sign reversed.

Code: 81a

Name: Gross premiums written: direct insurance (part of 8)

Definition:

Gross premiums are total premiums, excluding any premium taxes or other charges, but before deduction of commission or reinsurance outwards. [Source: Note 3 to OECD. Insurance committee questionnaire, AS(89) 4, 17th January 1990]

Gross premiums written shall comprise all amounts due during the financial year in respect of insurance contracts regardless of the fact that such amounts may relate in whole or in part to a later financial year, and shall include inter alia:

(i) premiums yet to be written, where the premium calculation can be done only at the end of the year:

(ii) -single premiums, including annuity premiums,

-in life assurance, single premiums resulting from bonus and rebate provisions in so far as they must be considered as premiums on the basis of contracts and where national legislation requires or permits their being shown under premiums;

(iii) additional premiums in the case of half-yearly, quarterly or monthly payments and additional payments from policy holders for expenses borne by the insurance undertaking;

(iv) in the case of co-insurance, the undertaking's portion of total premiums;

(v) reinsurance premiums due from ceding and retroceding insurance undertakings, including portfolio entries,

after deduction of:

- portfolio withdrawals credited to ceding and retroceding insurance undertakings, and

- cancellations.

The above amounts shall not include the amounts of taxes or charges levied with premiums. [Source: Article 35 of the 1991 Accounting Directive]

Gross premiums written: direct insurance, include all gross premiums written other than reinsurances accepted (See Code 81b).

Comments:

The deduction of premium taxes, charges, levies etc (see definitions above) is consistent with the Council Regulation of Concentration (OJ L 385 on 30 December 1989).

In the case of non-life insurance, rebates (part of item I(6) of article 34 of the 1991 Accounting Directive) should be deducted and if rebates cannot be distinguished from bonuses (the other part of the same item), the total should de deducted.

Code: 81b

Name: Gross premiums written: reinsurances accepted (part of 8)

Definition:

Reinsurances accepted are reinsurance premiums written in respect of business acquired from ceding insurance companies.

Comments:

Facultative reinsurance may be included under "direct insurance" or "reinsurances accepted" according to procedure in the reporting country.

Code: 81c

Name: Pension contributions: schemes for individuals (part of 8)

Definition:

Single or regular contributions received by pension schemes classified to NACE/Rev.1 66.02 (Pension Funding) or by life insurance enterprises (66.01) in respect of their secondary activity, pension funding, whenever the assets of the fund are held in the names of individuals in their capacity as beneficiaries of the fund.

Comments:

Funded pension schemes with assets held in the names of individuals exist for the self-employed and for employees. Pension schemes for individuals may be supplementary to group schemes or may replace group schemes, in which case the employer may contribute as well. The contributions received should include any employer contributions.

Since most such schemes hold their assets with a financial intermediary in the form of claims on a unitized fund, care should be taken to avoid double counting with direct insurance premiums (Code 81a), when the intermediary is an insurance company. The intermediary may however be an insurance type subsidiary set up by a unit trust (SICAV); or even a fund run by a bank or a stockbroker, with separate reinsurance of early death risks.

For enterprises classified to Nace/Rev.1 66.01, the distinction between direct life insurance premiums and pension contributions should be based on the nature of the contracts with the assured/beneficiaries (see paragraphs 837 and 845).

Code: 81d

Name: Pension contributions: schemes for groups (part of 8)

Definition:

Single or regular contributions received by pension schemes classified to NACE/Rev. 1 66.02 (Pension Funding) or by life insurance enterprises (66.01) in respect of their secondary activity, pension funding, whenever the assets of the funds are not held in the names of individuals, in their capacity as beneficiaries of the fund, but are held for the benefit of a group of employees.

Comments:

The contributions received should be the total of employer and employee contributions. Funded pension schemes for groups of employees may be "money purchase" (where pension benefits are related to the assets in the fund) or **"final salary"** (where pension benefits are related to the period of contribution and near-final or revalued average salary). Contributions to both types of fund should be included in this code and the two types need not be distinguished.

Funded pension schemes for groups may invest their assets in the form of:

(a) insurance policies

(b) claims on a unitized fund managed by a financial intermediary

(c) assets held in the name of employer or of "Trustees", appointed to look after the investment of employees, and administered by the employers or "Trustees" (Self-administered funds).

(d) the general assets of the employers business, with matching liabilities to the pension fund ("book reserves").

Types (b) to (d) may reinsure separately risks such as that of early death.

Since insurance companies are active in pension business (types (a) and (b)), it is important to avoid double counting between this code and code 81a.

For enterprises classified to Nace/Rev.1 (66.01) the distinction between direct life insurance premiums and pension contributions should be based on the nature of the contracts with the assured/beneficiaries - see paragraphs 837 and 845.

__Code__: 81e

__Name__: Gross life-insurance premiums written, periodic premiums; (life insurance and pension funding only) (part of 8)

__Definition__:

The difference between policies involving periodic premiums and these involving single premiums is generally understood in the insurance industry. With periodic premium policies, the benefit obtained or the risk underwritten requires the payment of more than one premium, usually annually.

__Comments__:

Periodic premiums may vary from year to year and some pension contracts for the self employed allow the premium amount to be varied at the choice of the policy holder. The distinction is provided for in Article 63 II, b of the 1991 Accounting Directive.

__Code__: 81f

__Name__: Gross life-insurance premiums written, single premiums

__Definition__:

The difference between policies involving regular premiums and these involving single premiums is generally understood in the insurance industry. With single premium policies, a benefit at a future date is secured by payment of one premium paid at the time the contract is entered into.

__Comments__:

Single premium policies are usually life policies, the benefit being secured on or during survival for a defined period; on survival or on earlier death; or on death only. Annuities - the receipt of an income during survival in exchange for a single premium - are a main example. Various "bonds" - where a capital sum is invested on which interest is paid, the capital sum being repayable on survival for a fixed period or on earlier death - are also common. The distinction is provided for in Article 63 II, b of the 1991 Accounting Directive.

Code: 81g

Name: Change in provision for unearned premiums (net of reinsurance)

Definition:

Change in the amounts of premiums pre-paid between the beginning and the end of the insurance undertaking's accounting year.

Comments:

Pre-payments of premiums arise because most insurance contracts are annual contracts on which the annual premium is payable in advance. Individual contracts are for a whole spectrum of 12-month periods, so that at the insurance undertakings account date, part of the annual premium pre-paid in respect of each individual contract will relate to risks which may occur after the insurance undertakings accounting date but before the next renewal date of the individual contract.(6)

Unearned premiums are part of technical provisions - see definition of Code 4c.

The change in provision for unearned premiums is also required for consistency with the ESA (315 K, note 2, and 578).

Further analysis which is possible:

Non-life insurance only

Code	Definition	Reference to art.34 of 1991 Accounting Directive
81g (i)	Change in the provision for unearned premiums (gross amounts) (+/-)	I, (c)
81g (ii)	Change in the provision for unearned premiums, reinsurers' share (+/-)	I, (d)

See Table 2(b) in Annex 4

(6) See the notes to Articles 21, 22 and 23 in the explanatory memorandum to the proposed 1991 Accounting Directive consolidated annual accounts of insurance undertakings.

Code: 82a

Name: Gross portfolio investment income on technical provisions (including all portfolio investment income of pension funds)

Definition:

Portfolio investment income - see Code 82b.

Units appropriate to Nace/Rev.1 66.01 - technical provisions: see Code 4c.

Pension funds are all the units appropriate to NACE/Rev.1 66.02, whose main activity is pension funding.-In the case of pension funds, all income arising from the investment should be regarded as portfolio investment income.

"Gross" means before deducting investment management charges.

Comments:

See Annex 4, pages 90 to 93, for a description of the methodology for separating portfolio investment income on technical provisions from other portfolio investment income.

Code: 82b

Name: Other gross portfolio investment income

Definition:

Portfolio investment income is income on all assets other than:

1. direct investment assets - see Codes 87a and 87b

2. fixed assets used for administration or underwriting (eg. offices, plant and office machinery)

after deducting interest paid on deposits received from reinsurers.

Comments:

Portfolio investment income is not confined to income on financial assets (bonds, shares etc.). It includes income on land and buildings (real property) held as a portfolio investment, ie. other than for the purposes of administration or underwriting.(7) It excludes profits receivable from direct investment assets (Subsidiaries, branch offices etc.) even through these appear in the balance sheet as financial assets (shares held in subsidiaries etc.).

"Gross" means before deducting investment management charges .

For the treatment of interest paid on deposits received from reinsurers - see (b) on page 91.

(7) In this respect the definition of the corresponding capital is wider than that of "portfolio investment" in the IMF Balance of Payments Manual (194), and includes what there is defined as "other capital" (195).

<u>Code</u>: 83

<u>Name</u>: Commissions received and other technical income

<u>Definition</u>:

Commissions received: "Reinsurance commissions and profit participations".

<u>Comments</u>:

Commissions are often received by insurers from reinsurers. In the 1991 Accounting Directive, they are treated as a deduction from net operating expenses (I 7(d) and II 8(d)). "Other technical income, net of reinsurance" is also included (I 3 and II 4).

Further analysis which might be possible (life and non-life insurance)

Code	Definition	Reference Article 34 of 1991 Accounting Directive
83 (i)	Reinsurance Commissions received	Not distinguished
83 (ii)	Profit participations received	

See Tables 2(a) and (b) in Annex 4.

If the distinction can be made, the reconciliation with the "reinsurance balance" (Code 31e) is more precise. The distinction was asked for by the Task Force.

<u>Code</u>: 84

<u>Name</u>: Claims incurred, net of reinsurance

<u>Definition</u>:

Claims incurred shall comprise all payments made in respect of the financial year plus the provision for claims but minus the provision for claims for the preceding financial year.

These amounts shall include annuities, surrenders, entries and withdrawals of loss provisions to and from ceding insurance undertakings and reinsurers, external and internal claims management costs and charges for claims incurred but not reported such as referred to in Article 60 (1) (b) and (2) (a).

Sums recoverable on the basis of subrogation and salvage within the meaning of Article 60 (1) (b) and (2) (a). [Source: art.38 para.1 of the 1991 Accounting Directive]

<u>Comments</u>:

Article 38 makes it clear that claims management costs - both direct and indirect - are included in "claims incurred". They are also included in claims paid (Code 84a) as and when the settlement expenses are paid. In principle, these should not be deducted from the value of production of the insurance sector, but should be treated as a cost of production. Claims received by insured persons are transfers but settlement expenses received by loss adjusters, etc, are part of their output and should be treated as the intermediate costs of insurers. It is recommended that, if possible, an estimated deduction should be made, based on enquiries of insurance enterprises as the proportion of claims management costs, on average, to net claims incurred. Generally speaking, claims management costs are significant for most classes of non-life insurance, but not for life insurance. The deduction should relate only to claims management costs in so far as not recoverable from reinsurers.

Code: 84a

Name: Claims paid, gross amount

Definition:

See Article 34 of the 1991 Accounting Directive, items I 4 (a) (aa) and II 5 (a) (aa).

Comments:

See comment on Code 84 regarding the payment of claims settlement expenses to loss adjusters etc, which appear to be included in this item. If any adjustment is made on an estimated basis which is net of reinsurance, it will probably suffice to make the same adjustment here, despite the possibility that some part may be recoverable from reinsurers.

Code: 84b

Name: Claims paid as pensions and annuities (part of 84a)

Definition:

Amounts paid by life companies and from pension schemes as annual sums, rather than as capital sums.

Comments:

Capital sums ("Lump sums") paid by pension schemes when a person retires are included in Code 84c.

Code: 84c

Name: Other claims paid (part of 84a)

Definition:

Claims paid, other than those included in Code 84b.

Comments:

All claims paid on non-life insurance policies are included here. Part of item I 6 (Article 34 of the 1991 Accounting Directive) is appropriate to this code -where claims paid are increased by bonuses; if this part cannot be identified, the total of I 6 should be allocated to Code 81 (rebates to premiums).

<u>Code</u>: 84d

<u>Name</u>: Claims: amounts recoverable from reinsurers (part of 84a)

<u>Definition</u>:

See Article 34 of the 1991 Accounting Directive, items I 4 (a) (bb) and II 5 (a) (bb), where the item is called the "reinsurers share".

<u>Code</u>: 84e

<u>Name</u>: Change in provision for claims (net of reinsurance)

<u>Definition</u>:

See Article 34, items I 4 (b) and II 5 (b). Article 28 defines the provision for claims outstanding as "the total estimated ultimate cost to an insurance undertaking of settling all claims arising from events which have occurred up to the end of the financial year, whether reported or not, less the amounts already paid in respect of such claims".

<u>Comments</u>:

These are technical provisions - see Code 4c.

Further analysis which is possible (life and non-life insurance)

Code	Definition	Reference to Article 34 of the 1991 Accounting Directive
84e (i)	Gross amounts	I 4b (aa) + II 5b (aa)
84e (ii)	Reinsurers'share	I 4b (bb) + II 5b (bb)

See Tables 2(a) and 2(b) in Annex 4.

<u>Code</u>: 85a

<u>Name:</u> Capital gains, realized and unrealized, credited to the technical account (life insurance only)

<u>Definition:</u>

The total of the following items in the life insurance business technical account of the 1991 Accounting Directive

	Description	**1991 Accounting Directive Article 34**
1.	Investment income, value re-adjustments on investments	II 2(c)
2.	Investment income, gains on the realization of investments	II 2(d)
3.	Unrealized gains on investments	II 3
4.	Investment charges, value adjustments on investments	II 9(b)
5.	Investment charges, losses on the realization of investments	II 9(c)
6.	Unrealized losses on investments	II 10

<u>Comment</u>:

There is a detailed discussion in Annex 4. The implication of Articles 42 and 44 of the 1991 Accounting Directive is that items II 2(c) and (d) and II 9(b) and (c) will comprise all changes in balance sheet values, whereas items II 3 and 10 will, depending on the rules adopted by Member States, include either all, or part, or none of the balance sheet changes. Whilst there can be no precision, the implication is that the changes carried into the profit and loss account are mostly offset in the charge in the life insurance provision (Code 85b), or in claims on life insurance policies (Code 84); however it is always possible that some changes, albeit carried into the technical account, are offset in the allocated investment return transferred to the non-technical account (item II 12), or are allowed to carry through to the technical result ("balance on the technical account life insurance business"), which feeds through to the profit or loss for the financial year, and hence to changes in "capital and reserves" in the balance sheet.

These problems are not avoided by starting with a figure of profits (gross operating surplus) and working upwards, unless it is evident that the starting figure of profits excludes all capital gains.

<u>Code</u> : 85b

Name: Change in life insurance provision, net of reinsurance

Definition: The total of the changes in the following elements of the technical provisions:

	1991 Accounting Directive Article 6
1. Life insurance provision, net of reinsurance	C 2
2. Provision for bonuses and rebates net of reinsurance, life insurance only;	C 4
3. Variation in the fund for future appropriations, life insurance only (see Article 22);	Ba
	Article 34
4. Bonuses and rebates paid, life insurance only	II 7

Comment:

Changes in the fund for future appropriations (life insurance) may eventually finish up as part of capital and reserves, rather than as part of the technical provisions, but most are likely to be appropriated to the life insurance provision(*). Bonuses appearing as debits in the life insurance technical account (item II 7) are likely to be more important than the rebates (deductions of premiums) included in the same heading; some bonuses may be paid directly to insured persons, when Code 84 would be appropriate, but possibly the majority are reflected in technical provisions. The description in Article 39 of the 1991 Accounting Directive suggests that this is a transitional heading, showing the route by which amounts are allocated to individual policy holders rather than to the reserves held for policy holders directly.

(*) To take a simple example:

	Year1	Year2	Year3
Allocations into fund for future appropriations	+90	+100	+110
Allocations out of fund for future appropriations			
from previous years - to policy holders (life)	0	-81	-90
- to shareholders	0	-9	-10
Total	0	-90	-100
Net change in fund	+90	+10	+10

The allocation of the net change in the fund to policy holders anticipates, for the most part, the future allocation in the case of life insurance.

Further analysis which is possible (life insurance only).

Code	**Definition**	**Article 34, 1991 Accounting Directive**
85b (i)	Gross amounts	II b (a) (aa), II 7
85b (ii)	Reinsurers share	II b(a) (bb)

See Table 2 (b) in Annex 4

Any variation in the fund for future appropriations, allocated to this code, can be treated as part of the gross amounts.

Code: 85c

Name: Change in other technical provisions (net of reinsurance) and in the equalisation provision

Definition:

The total of the changes in the following elements of technical and other provisions:

	1991 Accounting Directive, Article 6 Non-life insurance	Life insurance
1. Equalisation provision	C5	-
2. Other provisions (including provision for unexpired risks)	C6	C6
3. Fund for future appropriations (See Art.22)	Ba*	-

* Note: It may be that this item occurs only in life insurance (see Article 22 of the 1991 Accounting Directive)

Comment:

In Article 34 of the 1991 Accounting Directive, the items appear as I 9, I 5 or II 6 (b), and II 12a.

Code: 86a

Name: Commissions payable to agents (part of 89d)

Definition:

Commissions shall comprise all amounts paid or payable for the conclusion of insurance contracts which constitute a fee paid, otherwise than by virtue of a contract of employment, for services rendered in respect of business introduced to the insurance undertaking. They include amounts paid to agents and brokers but exclude amounts paid to employees (such as members of the direct sales force) acting in the ordinary course of their service to the undertaking. Definition contained in the proposals stage of the 1991 Accounting Directive.

Comments:

In the 1991 Accounting Directive, Commissions on new business are part of "acquisition costs"; renewal commissions are part of "administrative expenses".

See also article 64 of this Directive, which requires that the notes to the Accounts should specify the total of acquisitions, renewal, collection and portfolio managment commissions. (For composite insurance enterprises, NACE/70 821, the split of this figure between life and business and non-life business would have to be estimated).

Code: 86b

Name: Other external expenditure on goods and services

Definition:

Current operating costs other than commissions payable to agents and labour costs.

Comment:

In terms of the 1991 Accounting Directive, the amount is equivalent to the net total of the following items:

		1991 Accounting Directive Article 34	
		Non-life	Life
1.	Acquisition costs and change in deferred acquisition costs	I 7(a)+(b)	II 8(a) +(b)
2.	Administrative expenses	I 7(c)	II 8(c)
3.	Investment management charges, not including interest	III 5(a) adj	II 9(a) adj
4.	Plus, for preference, an estimate of claims management costs (see comments on Code 84)	separate estimate	separate estimate
5.	Other charges, not including valuation adjustments in so far as these relate to investments but including other valuation adjustments	III 8 adj	
	Gross total of above items	--	--
6.	Less Labour costs	Codes 11+12	Codes 11+12
7.	Less commissions payable to agents	Code 86 (a)	Code 86 (a)

The adjustments to be made for interest paid, in arriving at sub-item 3 above, should be based on the value of the liabilities, as shown in the balance sheet (see note on investment income in Annex 4).

Any adjustments to sub-item 5, to exclude valuation adjustments on investments (which are included in III 8), could only be based on independent information.

There are two situations to be considered when payments are made to service companies. If the service company is part of the same enterprise group the payments made to it should be allocated to both labour costs (codes 11 and 12) and to other external expenditure on goods and services -this code). If the services company is not part of the same enterprise group, the total payment made to it should be allocated to this code.

Payments made to affiliates for services provided by them should be included in this item.

<u>Code</u>: 87a

<u>Name</u>: Profits receivable from direct investments in other countries

<u>Definition</u>:

As in the IMF Balance of Payments Manual; paragraphs 295, 408-418. The underlying concept is that the purpose of the investment is "to obtain an effective voice in the management of the enterprise" in which the direct investment takes place (408). The operational criteria that can be used relate to ownership and control; majority ownership can be said to afford control but, depending on the circumstances, control can be exercised with less than majority ownership. The term "direct investment" refers to both branches and subsidiaries located in other countries.

<u>Comments</u>:

This item lies outside the production account and hence outside a strict definition of the "production" of insurance services. However international business is important and at present most of it is conducted through subsidiaries set up in other countries whose profits do not count as part of "production" in the "home" country. The effect of the common market may well be to enable more of it to be conducted either through branch offices in other EC countries - these would still count as part of "direct" investment in other countries - or by the Head office in the "home" country itself taking premiums directly from customers resident in other EC countries - a route now opened up by the third Directive. It is suggested therefore that the profits of business conducted through non-resident subsidiaries and branch offices are needed, as a special variable. It is also suggested that this variable should be split between EC and non-EC countries, as with direct exports (code 8b). A further variable, which might be considered, is the profits receivable by a parent enterprise from domestic subsidiaries and trade investments.

The item is defined as in the balance of payments, that is it relates to the profits of both subsidiaries and branch offices in other countries, and includes the unremitted portion of the profits as well as the remitted one.

See Annex 5, for a more detailed discussion of international trade in insurance services.

In Article 34 of the 1991 Accounting Directive, the corresponding item - in so far as the figures relate to non-resident affiliates - is "income from affiliated undertakings", which is to be indicated separately within the two items "income from participating interests" and "income from other investments". There are two points at which these accounting figures may not accord exactly with those in the balance of payments:

1. Branch offices in other countries: In the balance of payments and also in the national accounts, the turnover and costs of a branch office set up in an another country are excluded from the figures of production in the "home" country, and the profit of the non-resident branch office is shown instead, in the figures of income transferred to the "home" country. But the annual commercial accounts for an enterprise located in the "home" country may include also the turnover and costs of branch offices located in other countries.

2. If the term "affiliated undertaking" in Article 29 refers to undertakings in which the parent undertaking has a controlling interest, or sufficient interest to exert effective control, the definition is parallel to that in the balance of payments. Income received from undertakings in which the parent undertaking has an investment, but not one affording it effective control, should be treated like other income from portfolio investments.

It seems unlikely that these two elements of possible difference will have a major impact on the variable, if the source used for it are the figures in the annual accounts of insurance undertakings. But evidently consistency should be sought with the balance of payments figures if any different source, such as special enquiries, are used for these.

A further difficulty could arise if the only source used is the published accounts of a group of enterprises and these are consolidated to cover the world-wide activities of the group, including therefore - as part of world-wide turnover and costs - those of both subsidiaries and branch offices located in other countries. There would then be a difference arising from the use of a different unit: the group, rather than the enterprise. It is important that the 1991 Accounting Directive is for the "annual accounts and consolidated accounts" of insurance undertakings. Before it is possible to prepare consolidated accounts for a group of enterprises, full accounts have to prepared for all the constituent enterprises forming the group. Thus it should be possible to obtain the data, even if not published, relating to the constituent enterprises.

When the enterprise is taken as the unit of observation, only dividends paid by subsidiaries are likely to be shown in the accounts of the parent enterprise, which is likely to be one designated as a holding company. In this particular case, "profits" would have to be replaced by "dividends". If any analysis of internationalization is desired, this would not be very informative (see code 6).
When the institutional unit (including only resident components) is taken as the unit of observation, the figures for non-resident subsidiaries will be their profits, both remitted and unremitted. This is a much more informative variable.

Code: 87b

Name: Profits receivable from domestic subsidiaries and trade investments.

Definition: See comments below.

Comments:

This item would emerge as the balance, if the source of figures is in line with the 1991 Accounting Directive, when the enterprise rather than the group of enterprises is taken as the reporting unit (i.e. taking figures before consolidation). But it is unlikely to be as simple as this in practice, and the case for including this as a variable is not strong. It might provide a better basis for a study of concentration in the industry, by identifying those enterprises which are not singletons and are not themselves subsidiaries of a domestic parent company (see Codes 3d, i and j) and aggregating the reporting unit's gross trading surplus and that of its domestic and (possibly) non-resident subsidiaries. Such an analysis could equally well be done in terms of premiums.

Code: 87c

Name: Total profits available for distribution (before taxes on income).

Definition: The total of Codes 87a and 87b.

Code: 88b

Name: Net change in fixed capital (sum of 16, 17 and 18)

Definition:

Tangible investments
Less
Disposals of fixed assets
plus
Leasing used by the units

<u>Code</u>: 89a

<u>Name</u>: Net written premiums plus pension contributions (8 less 13a)

<u>Definition</u>:

Turnover (Gross premiums written and pension contributions)
Less
Subcontracting work from third parties (outgoing reinsurance premiums, otherwise known as premiums ceded to reinsurers).

Code: 89b

Name: Net written premiums : exports (8b less 13b)

Definition:

intra-extra-EC exports
Less
Imports : premiums ceded to non-resident insurers

Comments:

The intra-extra - EC exports (Code 8b) are of gross written premiums and pension contributions in respect of contracts with non-residents. The premiums ceded to non-resident insurers (Code 13b) will be in respect of insurance contracts with both residents and non-residents, but the balance between these two elements does show how turnover, after allowing for sub-contracting, affects the foreign exchange position.

<u>Code</u>: 89c

<u>Name</u>: Earned premiums plus pension contributions (89a plus or minus 81g)

<u>Definition</u>:

Net written premiums plus pension contributions.
Plus
a <u>reduction</u> in the provision for unearned premiums (net of reinsurance)
or Minus
an <u>increase</u> in the provision for unearned premiums (net of reinsurance)

Code: 89d

Name: External expenditure on goods and services, other than services provided by reinsurers

Definition:

Purchases of goods and services, less subcontracting work from third parties or:

The total of commissions payable to agents, plus rent chargeable and other administrative expenses, other than labour costs, plus other external current expenditure on goods and services.

A N N E X 2

COMPARISON OF THE CLASSIFICATIONS NACE/70, NACE/REV.1, ISIC/REV.3 AND CPC/COM FOR THE SECTOR

NACE / 70 Class Grp Sbgrp	NACE / 70 Description	NACE / Rev. 1 Div. Grp Class	NACE / Rev. 1 Description	ISIC / Rev. 3 Div. Grp Class	ISIC / Rev. 3 Description	CPC Group Class Sbclas	CPC Description
82	INSURANCE, EXCEPT FOR COMPULSORY SOCIAL INSURANCE	66	INSURANCE AND PENSION FUNDING EXCEPT COMPULSORY SOCIAL SECURITY	66	INSURANCE AND PENSION FUNDING EXCEPT COMPULSORY SOCIAL SECURITY	812	Insurance including reinsurance and pension funding, except compulsory social security services
						8121	Life insurance and pension funding insurance services
821	Units engaged in several types of insurance, except for compulsory social insurance	6601	Life insurance	6601	Life insurance	81211	Life insurance services
		6602	Pension funding	6602	Pension funding	81212	Pension and annuity services
		6603	Non-life insurance			8129	Non-life insurance services
				6603	Non-life insurance	81291	Accident and health insurance services
				"	"	81292	Motor vehicle insurance services
						81293	Marine, aviation and other transport insurance services
						81294	Freight insurance services
						81295	Fire and other property damage insurance services
						81296	Pecuniary loss insurance services
						81297	General liability insurance services
				6603	Non-life insurance	81299	Other insurance services n.e.c.
822	Units engaged in life assurance, except for compulsory social insurance	6601	Life insurance	6601	Life insurance		
		6602	Pension funding	6602	Pension funding		
823	Units engaged in health, casualty, injury, and accident insurance, except for compulsory social insurance	6603	Non-life insurance	6603	Non-life insurance	8129	Non-life insurance services
						81291	Accident and health insurance services
						81292	Motor vehicle insurance services
						81293	Marine, aviation and other transport insurance services
						81294	Freight insurance services
						81295	Fire and other property damage insurance services
						81296	Pecuniary loss insurance services
						81297	General liability insurance services
						81299	Other insurance services n.e.c.

N A C E / 70				N A C E / Rev. 1				I S I C / Rev. 3				C P C			
Class	Grp	Sbgrp	Description	Div.	Grp	Class	Description	Div.	Grp	Clas	Description	Group	Class	Sbclas	Description
83	832		Activities auxiliary to insurance			6720	Activities auxiliary to insurance and pension funding			6720	Activities auxiliary to insurance and pension funding	814			Services auxiliary to insurance and pension funding
														81401	Insurance broking and agency services
														81402	Insurance and pension consultancy services
														81403	Average and loss adjustment services
														81404	Actuarial services
														81405	Salvage administration services
														81409	Other services auxiliary to insurance and pension funding

A N N E X 3

FURTHER COMPARISON OF, AND SUGGESTIONS FOR, A PRODUCT CLASSIFICATION FOR INSURANCE

In this Annex suggestions are given for the classification of insurance and pension products. For life insurance and pension funding the identified products relate to the First Council Directive for life insurance [8]. The non-life insurance products relate to the First Council Directive for non-life insurance [9]; also if appropriate, it takes into account the categories as distinguished in the Second Council Directive for non-life insurance [10] and the 1991 Accounting Directive.

For non-life insurance reference has also been made to the already existing CPC classification. If appropriate the existing definitions of the CPC headings have been adapted as indicated by italics in the text.

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(8) 79/267/EEC Official Journal N° L63, 13.03.1973 p.1

(9) 73/239/EEC Official Journal N° L228, 16.08.1973 p.3

(10) 88/357/EEC Official Journal N° L172, 04.07.1988 p.1

C.P.A.		Directive of 5 March 1979	
66.01.	Life insurance services	Article I,Para.	Annex
66.01.1	**Underwriting and investment services where the policies mature only on death of the policy holder or of a named person or persons.**	Ia (part)	I (part) III (Part)

"Life insurance on death only". Includes 'whole of life' policies which mature whenever death occurs and 'term' policies which mature only if death occurs within a stated term. Includes policies involving both single premiums and periodic premiums, and policies involving groups as well as individuals.

66.01.11 **Contracts where the maturity value is specified at the outset ("non-bonus contracts").**

66.01.12 **Contracts where the maturity value is affected by bonuses, not specified at the outset ("bonus contracts").**

66.01.13 **Contracts where the maturity value depends entirely on the performance of a segregated fund, in which premiums are invested ("contracts where the investment risk is borne by the policy holder").**

Note : The words in double quotation marks alone appear in Article 1.1(a) of the Directive of 5 March 1979. Those in both double quotation marks and parentheses are in Article 63 II of the December 1991 Accounting Directive.

66.01.2	**Underwriting and investment services where the policies mature on survival of the policy holder, or of a named person or persons, to a specified age (or on earlier death).**	Ia (part)	I (part) III (part)

"Life insurance on survival to a stipulated age or earlier death", "on survival to a stipulated age only" and "life insurance with return of premiums". The policies are also known as 'endowment' policies, which are often linked to a loan secured both on the policy and on a asset such as a dwelling. The policies can also be used primarily as a means of long-term saving with associated life cover. Includes policies involving both single premiums and periodic premiums, and policies involving groups as well as individuals.

66.01.21 **Contracts where the maturity value is specified at the outset ("non-bonus contracts").**

66.01.22 **Contracts where the maturity value is affected by bonuses, not specified at the outset ("bonus contracts").**

66.01.23 **Contracts where the maturity value depends entirely on the performance of a segregated fund, in which premiums are invested ("contracts where the investment risk is borne by the policy holder").**

C.P.A.		Directive of 5 March 1979	
		Article 1,Para.	Annex

Note: The words in double quotation marks alone appear in Article 1.1(a) of the Directive of 5 March 1979. Those in both double quotation marks and parentheses are in Article 63 II of the December 1991 Accounting Directive.

Note: Policy loans are not treated as a separate product, since financial intermediate is an integral process.

66.01.3 **Underwriting and investment services related to the sale of annuities** — 1b — I (part) III (part)

"Annuities". The policy specifies an annual amount payable to the policy holder, or to a named person or persons, in exchange for a capital sum paid at the outset to the insurer. On death of the policy holder or named person(s), the annuity ceases - though some contracts guarantee a minimum period, and some (which are in favour of a married couple) specify that a reduced annuity will be paid during survival of one spouse. All types of contract ("non-bonus", "bonus", etc.) are included. Usually only a single premium is paid, but if more than one is paid the classification is unaltered.

Note: Pensions (annuities) contractually linked to the activity pension funding (NACE class 66.02) are not included in the above heading, but in classes 66.02.1 or 66.02.2. This applies also when the activity 66.02 is secondary to 66.01.

66.01.4 **Underwriting and investment services related to permanent health insurance policies.** — 1d — IV

The contract to provide invalidity benefit is at long-term and cannot be cancelled by the insurer. Usually regular premiums are involved and usually contracts are non-bonus contracts.

66.01.5 **Investment and underwriting services related to capital redemption policies.** — 2 b — VI

Capital redemption operations are based on an actuarial calculation whereby, in return for single or periodic premiums agreed in advance, commitments of specified duration and amounts are undertaken. Includes various 'bonds' repayable at a fixed maturity value on survival to a fixed date, or on earlier death, where a single premium is paid at the outset.

C.P.A.		Directive of 5 March 1979 Article 1,Para.	Annex
66.01.6	**Other underwriting and investment services belonging to activity 66.01, excluding pension funding (66.02) when this is a secondary activity.**	1 (a) (part) 1 (c) 2 (e)	II I(part) V
	Includes "marriage assurance", "birth assurance", reinsurance premiums accepted on life risks which are unclassified, funeral insurance (if this is to be included in 66.01) and miscellaneous. Note: Funeral insurance is excluded from the 1979 Directive (see Article 3.1)		
66.02.	**Pension funding services.**		
66.02.1	**Schemes for individuals: the investment and underwriting services of a financial intermediary which offers contracts intended to provide retirement incomes for named individuals (or married couples).**	not specified	not specified
	In some Member States, pension schemes for individuals are actively promoted by various types of financial intermediaries - life insurers, unit trusts, funds managed by stockbrokers or banks, etc. Moreover, in some Member States, individual employees are by law permitted to opt out of a group pension scheme established by an employer, and from part of pension provision though social security. Such pension schemes for individuals are also available to the self-employed. The individual has a defined share in a fund set up by the intermediary.		
66.02.11	**Bonus and non-bonus contracts (These are usually with life-insurance enterprises.)**		
66.02.12	**Contracts where the pension depends entirely on the value of a segregated and unitized fund managed by the intermediary.** Note: Contracts may also provide for premature death or invalidity benefit. Note: Usually contributions are made by the beneficiary alone.		

66.02.2	**Schemes for groups: the investment and underwriting services of a pension fund established to provide retirement incomes for a group.**	2 (c) 2 (d)	VII

The group may be a group of employees or of professionals. The fund may be self-administrered, may be managed by a financial intermediary, or may manage its own investments whilst sub-contracting risks of premature death or invalidity to a life insurance enterprise. Contributions may be made by the employer alone, by both employer and employee, or by the beneficiary alone (in the case of groups of professionals).

66.02.21 **"Money purchase" type: bonus and non-bonus contracts with a life insurance enterprise**

66.02.22 **"Money purchase" type: contracts where the fund is unitized and is managed by a financial intermediary.**

66.02.23 **"Final salary" type: the pension depends on final salary (or revalued average salary) and on length of contributions.**

Note: Contracts may also provide for premature death or invalidity benefit.

Note: Usually the contracts classified under 66.02.23 are employer schemes and the employer carries (or may reinsure) the risk of deficiency in the fund, and may have certain rights in relation to any actuarial surplus in the fund (or on its winding-up).

Note: The pensions paid from the "money purchase" type contracts as classified under 66.02.21 and 22 depend on the value of the fund.

C.P.A.			CPC
66.03	**Non-life insurance services**		8129

[Italics indicate adaptations of the CPC.]

66.03.1	**Accident and health insurance services**		81291

Insurance underwriting services consisting in making payments for covering expenses due to accident or sickness by the policy holder.

66.03.11	**Accident**	(EC 73/239 cat. 1)
66.03.12	**Sickness**	(EC 73/239 cat. 2)

66.03.2	**Motor vehicle insurance services**		81292

Insurance underwriting services for the policy holder's liability in operating a motor vehicle and insurance underwriting services against some types of damage or loss to vehicles owned *or leased* by the policy holder.

[Coverage of leased vehicles departs from description in CPC.]

66.03.21	**Motor vehicle, third party liability**	(EC 73/239 cat. 10)
66.03.22	**Motor vehicle, damage or loss**	(EC 73/239 cat. 3)

66.03.3	**Marine, aviation and other transport vehicle insurance services**		81293 (part)

Insurance underwriting services related to transport by land, water or air covering risks to which the transport equipment *(other than motor vehicles)* may be exposed.

[Words in CPC 81293 "or cargo" deleted; "other than motor vehicles inserted.]

66.03.31	**Railway rolling stock**	(EC 73/239 cat. 4)
66.03.32	**Aircraft**	(EC 73/239 cat. 5)
66.03.33	**Ships (sea, lake, river and canal vessels)**	(EC 73/239 cat. 6)
66.03.34	**Aircraft liability**	(EC 73/239 cat. 11)
66.03.35	**Liability for ships (sea, lake, river and canal vessels)**	(EC 73/239 cat. 12)

C.P.A. **CPC**

[Coverage differs from CPC in excluding cargo.]

Note: All items are "Large" risks in the context of the second EC Directive of June 1988.

66.03.4 Freight insurance services 81293 (part) and 81294

Insurance underwriting services consisting in providing coverage against damage to or complete loss of freight, due to risks *when being transported* or to political risks in international trade, storage, strike.

[Italic words inserted. CPC mentions only risks "other than those related to transport".]

Note: The definition in EC 73/239 (cat. 7) is "Goods in transit, including merchandise, baggage and all other goods".

All items are "Large" risks, in the context of second EC Directive of June 1988.

This item is not a distinct category in Art.63 of the EC Accounting Directive of December 1991. It is uncertain whether these services are included in "marine aviation and transport", or in "fire and other damage to property".]

66.03.5 Fire and other property damage *or loss* 81295

Insurance underwriting services consisting in providing coverage against damage to *or loss of* commercial or personal property caused by fire, theft and other risks, including services related to household insurance.

[Words "or loss of" inserted, in title and in description; words "and the insurance of motor-cars, airplanes, small boats and livestock" deleted from CPC description.]

C.P.A.			CPC

Note: Where household insurance is sold as a package including insurance against liability to third parties, it may be necessary to include the whole of such insurance under this heading.

These risks may or may not be "large" risks, second EC Directive of June 1988, depending on the status of the policy holder.

66.03.51	**Fire and natural forces**	(EC 73/239 cat. 8)	
66.03.52	**Other damage to property**	(EC 73/239 cat. 9)	

Note: Presumably the second category above includes complete loss due to theft.

66.03.6 General liability insurance services 81297

Insurance underwriting services protecting the policy holder personally against third party risks, e.g. public liability to make payments to third parties.

66.03.7 Travel and assistance 81299 (part)

Insurance underwriting services providing an indemnity to the policy holder when travelling against personal accident, medical expenses, loss or damage to accompanying property, financial loss due to cancellation, and assistance (e.g. road-side assistance to or recovering of a motor vehicle owned by or leased to the policy holder, and/or indemnification of additional costs incurred in completing both the outward and the return journey).

Includes EC 73/239 category 18 (Assistance), but is wider. Travel insurance is generally sold as a single package, either for the duration of a single journey, or annually. It is therefore convenient to bring all elements of the package into a single heading.

CPA			CPC
66.03.8	**Credit and suretyship**		
	Includes insurance underwriting services protecting the policy holder against pecuniary loss of a business resulting from certain liabilities		
66.03.81	**Credit**	(EC 73/239 cat. 14)	
66.03.82	**Suretyship**	(EC 73/239 cat. 15)	
	Note: 66.03.81 and 66.03.82 may be "Large" risks or may not be "Large risks".		
66.03.9	**Other non-life insurance services n.e.c.**		81296 and 81299 (part)
	Insurance underwriting services protecting the policy holder against risks not elsewhere classified		
66.03.91	**Miscellaneous financial loss**	(EC 73/23 cat. 16)	
66.03.92	**Legal expenses**	(EC 73/239 cat. 19)	
66.03.10	**Reinsurance of non-life risks n.e.c.** [12a]		

The NACE/Rev1. class 66.03 includes both direct insurance and reinsurance. Both involve the underwriting of risks. Reinsurance is best described by variables which distinguish direct insurance from reinsurance, e.g. direct insurance premiums written, reinsurances accepted, and direct or reinsurance premiums ceded to reinsurers.

However, in certain sources, the variables describing reinsurance may not be broken down according to the products 66.03.1-9 (e.g. "reinsurances accepted" in Article 63 of the EC December 1991 Accounting Directive). In other sources which seek to classify the reinsurance variables by product, it may not be possible to do so completely (e.g. reinsurances accepted under a "treaty" which does not specify, on a case by case basis, the particular risks being reinsured when a reinsurance premium is accepted).

(12a) Whether reinsurance should be treated as a separated category as a whole or also broken down by the same categories as direct insurance remains an unsolved issue.

A N N E X 4

ACCOUNTING VARIABLES ON THE UNITS, ALTERNATIVE TABULAR PRESENTATION ; TREATMENT OF INVESTMENT INCOME AND CAPITAL GAINS ; AND ADAPTATION FOR INSURANCE AUXILIARIES

Introduction

Consideration of the interaction between the variables and the unit of observation (other than the enterprise), which may be required when reporting certain variables, requires the accounting data on the units to be set out in a different form to that adopted in the tables in section 4. These variables are set out in tabular form in table 1 below. The first page of this table shows the generation of the value of production (Code 21). The second page shows the costs of production and various balances, together with certain other items appearing in the profit and loss account and in the capital account. Table 2 of section 4 specifies the combinations of variable and of unit which may be neccssary, in practice.

TABLE 1

INSURANCE : ACCOUNTING VARIABLES ON THE UNITS : TABULAR PRESENTATION : NET OF REINSURANCE

Item number in this Table	Code	Of which: Exports (and code)	(For NACE/70 821) Split life/non-life
I. PRODUCTION ACCOUNT			
Credits (net)			
1. Premiums			
(a) Gross premiums written:			
(i) Direct insurance	81a	No	Yes
(ii) Reinsurances accepted	81b	No	Yes
(iii) Pension contributions:			
- Schemes for individuals	81c	No	Yes
- Schemes for groups (from employers and employees)	81d	No	Yes
(iv) Total	8	Yes: (8b)	Yes
of which: - Regular premiums and contributions	81e	No	Yes
- Single premiums and contributions	81f	No	Yes
(b) less Outward reinsurance premiums (premiums ceded to reinsurers)	13a	Yes: (13b)	Yes
(c) equals Net written premiums plus pension contributions	89a	Yes: (89b)	Yes
(d) Change in provision for unearned premiums (net of reinsurance) (+ or -) (aa)	81g	No	Yes
(e) equals Earned premiums plus pension contributions	89c	No	Yes
2. Gross portfolio investment income (on technical provisions: including investment income on pension funds)	82a	No	Yes
3. Commissions received (aa)	83a	Yes:(83b)	Yes
4. (a) Less Net claims incurred (-) (bb)	84	No	Yes
(b) of which: Claims paid (-)	84a	No	Yes
(c) of which: Pension & annulties	84b	No	Yes
(d) - Other (cc)	84c	No	Yes
(e) - Amounts recoverable from reinsurers (+)	84d	No	Yes
(f) Change in provisions for claims, net of reinsurance (incr-)*	84e	No	Yes

TABLE 1 (Continued)

INSURANCE : ACCOUNTING VARIABLES ON THE UNITS : TABULAR PRESENTATION : NET OF REINSURANCE

Item number in this Table	Code	Of which: Exports (and code)	(For NACE/70 821) Split life/non-life
5.(a) (Life insurance only). Capital gains. realized and unrealized, credited to the technical account	85a	No	Yes
(b) Less (life insurance only) - Change in life insurance provision (net of reinsurance) (incr -)	85b	No	Yes
(c) Less change in other techincal provisions (net of reinsurance) and in the equalisation provision (incr.-) (dd)	85c	No	Yes
6. Total = Generation of the "Margin" (or value of production of insurance services)	21	No	Yes

NOTES:

* Incr. = Increase

(aa) Including other technical income and amounts receivable from affiliates for services provided, if separately identifiable

(bb) For preference, excluding an estimate of claims management costs

(cc) Including capital sums paid from pension schemes and on maturity of life policies.

(dd) Including surpluses of pension funds;and the change in provision for unexpired risks.

Table 1 continued : INSURANCE : ACCOUNTING VARIABLES ON THE UNITS:TABULAR PRESENTATION (continued)

Item number in this Table	Code	(For NACE/70 821) Split life/non-life
II. COSTS OF PRODUCTION AND BALANCES		
6. Value of production of insurance services ("Margin") # B/F	21	Yes
Debits		
7. a. External expenditure on services and services other than from re-insurers (1)	89d	No
Of which:		
8.a. Commissions payable to agents	86a	No
8.b. Other external expenditure on goods and services (2)	86b	No
9. Balance = Gross value added at market prices #	20	No
Debits (continued)		
12. Labour costs (2) :		
(a) Gross wages and salaries	11	No
(b) Employers' compulsory social security contributions	12a	No
(c) Employers' contributions to own (group) pension schemes and other labour costs	12b	No
13. Balance = Gross operating surplus at factor cost	31	No
III. REMAINDER OF PROFIT AND LOSS ACCOUNT (part)		
14. Other portfolio investment income	82b	Yes
15. Profits receivable from direct investments in other countries	87a	No
[Items 17 and 18 are doubtful]		
16. Profits receivable from domestic subsidiaries & trade investments $	87b	No
17. Balance = Total available for distribution (before taxes on income) $	87c	No
IV. CAPITAL ACCOUNT (part)		
18. Net change in fixed capital	88b	No
Memo item		
19. Turnover adjusted to include gross portfolio investment income on technical provisions (This is Codes 8 + 82a)	89e	Yes

Notes:

* Part of item

$ Doubtful items

Including gross portfolio investment income (on technical provisions) and investment income of pension funds

(1) Code 89d = Code 13 less Code 13a

= Total of Codes 86a to 86b, where Codes 13 and 13a are defined as in the General Framework.

For Code 13a, see item 1 (b) in the table on the previous page.

(2) For preference, including claims managment costs.

TABLE 2 (a) INSURANCE : ACCOUNTING VARIABLES ON THE UNITS : TABULAR PRESENTATION :
NON-LIFE INSURANCE : GROSS OF REINSURANCE

Item number in this table	Total	CODES Transactions with Policy holders	reinsurers	other insurers @ & selling Agents	others
I. PRODUCTION ACCOUNT		(Gross amounts)	(Reinsurers' share)		
Credits (net)					
1. Premiums					
(a) Gross premiums written:	8	81a	81b	-	-
(b) less outward reinsurance premiums (premiums ceded to reinsurers)	13a	-	13a	-	-
(c) equals net written premiums plus pension contributions	89a	#	#	-	-
(d) Change in provision for unearned premiums (net of reinsurance) (+ or -)	81g	81g(i)	81g(ii)	-	-
(e) equals earned premiums plus pension contributions	89c	89c (i)	89c (ii)	-	-
2. Gross portfolio investment income (on technical provisions	82a	82a	-	-	
3. Commissions received (aa)	83	-	83 (i)	83 (ii)	-
4. (a) Less net claims incurred ( ) (bb)	84	#	#	-	-
(b) of which: Claims paid (-)	84a	84a	-	-	-
(e) - Amounts recoverable from reinsurers (+) reinsurance (Incr. -)*	84d	-	84d	-	-
(f) - Change in provision for claims, net of reinsurance (incr.-)*	84e	84e (i)	84e (i)	-	-
5. (c) Change in other technical provisions and in the equalization provision (Incr.-) (cc)	85c	..	..	-	-
6. Total = Generation of the "Margin (or value of production of insurance services)	21	..	..	..	-
<u>Debits</u>					
8a Commissions payable to agents	86a	-	-	86a	-
8b. Other external expenditure on goods and services (dd)	86b	-	86b (i)	86b (ii)	86b (iii)
12 Labour costs (dd)	11 + 12	-	-	-	11 + 12
Miscellaneous transactions with reinsurers	-	Balance	Balance	-	-
13 Balance = Gross operating surplus at factor cost	31	31a	31b	31c	31d
Memo . Reinsurance balance	31e	-	31e	-	-

Notes: (aa) Including other technical income and amounts receivable from affiliates for services provided
(bb) For preference, excluding an estimage of claims management costs
(cc) Including change in the provision for unexpired risks
(dd) For preference, including claims management costs
* Incr.= Increase @ including affiliates # Can be calculated from other codes
.. Allocation not available, included in "miscellaneous transactions with reinsurers".

TABLE 2 (b) INSURANCE : ACCOUNTING VARIABLES ON THE UNITS : TABULAR PRESENTATION :
NON-LIFE INSURANCE : GROSS OF REINSURANCE

Item number in this table	Total	CODES Transactions with Policy holders (Gross amounts)	reinsurers (Reinsurers' share)	other insurers @ & selling agents	others
I. PRODUCTION ACCOUNT					
Credits (net)		81a			
1. Premiums		81c	81b	-	-
(a) Gross premiums written (including pension contributions)	8	81d	-	-	-
(b) less outward reinsurance premiums (premiums ceded to reinsurers)	13a	-	13a	-	-
(c) equals net written premiums plus pension contributions	89a	#	#	-	-
(d) Change in provision for unearned premiums (net of reinsurance) (+ or -)	81g	..	..	-	-
(e) equals earned premiums plus pension contributions	89c	..	..	-	-
2. Gross portfolio investment income (on technical provisions: including investment income of pension funds)	82a	82a	-	-	-
3. Commissions received (aa)	83	-	83 (i)	83 (ii)	-
4. (a) Less net claims incurred (-) (bb)	84	#	#	-	-
(b) of which:					
- Claims paid ( )	84a	84a	-	-	-
(c) of which:-pension & annuities	84b	84b		-	-
(d) -other (cc)	84c	84c	-	-	-
(e) - Amounts recoverable from reinsurers (+) reinsurance (incr -)*	84d	-	84d	-	-
(f) - Change in provision for claims, net of reinsurance (incr.-)*	84e	84e (i)	84e (ii)	-	-
5 (a) (Life insurance only). Capital gains, realized and unrealized, credited to the technical account	85a	85a	-		-
(b) Less (Life insurance only) -change in life insurance provision (net of reinsurance) (incr.-)	85b	85b (i)	85b (ii)	-	-
(c) Less change in other technical provisions (net of reinsurance) and in the equilisation provision (incr.-) (dd)	85c	..	..		-
6 Total = Generation of the "Margin (or value of production of insurance services)	21	..	.	..	-
Debits					
8a. Commissions payable to agents	86a	-	-	86a	
8b. Other external expenditure on goods and services (ee)	86b	-	86b (i)	86b (ii)	86b (iii)
12. Labour costs (ee)	11 + 12	-	-		11 + 12
Miscellaneous transactions with reinsurers	-	Balance	Balance	-	-
13. Balance = Gross operating surplus at factor cost	31	31a	31b	31c	31d
Memo. Reinsurance balance	31e	-	31e		-

Notes: (aa) Including other technical income and amounts receivable from affiliates for services provided
(bb) For preference, excluding an estimate of claims management costs
(cc) Including capital sums paid from pension schemes and on maturity of life policies
(dd) Including surpluses of pension funds, and change in the provision for unexpired risks
(ee) For preference, including claims management costs
* Incr. Increase @ including affiliates # Can be calculated from other codes
.. Allocation not available, included in "miscellaneous transactions with reinsurers"

Accounting variables on the units: treatment of portfolio investment income

Portfolio investment income, excluding capital gains [11], is included as an integral part of the production account. "Investment income" means the income on all portfolio investments, and therefore includes the rental income from property held as a investment but does not include the income from subsidiaries, trade investments or direct investments in foreign countries. The inclusion of portfolio investment income follows the proposed change in the definition of the insurance service charge in the ESA/SNA. In the case of life insurance and pension funding, the change is only one of clarification; insurance companies have always been regarded as holding life funds, in effect, as trustees for the beneficial owners, the policy holders, who are generally located in the household sector. The current surpluses of the funds are therefore regarded as part of the saving of the household sector.

When, as for instance is often the case with the pension funds, the managers charge a fee for administering the funds (which will include a profit element if they act commercially), the matter is quite straightforward - the fee is the "insurance" service charge. With much life insurance, however, e.g. "with profits" insurance, the financial assets (investments) of the life insurance companies and the income from these assets do not belong wholly to the policy holders; the income and capital gains are therefore partitioned between the major part, which is due to policy holders, and the minor part, which is treated as part of the profit of the insurance company and so as being distributable to its shareholders. For all life insurance, a minimum level of provisions has to be kept to meet future liabilities to policy holders.

The mechanism for separating and safeguarding policy holders' funds is through the separation of a "technical" part of the profit and loss account. In Article 34 of the 1991 Accounting Directive, the treatment of investment income is quite different for life insurance than it is for non-life insurance. With life insurance, the investment income on all investments is credited to the "technical" part of the account. Most, however, does not swell the result of the "technical" account, because it is offset as an increase in technical provisions (provisions to meet future liabilities to policy holders); but some may be taken as a management charge, or may even be included in the technical result and thereby transferred to the non-technical part of the account.

As there may be lack of uniformity in this accounting treatment, the preferred method in the new ESA/SNA will be to partition the investment income on all portfolio investments between that arising on the investment of technical provisions and that arising on the investment of other reserves, estimating the split from the data on the liabilities side of the balance sheet. The investment income arising on the investment of technical provisions would then be carried into the production account and largely, if not wholly, offset as an element of the increase in the accounting period in these technical provisions.[12]

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(11) For the treatment of capital gains; see page 93

(12) See paper presented to the working party on National Accounts (April 1989) Doc. CN 118; items 24 to 29 of the "Summary and conclusions" of the meeting of the SNA Group of Experts 23-27 January 1989 (Doc CN 123), and Doc Eurostat B2/CN/128e)

The side of the production account showing the generation of income therefore consists of premiums earned, claims incurred Commissions received, investment income on the investment of technical provisions, any capital gains credited to the profit and loss account and the increase in the technical provisions - see first page of Table 1 in this annex. The increase in technical provisions will fall short of the net balance of the other five items; the difference represents the amount available to meet administrative expenditure and the profit on the operation. As calculated in this way, the profit will be different from the "balance on the technical account", as shown in Article 34, whenever the amount of investment income arising from the investment of technical provisions is not exactly the same as total investment income less the amount transferred to the non-technical account.

A major change is proposed in the treatment of investment income in the case of <u>non-life insurance</u>, where the ESA/SNA previously regarded the insurance service charge (the production of services) as premiums earned less claims incurred. This figure was low or even negative, because in effect the investment income on the various technical provisions was also used to meet administrative costs, rather than as being regarded as distributable to shareholders. Clearly it should not be regarded as so distributable, since the provisions are technical, and are held to meet future claims.

It is now proposed in the ESA/SNA that the investment income on the technical provisions of non-life insurance enterprises should, in effect, be regarded as a supplement to premiums, on the basis that this income serves to keep premiums at a lower level than they would be, were it not for the existence of these reserves. Note that the individual policy holder usually enters into an annual contract and pays his premiums in advance; and that the events giving rise to claims take place later, the settlement of claims being even later. Thus the insurance company has the use of the individual policy holder's money in these periods; and by extension, all the technical provisions can be regarded as held for the benefit of non-life policy holders collectively, just as for life policy holders.

In the new ESA/SNA the investment income on technical provisions will be regarded as distributed by the insurance companies to the policy holders (collectively) who then return it. The balance between premiums, the investment income on technical provisions and claims incurred is reflected in the insurance service charge, that is in administrative expenses and profit.

In practice, it may not be possible to make a precise distinction between the investment income arising on technical provisions and that arising on other reserves; in some countries the assets (portfolio investments) corresponding to technical provisions may be segregated from other portfolio investments, but in most countries there is no such segregation of assets. It may therefore be necessary to treat all portfolio investment income of non-life companies as a proxy for the investment income on technical provisions.

If this is done, there may be slight overstatement of the value of the insurance service charge (insurance production). But this simplified method has the advantage that the balancing figure which appears as variable 31 (gross operating surplus) is then much the same as the total profit, before depreciation, of the insurance enterprise as this is defined in the enterprises own accounts.

There are two stages of estimation:-

(a) identify the total gross portfolio investment income

(b) estimate the partition of gross portfolio investment income between that arising on the investment of technical provisions and that arising on other liabilities (notably on the investment of capital and reserves, or of long-term debt).

Total Gross Portfolio investment income and investments (assets)

In terms of the 1991 Accounting Directive, these can be defined as follows:-

	Article 34		Article 6
	Life (13)	Non-Life (13)	(Assets)
Land and buildings	II 2(b)(aa)	III 3(b)(aa)	C I
Participating interests, other than affiliated undertakings	II 2(a),	III 3(a)	C II,3 & 4
Other financial investments	II 2(b)(bb)	III 3(b)(bb)	C III & IV D G I
Sub-totals	of above		of above
Less interest on deposits by reinsurers (14)	Estimate from liabilities		Liabilities,F
Grand totals	of above		of above

(13) Excluding the "separate indication of [income] derived from affiliated undertakings".

(14) See explanation on page 92

Suggested Guidelines for partitioning portfolio investment income between that arising on the investment of technical provisions and that arising on the investment of other reserves

The method is based on the liabilities side of the balance sheet, after certain prior adjustments. It is intended to be practicable using either data for individual enterprises (or for the resident part of enterprise groups), or aggregated balance sheet data, whether consolidated or combined.

Prior adjustments to the balance sheet (Life and Non-Life)

(a) Adjustments to exclude assets which one would expect to be financed by the enterprise's own capital and reserves

Exclusions from assets	**Reference, Article 6 of the 1991 Accounting Directive**
Tangible assets and stocks	F I
Land and buildings occupied by the enterprise for its own activities [15]	C I (part)
Affiliated undertakings: shares in, debt securities issued by, and loans to	C II 1 and 2
Exclusion from liabilities	
Capital and reserves, total (including profit for the year) to be excluded from	Total of above assets,
	liabilities A+I - H (assets)

The above assets are linked to share capital and reserves, and do not contribute to portfolio investment income [15]. Profits from affiliates are not part of gross operating surplus.

(b) Certain portfolio investments exist because reinsurers make deposits, and do not therefore reflect policy-holder's funds

Reinsurance affects portfolio investments in two ways. First, if part of a premium is ceded to a reinsurer, it is not available to be invested by the direct insurer, whose net technical provisions are also reduced by the reinsured amounts. Secondly, reinsurers make deposits to the ceding insurer, particularly in non-life insurance, and these are available to be invested, but deposit interest has to be paid to the reinsurer.

Rather than introducing the complication of a three-way split of portfolio investment income, between that arising on liabilities to (a) policy-holders, (b) reinsurers and (c) shareholders or owners, it seems preferable to deal with this phenomenon on a net basis, by excluding these liabilities (and the corresponding assets) before making the partition, and correspondingly by deducting the interest on the deposits from gross portfolio investment income.

(15) This element of land and buildings is separately identified in Article 6. It should be excluded only if there is no corresponding portfolio investment income (actual or nominal) in the profit and loss account of the enterprise. The preferable accounting method would be to include such "income" in the profit and loss account, offset in operating expenses (and hence contributing to the value of production of insurance services).

The interest on deposits to reinsurers is treated differently, in the 1991 Accounting Directive, from interest on other debt. It is part of "investment management charges", which have the same location as "investment income", in the profit and loss account. This also speaks for the net treatment of the deposit interest; plainly it has nothing in common with the other costs of investment management, nor is it regarded as equivalent to interest on other debt.

Exclusion from liabilities	**Reference, Article 6 of the Council Directive**
Deposits received from reinsurers	F
Exclusions from assets	
Portfolio investments	Exclude F (liabilities) from total of CI [16], C II 3 and 4, C III, C IV, D, G I

It should be noted that the only adjusted figures that need to be used are those on the liabilities side of the balance sheet; it is not assets that are partitioned, but the income arising from them, based on liabilities. However, for the sake of clarity, the rearranged balance sheet takes the following form:-

Group	**Liabilities**	**Reference, Article 6 of the Council Directive**
A	Capital and Reserves, adjusted	Liabilities A + I - H (assets) less Assets F I, C I (part), C II 1 and 2
B	Technical Provisions	Liabilities, C, D
C	Long-term debt	Liabilities, G III
	Sub-total, which is allocated	Sub-total of amounts indicated above
Other provisions, other creditors etc		Liabilities B, E, G I&II G IV and V, H
Adjusted total, Liabilities		Total, less F, less assets F I, C I (part), CII 1 and 2, H
Assets		
Portfolio investments		Assets, C I(7), CII 3 & 4, CIII,C IV, D,G
I		
Miscellaneous		Assets, A, B, E, FII-IV, GII + III
Total = adjusted total of liabilities		Total of items indicated above

Result
The proportion to be applied to portfolio investment income [17] can then be estimated as B divided by A+B+C where A,B,C are the groups indicated above.

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(16) Where appropriate, after deducting land and buildings occupied by the enterprise for its own activities.

(17) After deducting deposit interest paid to reinsurers, which can be estimated from the amount of the liabilities.

Note that B (Technical provisions), on the liabilities side, may be higher or lower than portfolio investments. They might be expected to be higher, unless a substantial proportion of assets is held in short-term form (viz assets, E I 1 and 2). However, it appears reasonable to do the allocation with data on the liabilities side, when the liabilities have been adjusted and sub-totalled, as shown, to exclude the short-term items. Indications are that the proportion of total portfolio investment income attributed to technical provisions will be [over 90%] for life insurance, and in the region of [70-80%] for non-life insurance.

Investment Management Charges

In addition to excluding deposit interest paid, from investment management charges (part of Code 86b, "other external expenditure on goods and services" and of Code 11 & 12 "labour costs"), it might be thought necessary to partition the management charges in the same way as the gross portfolio investment income.

Only part of gross portfolio investment income, that arising on policy holders' funds (technical provisions), is treated as a credit to the operating account of insurance enterprises, having been regarded as notionally distributed, from their income and outlay account, to policy holders, who then return it, as if it were a supplement to premiums.

However, all investment management charges must be regarded as a debit to the operating account; if paid externally, they are also credited to the operating account of those who give advice about investments.

To partition the management charges notionally might be illuminating in the following sense: it would lead to one element of gross operating surplus (a negative amount) which would represent the charges arising on the investment of shareholder's funds, and the remainder which, so far as investment income and charges was concerned, would relate only to policy holders' funds. Such a sub-division of gross operating surplus would however be unconventional.

Accounting data on the units: treatment of capital gains (Life Insurance only).

Part of the investment return appears in the form of capital gains (whether realized or not) and the funds held for the generality of policy holders include the capital gains. However, capital gains and losses - particularly unrealized gains and losses - are not usually allocated formally to policy holders as and when they occur. Particularly when investments are valued at current market value in the balance sheet, there will be short-term fluctuations in their value which will not be matched immediately by changes in funds formally allocated to policy holders (the "technical provisions").

The exception is the unit-linked type of contract (Class D, Assets, in Article 6 of the 1991 Accounting Directive), in which the policy holder's claim on the insurance enterprise is measured against a varying numeraire - the value of the units in a segregated fund. In these contracts, revaluation adjustments are, in effect, continually allocated to the individual policy holders.

In the national accounts and other economic statistics, the rule is that capital gains on financial investments are to be shown in a separate "reconciliation" account, which completes the link between the opening balance sheet and the closing balance sheet, so that capital gains are always excluded from the balance of the production account (the value of production) and from "Gross operating surplus".[18]

In the Article 34 of the 1991 Accounting Directive, provision is made for the capital gains of life insurance enterprises to be carried through the life technical account. Articles 42 and 44 suggest that all realised capital gains should be carried through the technical account, but that, in the case of unrealized capital gains, all, part or none may be carried through the life technical account.

Unfortunately those arising on the unit linked type of contract are not distinguished.

The possible offsets to the capital gains, realized and unrealized, carried into the life technical account are the following:-

		Code
(a)	Part of a claim	84
(b)	Part of the change in the life insurance provision	}
(c)	Part of transfers to and from the fund for future appropriations (see Article 22) [19]	} 85 b
(d)	Part of the change in "other technical provisions"	85 c
(e)	Part of investment management charges or of other operating expenses	86b,11,12
(f)	Part of "gross operating surplus"	31

In terms of Article 34 of the 1991 Accounting Directive, (f) could be in two places: (f) (i), part of the "allocated investment return transferred to the non-technical account" [20]; or (f) (ii), part of the "balance on the life technical account".

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(18) In macro economic statistics, but not necessarily in enterprise - based statistics, capital gains on physical assets are also excluded, in the form of what is know as "stock appreciation", or as "the inventory valuation adjustment".

(19) The reasons for showing these in the same Code as the change in the life insurance provision are essentially to avoid short term fluctuations carrying through to the balance of the production account (Code 21, the Value of Production). See comments on Code 85b, page 56.

(20) In the Council Directive, the "variation in the fund for future appropriations" is shown alongside, but see note 9 above.

The (f) type items, in the above paragraph, reflect capital gains which are held in general reserve (Liabilities A III, "Revaluation reserve"), or are to be formally allocated to shareholders, perhaps as part of the dividend. If unrealized gains on investments are not carried through the profit and loss account, they would be reflected directly, on the liabilities of the balance sheet, in A III, or in Ba (see Article 22).

There is therefore a difficulty if, to any material extent, the capital gains which have been carried into the technical account, are not fully offset in the (a) to (e) type items, so that they carry through to "gross operating surplus". The difficulty is most serious if what carries through to "gross operating surplus" reflects short-term unrealized fluctuations in the value of investments, but most of these are probably of type (c). Apart from type (c), the allocations to the "life insurance provision" and to "other technical provisions "are likely to be based on actuarial techniques, which are cautious and aim to smooth out short term fluctuations.

It should be noted that these difficulties are not avoided by estimating the "value of production" using the "bottom up" approach, that is by starting with operating profit and adding it to labour costs and external expenditure on goods and services. That is, the difficulties are not avoided if figures compiled according to Article 34 are used, since "Gross operating surplus" would need to be defined in terms of adjustments, eg for differences in the treatment of investment income, to the "balance of the life technical account". This appears to suffer from exactly the same problems, so far as capital gains are concerned, though again certain short-term fluctuations are excluded, through item II12 (a), see Article 22.

Nor can the difficulty be avoided by separately estimating those capital gains which arise on unit-linked contracts, which are directly offset in the life insurance provision. (This is apparently proposed in ESA and SNA). The fact remains that the changes made in the life insurance provision, for other types of contract, will also reflect capital gains as well as premiums and investment income, but not as directly.(21)

If capital gains, other than those arising on unit linked contracts, were to be excluded completely from the production account, it would be necessary to obtain information on what part of the change in the life insurance provisions was due to capital gains, and to exclude this also. It is doubtful if such information is available in the basic records of life insurance enterprises.

It makes no difference if the presentation of the production account for life insurance enterprises shows capital gains as a separate item above the "line" of the value of production, or if it does not. The presentation in earlier drafts did not show capital gains, because they were deducted, in total, from the "change in the life insurance provision". The effect on the balances of the account is precisely the same.(22)

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(21) In Code 85b, transfers to and from the fund for future appropriations are also included, see footnote 19 above.

(22) An alternative presentation, with the same overall effect, would be as follows: **Code 85A** - Capital gains, realized, credited to the life technical account.

Less Variations to and from the fund from the fund for future appropriations (item II 12a).

Equals Code 85a, adjusted.

Code 85b Change in the life insurance provision, net of reinsurance: re-define to exclude variations to and from the fund for future appropriations. (See definition of the Code, on page 55).

This presentation would imply that the variations to and from the fund for future appropriations mostly represent, in fact, unrealized capital gains.

It appears therefore unavoidable to base the estimates on the assumption that any capital gains of which do carry through to "Gross operating surplus" (see page 43 above) are a reasonable reflection of the undistributed component of profits, which may include amounts to be held in the revaluation reserve, pending later allocation to policy holders as technical provisions. Short term fluctuations due to unrealized gains, other than for the unit - linked policies, would only appear in the profit and loss account, if Member States permit this to be done, and the life insurance enterprise decides to do so (see Article 44); and if they do, they are largely offset in item II 12 (a) - see Article 22 of the 1991 Accounting Directive.

Accounting variables on the units: adaptation for insurance auxiliaries

An adaptation appears necessary for the credit side of the production account

Table Insurance auxiliaries: adaptation of tabular presentation (Table 7 of this Annex)

Net credits		Code
1.	Commissions, fees and other trading income receivable	8
	Of which:	
	a. Receivable from resident insurers	balance
	b. Receivable from non-resident insurers	8b(exports)
2.	Less Commissions, fees etc. due to other enterprises for sub-contracted work	13a
	Of which:	
	a. Due to resident enterprises	balance
	b. Due to non-resident enterprises	13b (imports)
3.	Total = Generation of the margin (or production of auxiliary services)	21 (See Table 1 of this annex)

In the debit side of the table (the second page), item 14 and items 8a and 8b would not be relevant, but the other variables would remain unchanged; fees paid for specialist advice would be included in item 8c (other external expenditure on goods and services).

It is important to note that, on the gross basis of recording of premiums and commissions, the total premium received from a non-resident insured person is treated as being the export of the resident insurer; the commission payable to the agent is a transaction between residents. The resident insurer is assumed to know - indeed, to need to know - the residence of the insured person, ie. that he is non-resident; this is a matter of significance to the insurer, but not to the broker. Strictly, the currency in which the premium is paid is irrelevant, though it could provide an indication of non-residence, in default of other information.

It may well be that the broker (independent agent) collects the premium from the non-resident insured person and passes it on the resident insurer, after deducting his commission. But if this commission were to be scored as the broker's export whilst at the same time the gross premium is scored as the insurer's export, there would be double counting. To score the commission as a export of the auxiliary, whilst avoiding double counting, would require net recording by insurance enterprises of all premiums and commissions, which would be less informative and would also be inconsistent with the usual basis of insurance enterprise accounts. On the other hand, commissions received by resident insurance auxiliaries from non-resident insurers are truly exports of the auxiliaries and if possible should be identified as such.

A N N E X 5

INTERNATIONAL INSURANCE TRANSACTIONS

INTERNATIONAL INSURANCE TRANSACTIONS

These can be complex. The underlying principle for determining what is an international insurance transaction, and what is not, should be consistent with that adopted in the balance of payments statistics: that is, an international (or cross-border) transaction is one between a resident economic agent and a non-resident economic agent (1). What constitutes residence, and distinguishes residence from a temporary visit (of an individual) is laid down in the IMF Balance of Payments Manual. The criterion is that of the "centre of economic interest".

So far as insurance and reinsurance are concerned, there are various forms in which resident/non-resident transactions take place. And the transactions are of various types (sales, purchases, profits etc.)

1. International Direct Investment Transactions

Usually, both parties to the transaction are located in the activity classes 66.01 - 66.03 and form part of the same international family of enterprises. A transaction, in which both parties are acting as insurers, may be between a parent enterprise in one country and its subsidiary enterprise in another, or between two "sister" enterprises. The criterion of what constitutes direct investment - "an effective voice in management" - is that given in the IMF Balance of Payments Manual. Clearly possession of over 50 per cent of voting shares meets this criterion, but smaller shareholdings may also do so, depending on the circumstances of each case.

The term "enterprise" is here used to cover both subsidiaries and branches which are wholly owned by a parent enterprise in another country, without being incorporated - the latter are called "notional resident units" in the ESA (214).

Types of transactions within category (1):

(a) The principal type of current account international transaction is the parent company's share (according to its shareholding) in the total profit (whether distributed or undistributed) of the subsidiary or branch. This is provided for in the Insurance Chapter of Eurostat's Manual on Services - Code 87a. This Code only applies to transactions which are international direct investment transactions; they lie outside the scope of the "production" account. The reason, for including it, is that institutional arrangements have, hitherto, obliged much international activity by insurers to take this form.

(b) Another type of current account transaction, which is again specific to the international direct investment situation, is the charge which is made by a parent/daughter enterprise located in one country for services which it provides to its "related" enterprise located in another country. These are imports or exports of services, and so do form part of the "production" account. They are provided for in Codes 83 and 86b, but are not separately distinguished within these Codes.

(1) "Agent" is here used in the sense of someone who conducts an economic activity, and not in the sense of "representative" or "selling agent".

(c) A third type is the following: an insurance enterprise located in one country may well act as reinsurer, in whole or in part, to a "related" enterprise located in another country. These transactions are included, but not separately distinguished, within the transactions shown in the columns headed "policy holders" or "reinsurers", in Tables 2(a) and (b) of Annex 4, when parts of risks are respectively accepted or ceded.

(d) Finally it is possible that a branch located in one country passes all the premiums it collects on certain types of policy -say the "large" risks - to its parent enterprise located in another country, so that direct insurance premiums and claims pass internationally, between branch and parent. This type of operation may well become more common, under the recent EC Directive which requires that the prudential supervision done in one Member State must satisfy the requirements of other Member States; also because exchange risks are being limited by the development of EMS. However, it is arguable that the branch is then acting as no more than an agent for its parent enterprise, in respect of certain types of business which it does not underwrite itself, so that the appropriate categories would be 3 or 4 (see below). If the branch does not itself underwrite any business, it is not really a branch, but only a selling agent.

Measurement of international direct investment transactions.
The most satisfactory method is to measure them through a special statistical survey which aims to obtain figures on the same basis as is shown in enterprises' accounts. Such a survey will cover all international direct investment, not just direct investment by insurance enterprises. The figures obtained, in so far as they relate to insurance undertakings, will eventually be compiled according to the EC Directive on the annual accounts of insurance undertakings. Types (a) and (b) above should be identifiable, within such an all-embracing statistical enquiry, as insurance transactions, by reference to the activity group of the parent company, or of the subsidiary company, in question. In types (c) and (d), transactions which are with non-resident subsidiary or parent companies will not necessarily be distinct, in the statistical sources, from other international transactions of the same type.

2-4 Direct Selling of insurance services across borders

This can take three forms:-

2. Insurance or reinsurance between two non-related insurance enterprises located in different countries.

3. Direct insurance of large risks (non-life).

4. Direct insurance of large risks (non-life) or life insurance.

In general, the criterion of what constitutes an international insurance transaction remains that of the resident transactor and the non-resident transactor. In categories 3 and 4, one transactor will be a direct insurer and the other will be a policy holder. International reinsurance - including the reinsurance of the risks falling in categories 3 & 4 - falls into category 2. Generally, but particularly in category 3, care must be taken to distinguish between the principal transactor (the underwriter) and his selling agent or broker. Take the following case, by way of example: a premium on a "large" risk is received by a broker in Country A, the policy holder being located in country B; the broker deducts his commission and passes on the balance to an underwriter in Country A. The international transaction is the gross premium written by the underwriter in Country A; the broker's commission is a resident/resident transaction. The same principles apply to the more complicated situation where underwriter, broker and policy holder are located in 3 separate countries.

2. Insurance or reinsurance between two non-related insurance enterprises located in different countries

The concept of cross-border selling is here quite simple. The transactions can be any of the types listed in Table 2(a) of Annex 4. They are included within the respective Codes, but it is only proposed to distinguish the international component of gross receipts, in three items (see Table 1 of Annex 4):

	Code
Gross premiums written, exports (including reinsurances accepted)	8b
Outward reinsurance premiums (imports)	13b
Commissions received (exports)	83b

Broadly, this follows the General Framework in concentrating on turnover less sub-contracted turnover. "Gross premiums written, exports" would here be reinsurances accepted. Commissions received (exports) would include charges to non-resident affiliates as well as commissions from other insurers. In saying that, for these items, the cross-border element is distinguished, I do not mean that it is distinguished for this category specifically, but for the total of categories 1(b) - (d) and 2-4.

Much reinsurance is placed internationally particularly on "large" risks. It falls into this category because both the direct insurer and reinsurer fall into the same activity class. "Gross premiums written, exports" (Code 8b) include but do not distinguish reinsurance premiums accepted by a resident insurer. Code 13b relates exclusively to reinsurance premiums coded by a resident insurer to a non-resident reinsurer.

3. Direct Insurance of "large" risks (non-life)

There are various situations, as regards the transactions and the form in which international trade in insurance services (if any) takes place.

(i) The most simple case is the situation where an enterprise insures its activities and/or assets located in one country with an insurer located in another country. Clearly in this case international trade in insurance services takes place.

(ii) Things became more complicated when the insured assets are moving from one place to another (ie. ships, aircraft or transported goods). The insured enterprise, however, is still located in a country different from that of the insurer. Sometimes the insured assets therefore might be within the country of the insurer. At other times they will be outside that country. This situation implies that transactions between the insured enterprise and the insurer will be recorded in the balance of payments. (2)

(iii) More complications arise when the enterprise is a multi-national one, which takes central decisions regarding the insurance of the assets and activities located in various countries. Some of the assets of the insured multi-national enterprise might be located within the country of the insurer. Part or most of the multi-national enterprise, however, is still located in a different country (or countries) from that of the insurer. This situation implied that transactions between parts of the multi-national enterprise and the insurer will be recorded in the balance of payments.

If the insured assets are located in countries A,B,C,....N and the insurer is located in Country A, there will be transactions between the insured parts of the multi-national enterprise located in B,C.... N, and the insurer located in A. They should be regarded in that light, even if all premiums and claims are channelled through a headquarters company located, say, in Country B; this is on the basis that the constituent parts of the multi-national enterprise should be regarded as independent economic agents in the countries in which they are located.

(2) The situation refers, so far as insurance of the import/or export of goods is concerned, to the owner of the goods during transit. Depending on the terms of the contract, this could be the exporter or the importer. There are complications if the importer is the owner, but the goods do not arrive, and the insurer is located in the same country as the exporter. (See IMF Balance of Payments Manual).

(iv) The last situation to consider equals the previous one except that the multi-national has a specialist branch or subsidiary, within the country of the insurer, through which it channels all or most of its insurance transactions. This branch or subsidiary therefore acts as the counterpart of the insurer in concluding the various insurance policies or a single "block" policy and in arranging in the payment of the premiums.

In this case most of the transactions between the multi-national enterprise and the insurer will not be recorded in the balance of payments; but the flow of remittances (premiums and claims) will appear, at one remove, as changes in the inter-company balances between the specialist branch or subsidiary and the other component parts of the multi-national group. The latter will be included as non-insurance transactions in any all-embracing statistical survey of international direct investment transactions.

In the above mentioned situations relating to "large" risks, (i) to (iv), care should be taken to avoid the use of inappropriate criteria to determine what is, and what is not, an international insurance transaction. It appears that the appropriate criterion remains registration of the transactions in the balance of payments, viz depending on the location (and residence) of the insured enterprise and of the insurer. The following criteria appear inappropriate:-

(a) the location of the beneficiary of the insurance policy

(b) the location of the risks

(c) the place where the policy is signed.

As regards (a), it was mentioned in (iv) above that a single "block" policy, or a number of policies, might be concluded through a specialist non-insurance enterprise or branch located in the same country as the insurer, but the beneficiaries of the policy or policies will be in other countries.

Care is also needed when a broker acts as intermediary. The broker might appear to be acting in the same way as the specialist branch or subsidiary (situation (iv) above), in that he collects premiums and negotiates claims. But he is not acting as principal, he does not determine the risks to be insured, nor dues he conclude negotiations on the settlement of a claim. The branch or subsidiary referred to in (iv) above does have this quality, and therefore acts as principal in concluding the contract with the insurer. The broker, however, remains only an agent acting for another principal.

As with category 2 mentioned above, the types of direct insurance transactions involved may be any of those shown in the "policy-holder" column of Table 2 (a) in Annex 4, and only three of them would be distinguished in the Manual.

4. Direct insurance of mass (non-life) risks, and life insurance

In the case of the direct insurance of mass (non-life) risks and of life insurance risks (both of which are not allowed at the moment in most countries) the same criteria as mentioned above are needed to classify any policy as being cross border selling of insurance services. Regarding life insurance it is in these situations also important to take into account whether the insurance company or the insured took the initiative to conclude a policy. This type of business will become more important within the EC, as a result of the recent EC Directive referred to at (d) above. Again the types of direct insurance transactions involved might be any of those shown in the "policy holders" column of Tables 2(a) and (b) in Annex 4. In the Insurance Chapter of the Manual, they would be included only as a indistinguishable part of "Gross premiums written, exports" (Code 8b).

Summary

The above is summarized, in tabular form, on this page and the next page.

Category	Country A	Code	Countries B,C...,N
	AS EXPORTER		AS IMPORTER
	Gross premiums written, direct insurance:		
1(d)	Parent company		Branch or agent in Country B,
3	Large risks (non life)		
(i)	Insurer, static assets		Single insured enterprise, Country B, non-insurance activity.
(ii)	Insurer, moving assets		The same
(iii)	Insurer, static or moving assets		Component parts of a multi-national group, Countries B,C..N, non-insurance activity.
4	Mass risks (non life), and life insurance		Single insured individual or enterprise,Country B.
	Total of the above	8b	
	AS IMPORTER		AS EXPORTER
	Outward reinsurance Premiums		
1(c)	Ceding branch or subsidiary of a foreign insurer		Accepting parent insurer, Country B
2	Ceding non-related insurer		Accepting non-related insurer
	Total, outward reinsurance	13b	

	International Direct Investment transactions (Insurance enterprises only)		
1(b)	Export of Services By parent, subsidiary sister company or branch	83b (part)	Imports of Services By parent, subsidiary sister company or branch, Country B
1(b)	Imports of Service By parent, subsidiary sister company or branch	86b (part)	By parent, subsidiary sister company or branch, Country B
1(b)	Profits Of subsidiary, debit	31*	Of parent derived from subsidiary, credit, Country B
1(a)	Of parent, credit	87a	Of subsidiary due to parent, debit, Country B

*When the enterprise resident in Country A falls within category 3(d) (i) 2 or 3, see code 3(d).

Acknowledgement I am indebted to the CBS Netherlands for many of the ideas contained in this Annex, and indeed some of the text has been borrowed from them. The responsibility for any errors or omissions in the analysis is, however, mine.

A N N E X 6

SOURCES OF INFORMATION

SOURCES OF INFORMATION

The role of administrative sources

Registers

For insurance enterprises, a system of regulation is thought to exist in all Member States. This will provide a register of insurance undertakings, though not necessarily based on the enterprise as the unit. In countries where regulation relates to the group of enterprises, a supplementary enquiry to company groups may be necessary, in order to compile a register of enterprises. Equally, an enquiry to undertakings may be necessary to compile a register of non-resident branch offices and subsidiaries of resident insurance enterprises. The latter is likely to have been done already, for the balance of payments statistics.

The reinsurance activities of resident insurance enterprises may not be subject to the same degree of regulation as direct insurance activities, or may not be regulated at all. If so, an enquiry directed to insurance enterprises may be necessary in order to compile a register of specialist reinsurers which are resident. Lloyd's of London is a special case in this category.

Insurance auxiliaries, of the types set out in paragraph 831, may not be subject to regulation. If so, an enquiry using trade registers or directed to insurance enterprises may be necessary, in order to compile a register of insurance auxiliaries.

Variables

Most of the variables are also included in Article 34 of the 1991 Accounting Directive on accounts of insurance enterprises. To the extent that national systems of prudential regulation, and/or national requirements regarding the publication of annual accounts, are aligned to the structure of the 1991 Accounting Directive, it should be unnecessary to collect variables through separate statistical enquiries. There are, however, various potential problems in the use as variables of data obtained in the process of regulation or for the annual accounts, as set out in the paragraphs below.

Member States where regulation and/or annual accounts relate to company groups: The preferable solution is to compile a register of enterprises and to tap the accounting data at the stage before it is consolidated (i.e. when it still relates to enterprise units). The alternative is to adjust the consolidated data for the groups of enterprises in respect of (a) non-resident subsidiaries and (b) specialist reinsurance subsidiaries - that is, to 'de-consolidate' these.

When the accounting periods do not relate to the calendar year, little can probably be done, other than to take the accounting period ending nearest to 31 December.

Outline of Additional Data Collection Possibilities

In the case of non-regulated (or "self regulated") specialist reinsurers), it is likely that a statistical enquiry following the framework of the variables will be needed. However, the information is also needed for the national accounts and balance of payments, so an enquiry may already exist. Lloyd's of London is a special case in this category.

For self-administered pension funds, a statistical enquiry may also be necessary if the data does not emerge as a by-product of regulation. The need for clearance of tax relief by the direct tax authorities can provide the basis of a register and - probably - some of the variables as well.

Other pension schemes usually hand over the contributions which they receive to insurance companies, which manage the investments as agents of the pension scheme. The most likely source of information is then the insurance company. It is nevertheless preferable that these amounts should be recorded as pension contributions, rather than as direct insurance premiums. There are considerable differences between the pension business and the other business of life insurance enterprises.

For composite insurance companies, which were formerly classified under NACE/70 821, the breakdown of data between life and non-life insurance, as set out in Tables 1 and 2 of Annex 4, may require a separate statistical enquiry. However, such an enquiry would only anticipate the requirements of regulation once the 1991 Accounting Directive comes into force.

For the variables on the characteristics of enterprises as described in code 3 of annex 1, obtaining the designate data may require a special enquiry of enterprises, updated say every five years.

Turnover (premiums) by product (Code 8b): For non-life insurance, a breakdown of premiums by product, according to the list in annex 3, may require a special statistical enquiry, but it may be that a breakdown by type (products) of non-life premiums according to the categories in the EC Directive 73/239 is already available. Moreover, the same classification is already being used for reporting data to OECD. Also Art. 63 of the 1991 Accounting Directive requires a breakdown of premiums. In some countries the insurance industry publishes its own breakdown of premiums by type, but if these data relate to premiums collected by groups of enterprises world-wide, they will need adjusting to exclude those collected by non-resident subsidiaries etc.

For life insurance, the suggested list of products is in Annex 3. The obtaining of premiums broken down by these categories might require a special statistical enquiry, but these suggestions are tentative.

The investment income on technical provisions can be estimated without additional data collection whenever balance sheet data for enterprises are available, as described in Annex 3.

Labour costs: If the annual accounts of enterprises are used as the primary source for the variables, a separate source would be needed to identify that component of "administrative expenses", as shown in the annual accounts, which represents labour costs.

Aggregate data on employment may be available from economy-wide labour force enquires if these distinguish the appropriate categories in NACE Rev.1.

Direct investment income due from non-resident subsidiaries and branch offices: As for the balance of payments, a special enquiry directed to resident enterprises is usually needed to obtain the variables, both on income and on capital flows. On the assumption that the data obtained for the balance of payments in this respect is adequate, no additional enquiry would be needed. However, one has to identify which of the enterprises participating in balance of payments enquiries are insurance enterprises.

COPY FOR MR M LANCETTI, EUROSTAT, BY FAX TO — 010 352 4301 4771 (4 Sheets)

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My Ref : EURJV 3 123

Ms Shaila Nijhowne
Statistics Canada
Ottawa

12th October 1992

Dear Ms Nijhowne

MEETING OF ~~VOORBURG GROUP~~, OCTOBER 1992,

AGENDA ITEM MODEL SURVEY OF INSURANCE SERVICES

1. Many thanks for your letter of 17th September, and for sending me directly a copy of Statistics Canada's most interesting paper on insurance services.

2. On the question of the investment income in respect of non-life (property and casualty) insurance, the proposals in your paper and in Eurostat's paper seem to be similar. I was most interested in your formulation, in paragraph 6 of the introduction, that this should be regarded as a barter arrangement. Barter is regarded, I believe, as a form of market transaction and this leads me to suppose that you would envisage a routeing of the flows in the same way as is proposed for the ESA. However, I have just heard that, unfortunately, the May 1992 draft for the SNA left out an a adjustment, for investment income, to the production account of non-life insurance enterprises, despite the conclusion of the April 1989 meeting. Instead the proposal appears to be that the investment income on all funds of policy-holders (life plus non-life) should be still treated as a credit to the production account for the insurance activity, but that it should be allocated (by residual) to life insurance ! (See UNSO, ST/ES/STAT/SER. E.2/Rev 4, Chapter VI (The Production Account, para 146 and 147.) I think that this is unsustainable, and the risk is of a reversion to the 1968 SNA treatment in which the investment income on non-life funds is completely excluded from the production account.

3. My main purpose in writing now is to ensure that I have not misunderstood your proposals for the treatment of reinsurance. It seems that there is no difference as regards the treatment of reinsurance accepted (assumed) by resident insurers. As regards risks ceded by resident insurers, I address my remarks, in the first place, to your option 2 (page 6), since option 3 follows from option 2. The treatment suggested in Eurostat's paper is, I think, that which you call option 1. Am I right in thinking that option 2 implies that, in the production account of the ceding insurer, the reinsurer's share of claims incurred would be regarded as a element of income (ie., as part of gross output), whilst the reinsurers's share of the premiums earned by the ceding insurer would be regarded as a expense (cost or input)? This appears to be the implication of your text, but I may have misunderstood; for instance, I don't see anything in the specimen questionnaire about amounts received from reinsurers in respect of the claims incurred by the ceding insurer. This seems to be needed, at least when the risk has been ceded to a non-resident reinsurer.

/ Continue

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4. The attached ultra-simple numerical example attempts to illustrate the point, on two manuscript sheets. Verisimilitude is not intended; and my apologies for the manuscript.

5. If I have this correctly, your proposal does avoid a difficulty, when a resident insurer lays off to a non-resident reinsurer part of the premium income from domestic policy-holders. The net treatment (option 1) regards the service charge made by the resident insurer to the domestic policy-holders as being split into two parts - the appropriate proportion of the service charge made by the non-resident reinsurer, which would be routed directly to the domestic policy-holders as imports by them, and the balance of the total service charge made by the resident insurer. On the other hand, this problem doesn't arise when both insurer and reinsurer are resident, provided that the whole resident insurance plus reinsurance industry is treated as a single activity.

6. There may however be a difficulty with the fully gross treatment of reinsurance : insurance companies' accounts tend to use the concepts of "earned premiums" and "claims incurred" in the net sense. This is so as to show figures which indicate the extent of their exposure to risk. In this context, they would not, I surmise, think of claims partly reimbursed by reinsurers as part of their gross output. If one looks at the proportion of operating surplus to premium income, there appears to be some difficulty with the gross treatment - figures using the service charge as a proxy are at the bottom of the first manuscript sheet.

7. You lay some emphasis on what is required for deflation. Clearly this needs further study, but this argument in favour of the gross treatment only holds if, at the end of the day, it turns out to be feasible and desirable to obtain 'top down' estimates of the service charge for non-life insurance, revalued at constant prices, by double deflation of premiums earned, claims incurred and investment income (together with other expenses, in the context of value added). I am at present rather sceptical about this being the best method, because of the very large size of claims (= part of the premium), in relation to the other part of the premium which (ignoring investment income) is used as the service charge.

8. Having said this, in the EC it looks as if all the information for a fully gross treatment will be available, including changes in the reinsurer's share of provisions, to the extent that the requirements of the 1991 Accounting Directive determine statistical reporting possibilities - see pages 86 and 87 of the attachment to Eurostat's paper. Also, within the balance sheet, whilst reporting of liabilities as net of reinsurance will be the norm, the gross amounts must also be shown; and an alternative presentation will be allowed, under which liabilities are shown gross and claims on reinsurers are treated as assets. I will bring a couple of spare copies of this Directive with me to Williamsburg.

9. I hope we will be able to discuss this in the early days at Williamsburg.

10. Thank you for letting me know that Jack Triplett will be the chief discussant. I am taking the liberty therefore of sending him a copy of this letter, and I am also copying it to Messrs Lancetti and Newson at Eurostat.

Yours sincerely,

John Walton

JOHN WALTON

ILLUSTRATION – SHEET 1

FIRE COVER, TWO POLICY HOLDERS, MAXIMUM INDEMNITY 1000 EACH, ½ REINSURED. POLICY HOLDER A IS A HOUSEHOLD, B IS AN ENTERPRISE

SITUATION 1. REINSURER IS RESIDENT

	A. HOUSEHOLD	B. ENTERPRISE	RESIDENT FINANCIAL ENTERPRISES: INSURER IN	INSURER OUT	REINSURER	CONSOLID.
PREMIUMS	−20 (2.0% of 1000) →		+20			36
		−16 (1.6% of 1000) →	+16			
				−14 (1.4% of 1000) →	+14	
CLAIMS			+13		← −13	−26
		+12 ←		−12		
	+14 ←			−14		
SERVICE CHARGE (GROSS OUTPUT)	−6 (0.6% of 1000)	−4 (0.4% of 1000)				10 (0.5% of 2000)
BREAKDOWN OF SERVICE CHARGE			$\underbrace{\quad 9 \quad}$ (0.45% of 2000)		1 (0.1% of 1000)	

BASIS 1 (NET)	WHOLE RESIDENT INSURANCE SECTOR	DIRECT INSURER ALONE	
PREMIUMS EARNED	36	22	(36 − 14)
LESS CLAIMS INCURRED	26	13	(26 − 13)
SERVICE CHARGE	10	9	

[SERVICE CHARGE OF REINSURER, ROUTED DIRECTLY TO POLICY HOLDERS, 1]

BASIS 2 (GROSS)	WHOLE RESIDENT INSURANCE SECTOR	DIRECT INSURER ALONE VV POLICY HOLDERS	VV REINSURER	TOTAL FOR DIRECT INSURER
RECEIVABLES	36	36	13	49
PAYABLES	26	26	14	40
SERVICE CHARGE:– BY/TO INSURER	10	10	−1	9
BY REINSURER			1	

PROXY FOR THE MARGIN (SERVICE CHARGE ÷ RECEIVABLES)

	WHOLE RESIDENT INSURANCE SECTOR			
BASIS 1 (NET)	10/36 = 28%	INSURER	9/22	= 41%
		REINSURER	1/13	= 8%
BASIS 2 (GROSS)	10/36 = 28%	INSURER	9/49*	≈ 18%
		REINSURER	1/13	≈ 8%

* ASSUMING THAT 13 OF CLAIMS ON REINSURER IS TREATED AS PART OF TOTAL RECEIVABLES; ALTERNATIVELY 9/36 = 25%.

SHEET 2

SITUATION 2. REINSURER IS NON-RESIDENT

	A. HOUSEHOLD	B. ENTERPRISE	RESIDENT INSURER IN	RESIDENT INSURER OUT	NON-RESIDENT REINSURER
PREMIUMS	-20		+20		
		-16	+16		
				-14	+14
CLAIMS			+13		-13
		+12		-12	
	+14			-14	
SERVICE CHARGE	-6	-4	+9		+1

DIRECT INSURER = WHOLE RESIDENT INSURANCE SECTOR

BASIS 1 (NET)

Premiums earned	22
less Claims incurred	13
Service charge (gross output)	9

POLICY HOLDERS IMPORT A SERVICE CHARGE OF 1 FROM NON-RESIDENT REINSURERS

BASIS 2 (GROSS)

Receivables	49	policy holders	36
		reinsurer	13
Payables	40	policy holders	26
		reinsurer	14
Service charge			
gross	10		
to reinsurer	-1		
net	9		

WHO IMPORTS THE SERVICE CHARGE MADE BY THE NON-RESIDENT REINSURER ?