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For discussion

F.12 Covering Hybrid Insurance and Pension Products: Outcome of Global Consultation

Prepared by the Financial and Payments Systems Task Team (FITT)

INTERNATIONAL MONETARY FUND

F.12 Covering Hybrid Insurance and Pension Products: Outcome of Global Consultation[1]

The global consultation[2] revealed that a large majority of respondents favored keeping the current categories—life insurance/nonlife insurance—and allocating hybrid insurance products to either category depending on which features are predominant (Option 2). Slightly more than half of the respondents confirmed having access to source data for implementing this option. In the case of autonomous employer-independent pension schemes, most respondents supported the option of treating them as social insurance pensions, provided accumulated contributions are set aside for retirement income and are subject to regulation or supervision in line with or similar to employer-related pension schemes/funds. Around 40 percent of the respondents confirmed having access to source data for implementing this option.

The GN F.12 *is presented to the IMF's Balance of Payments Statistics Committee (the Committee) and the Advisory Expert Group on National Accounts (AEG) for final decision.*

1. *What proposed option do you favor for the classification of hybrid insurance products?*

   - **There was wide support for the recommended Option 2 (namely, keeping the current categories—life insurance/nonlife insurance—and allocating hybrid insurance products to either category depending on which features are predominant)**

Around 76 percent of the respondents supported Option 2, 6 percent supported Option 1, and 4 percent supported Option 3, with 14 percent still undecided.

Respondents who favored Option 2 noted that it is the most pragmatic, is in line with current practice in insurance companies and several countries, is easier to implement, and is least likely to cause breaks in the data series.

Fifty-seven percent of the respondents confirmed having access to source data for implementing Option 2 compared to 31 percent for Option 1.

2. *What proposed option do you favor for the classification of autonomous employer-independent pension schemes?*

   - **The majority of respondents (56 percent) supported the recommended Option 3 (namely, treating them as social insurance pensions if accumulated contributions are set aside for retirement income and are subject to regulation or supervision in line with or similar to employer-related pension schemes/funds).**

[1] Prepared by FITT Secretariat and approved by FITT Co-chairs.

[2] The joint global consultation on the guidance note (GN) *F.12 Covering Hybrid Insurance and Pension Products* among both national accounts and balance of payments communities took place during the period September 24–October 22, 2021, collecting input from 50 respondents representing 46 economies (Annex I provides comprehensive information on the results of the global consultation). European countries had the largest participation (39 percent), followed by Asia and Pacific countries and Western Hemisphere countries (each, 22 percent), Middle East and Central Asia (11 percent) and African countries (7 percent*)*.

Respondents in favor of Option 3 noted that it is less restrictive, easier to implement, and reflects economic substance better than the other options.

Respondents in favor of Option 1 (12 percent) argued that employer-independent schemes or funds did not meet the criteria for social schemes. Respondents in support of Option *2* (12 percent) noted that option 3 was too broadly formulated. A relatively large number of respondents (20 percent) were still undecided.

Forty percent of the respondents confirmed having access to source data for implementing Option 3 compared to 30 percent for Option 1 and 31 percent for Option 2.

Annex I. Results of the Global Consultation

Table 1. Respondent Countries (in Alphabetical Order)

1	Argentina	WHD	29	Nicaragua	WHD
2	Australia	APD	30	Peru	WHD
3	Austria	EUR	31	Philippines	APD
4	Azerbaijan	MCD	32	Poland	EUR
5	Bahamas	WHD	33	Portugal	EUR
6	Belarus	EUR	34	Qatar	MCD
7	Bolivia	WHD	35	Romania	EUR
8	Canada	WHD	36	Singapore	APD
9	Chile	WHD	37	Slovakia	EUR
10	China	APD	38	Slovenia	EUR
11	Colombia	WHD	39	South Africa	AFR
12	Cyprus	EUR	40	Spain	EUR
13	Finland	EUR	41	Suriname	WHD
14	France	EUR	42	Sweden	EUR
15	Germany	EUR	43	Ukraine	EUR
16	Hong Kong	APD	44	United Arab Emirates	MCD
17	Indonesia	APD	45	United Kingdom	EUR
18	Japan	APD	46	Vietnam	APD
19	Jordan	MCD			
20	Lithuania	EUR			
21	Malawi	AFR			
22	Malaysia	APD			
23	Malta	EUR			
24	Mauritius	AFR			
25	Mexico	WHD			
26	Morocco	MCD			
27	Netherlands	EUR			
28	New Zealand	APD			

Table 2. Responses to the Global Consultation Questionnaire

Questions	Number of Responses	%
1. Your response concerns which area of macroeconomic statistics.		
Balance of Payments	14	28%
Both National Accounts and Balance of Payments	19	38%
National Accounts	17	34%
Total	50	100%
2. Is there a need for clarification on the recording of hybrid insurance and pension products in the Balance of Payments and National Accounts?		
No	11	22%
Yes	38	78%
Total	49	100%
Conceptual Issues/Recommendations		
3. What proposed option in paragraph 13 do you favor for the classification of hybrid insurance products?		
Option 1	3	6%
Option 2	38	76%
Option 3	2	4%
Undecided	7	14%
Total	50	100%
4. What proposed option in paragraph 20 do you favor for the classification of autonomous, employer-independent pension schemes?		
Option 1	6	12%
Option 2	6	12%
Option 3	28	56%
Undecided	10	20%
Total	50	100%
Practical Implementation		
5. From a practical perspective, does your institution have access to the relevant source data to implement the recommendations for the treatment of hybrid insurance products? : Option 1		
No	29	69%
Yes	13	31%
Total	42	100%
5. From a practical perspective, does your institution have access to the relevant source data to implement the recommendations for the treatment of hybrid insurance products? : Option 2		
No	20	43%
Yes	27	57%
Total	47	100%
5. From a practical perspective, does your institution have access to the relevant source data to implement the recommendations for the treatment of hybrid insurance products? : Option 3		
No	33	80%
Yes	8	20%
Total	41	100%
9. Would your institution be interested in participating in an experimental estimates exercise to implement?		
Option 1	8	50%
Option 2	6	38%
Option 3	2	13%
Total	16	100%

Questions	Number of Responses	%
10. From a practical perspective, does your institution have access to the relevant source data to implement the recommendations for the treatment of employer-independent pension schemes? : Option 1		
No	30	70%
Yes	13	30%
Total	43	100%
10. From a practical perspective, does your institution have access to the relevant source data to implement the recommendations for the treatment of employer-independent pension schemes? : Option 2		
No	29	69%
Yes	13	31%
Total	42	100%
10. From a practical perspective, does your institution have access to the relevant source data to implement the recommendations for the treatment of employer-independent pension schemes? : Option 3		
No	25	60%
Yes	17	40%
Total	42	100%
14. Would your institution be interested in participating in an experimental estimates exercise to implement?		
Option 1	7	50%
Option 2	2	14%
Option 3	5	36%
Total	14	100%
15. If your institution is interested in participating in an experimental estimates exercise, would you need to receive technical assistance?		
No	11	48%
Yes	12	52%
Total	23	100%

Comments Supporting Selected Options

3. What proposed option in paragraph 13 do you favor for the classification of hybrid insurance products?

Option 1

Firstly, to maintain the framework setup in the country. Secondly, new categories is quite useful to monitor the new industry.

Puede resultar difícil de clasificar un seguro híbrido, por lo que es mejor tener una categoría adicional de este tipo de seguro

This option is appropriate

Option 2

• Implementation for option 2 is easy, practical and does not affect the current reporting templates.
• Moreover, Option 1 is not desirable since hybrid insurance products are not recognized as a separate insurance category in regulations governing insurance products. They are categorized either as life or non-life (general insurance) insurance. In the absence of appropriate insurance regulations recognizing hybrid insurance products as a separate insurance category, the introduction of a new category of insurance for statistical reporting purposes only, may not be feasible for reporters of source data. Quality of data reported may be affected.

• The concepts of ‘life’ and ‘non-life’ are well-established terms.
• Allocating based on the predominant feature is used in several other areas of the National Accounts.
• Countries may not have enough detail in the data to separate out these hybrid types of insurance.
• Option 1’s ‘other’ category creates problems, for example which output calculation to use for a variety of hybrid insurance types.
• Providing clear guidance on hybrid insurance products would greatly assist future work on data collection and processing so that surveys and administrative data can be set up and amended to better handle hybrid products.

Creating additional categories would introduce breaks in the time-series, besides a hybrid product is a mixture of the pure types but not a new pure type in itself. We also agree that it should be included in the type which is the dominant part. Just as an additional note, for us the optimal option would be c) as this would avoid confusions for instance with the classification of long-term life insurance. However, we acknowledge that this could introduce unnecessary changes in guidance as we assume that no major distinction occurs from option b) as this is the one that guarantees a continuity with past statistics.

Current recording practice matches the Option 2 classification.

First, these insurance products are of little importance in cross-border transactions.
Second, in Europe many countries make use of surveillance data (Solvency II) and therefore cannot change the presentation or methodology.

Hybrid insurance are not very relevant in some countries, they are difficult to measure since it requires a high level of granularity and details from the data sources.

Hybrid insurance products could generally be quite easily classified into one of the two categories of life or nonlife. Hybrid product where both components would be of the same order of magnitude may be quite rare in practice.
In my country, we have few hybrid products and there is always a predominant component.
Option 1 is too complicated and option 3 may be complicated for users and far from their usual categories.

Hybrid products would be allocated to one category or the other depending on which features are predominant. Data on hybrid products cannot be separated from other products in insurance companies

In the case of our statistics, and from the national accounts side, we think that option 2 is the most appropriate since it could be difficult to distinguish or to record the respective transactions for these hybrid products not only in the financial accounts but also in the non-financial accounts.

It facilitates the processing in national accounts

Little change in practice, as currently all insurance products classified as "life insurance" have a saving component.

Option 2 aligns with the classification commonly adopted in insurance companies and entails no change from the current practice, thus will not lead to discontinuation of data series.

Option 2 appear to be the easiest to implement with little or no impact in practice for compilers.

Option 2 follows the line that is currently being applied and it is interesting to add explanations in the manuals so that it will be treated in the same way in all countries and so that when the information requirements would be modified, progress can be made in the line indicated in the manuals

Option 2 is more appropriate because even though some insurance policies are structured to provide hybrid products in nature, there is usually predominant benefit and purpose for which the policy is intended, and other features are just value-added benefits to make the policy more comprehensive and attractive. Hybrid insurance products underwritten by life insurers should be classified as life insurance and products underwritten by non-life insurers should be part of non-life insurance. The complex structure of hybrid products might make it difficult for insurers to delineate at a product level that is premium receipts, claims and technical provisions for life and non-life insurers. Given that life insurance business relates to any activity conducted with the purpose of entering into an insurance contract under a life insurance policy, such policies should be classified as life insurance despite the policy having features of non-life products. The same is true for non-life insurers. This option will ensure a relative continuation to the current situation and will not materially disturb the services-component of the BOP.

Option 2 provides clear rules for classifying hybrid insurance products while minimizing changes to current insurance categories.
Should option 1 be chosen, it would be difficult for compilers to establish universal rules on where to record, and how to measure the hybrid products. For option 3, the change in terms and descriptions in statistical standards may confuse users and respondents.

Option 2 would require minimum or little change in the existing practice. It proposes to keep the current categories. This would help the BOP compilers for improved classification of hybrid insurance products whether as part of financial account or current transfers.

Option requires no additional changes to our current approach especially given that we have a fairly intractable data gap for details on hybrid insurance products.

We favor of Option 2 which recommends keeping the current categories - life insurance / non-life insurance. That is, products with a saving component are classified as the former, and products where claims are paid only if the insured event occurs are classified as the latter. Hybrid products would be allocated to one category or the other depending on which features are predominant.

The examples of hybrid schemes can be extended to pensions. In some pension schemes there is non-life components like the exempt of paying premiums for a period due to the occurrence of some risks. The “no claims” bonus is actually a repayment of premiums rather than an insurance benefit, in order to reduce the unnecessary use of the policy benefits.

We try to distinguish individual products separately for life and non-life insurance according to case if an insured event occurs. At this moment, this issue is already being addressed by our National Bank.

There isn’t a practical way to separate out the different parts of hybrid schemes. Hybrid schemes themselves are likely to be diverse so having them as a separate category doesn’t necessarily help and may result in time series consistency problems.

This option maintains the current framework but makes it more explicit and sets clear criteria for classifying hybrid categories.

This option would entail little change in practice.

We agree with the proposal to maintain the two current categories (life insurance and non-life insurance), since the nature of the information and the complexity of its classification would limit the identification of a hybrid product, therefore, the best option is proposed by the working group.

We agree with the proposed option 2. The current categories are quite clear to the sector. There is no clear added value in creating a third category nor in changing how insurance products are classified. There will always be borderline cases. Therefore, it is sufficient to improve the descriptions in the manual and allocate the hybrid products in one of the existing categories.

We believe that insurance companies already classify hybrid Life/Non-Life Insurance products by predominant component. It will be also difficult to gain data from insurance companies and split hybrid products to saving and non-saving components. Insurance companies use split for life and non-life insurance products for reports for regulatory institutions.

We chose the second option because it is easier to apply and practical, it does not require any change in the nomenclature.

We favor Option 2. Further, we would welcome to add an explanation regarding the nature of the insurance to the current terms in the Manual as recommended in par. 27 of the GN as in "life insurance (insurance with a saving component)" and "nonlife insurance (insurance without a saving component)".

We see option 2 as a pragmatic solution, as it suggests keeping the existing options and assigning hybrid pensions according to either category, based on its predominant features. This is important as data on individual types of insurances is not readily available.

We see that current categories represent insurance products well enough as we estimate that share of the hybrid insurances is rather low. Also, it is currently almost impossible to distinguish hybrid insurances from the source data.

Option 3

It would be much clearer if the category names state the actual difference between them and not keep the names of the main products they represent.

4. What proposed option in paragraph 20 do you favor for the classification of autonomous, employer-independent pension schemes?

Option 1

2008 SNA Pension Table 17.10 may be extended to include a column for non-social insurance pension entitlements. This treatment is more practical and does not affect in aggregate macroeconomic statistics

Because non-financial accounts are not affected.

The main distinction in the manuals is between social and private. Social means that there is a relation between two institutional units and private that the saving decision is entirely in the hands of one unit.

Option 2

From our perspective, option 3 is too broadly formulated. We favor option 2 as the best option, since the additional requirement of obligatory participation in the schemes does match the requirements of SNA 2008 (paragraph 17.88) and ESA 2010 (paragraph 17.06a) and would make them comparable to social insurance pension schemes.

In our view, the definition of option 3 is too broadly formulated.

Clearer

This option is appropriate

Option 3

Because it opens the door to include voluntary pension schemes different from the life insurance and annuities.

Considering that the amount of self-employed people is a growing trend in our country, it seems useful to include their pension contribution under social insurance pensions. This should only be the case for contributions that are made to collective schemes, so it is easier to identify these special cases.

Employer-independent autonomous pension schemes have already been recorded in Japan's SNA, having presence in terms of assets of the pension funds sector. They are founded by law, but participation is not mandatory.

Existen dispositivos legales en el país que permiten a los independientes aportar voluntariamente al sistema privado de pensiones o a un sistema nacional de pensiones y que le brinda los mismos derechos que los afiliados a planes de pensiones relacionados con el empleador.

I am of the opinion for option 3 because it is easier to implement by the compilers because it requires only the verification of a single criterion for the classification of these autonomous schemes, namely: contributions accumulated are reserved for retirement income and are mandatory.

In our country, voluntary Contribution with Retirement Incentive already in place since 1st January 2018. This scheme allows members who are self-employed and do not earn a regular income to make voluntary contributions towards retirement, and at the same time receive additional contribution from the government.

In our country, we do not have this type of pension scheme, the employers are obliged to join a pension fund.
Some independent professionals have an internal pension fund managed by a private pension fund and others have to register and join individually a pension fund.
If we had this kind of pension scheme, we would opt for the third option.

In our country we have a scheme set up by central government. This scheme is not necessarily employer based (although mostly works in the same way) and is technically not compulsory. However, based on the nature and role that this scheme plays in the economy, investments can only be used for pensions, they have been treated as pension schemes. Option 3 moves away from the specific requirements of a scheme to what function does the scheme fulfil in the economy.

In our country, there is no employer-independent schemes at this moment, so our pension pillars are covered by Social Insurance Scheme. However, if some employer-independent scheme is created we propose classify this scheme as mentioned under "Option 3" because we do not assume mandatory participation for certain groups.

Option 3 allow a similar classification when economic purposes and effects are the same.

Option 3 allows for taking new developments into account while at the same time the classification of social pension schemes remains

Option 3 appear to be the easiest to implement and the clarification text allows for the inclusion of cases where the participation in the scheme may or may not be mandatory.

Option 3 proposes a satisfactory extension of the social insurance definition to include employer independent pension funds that overcomes current limitations and ambiguity. Moreover, it would allow a better delimitation of retirements income products with similar characteristics (in taxation, regulation or supervision) to employment-related pension schemes.

Option 3 proposes to clarify that autonomous, employer-independent schemes or funds can also qualify as social insurance pensions and specify the criterion that accumulated contributions as set aside for retirement income and are subject to regulation or supervision in line with or similar to employer-related pension schemes/funds. As discussed in the GN, this option would help BOP compilers to decide based on simpler elements instead of complication the process by exploring financial aspects of the insurance supply.

Option 3 seems to be more appropriate because it has a purposive approach to the classification of social insurance pension schemes. Employer-independent schemes or funds serve a critical role in encouraging long-term savings and safeguarding retirement income. The supervision and regulation of the employer-independent schemes or funds must be consistent with the employer-dependent schemes, for an example same tax treatment or regime, with the exception that the membership is not voluntary for employer-dependent schemes, and the employer-independent schemes are defined contribution schemes while employer-dependent schemes can be either defined contribution of defined benefit schemes. The accumulated contributions from the employer-independent schemes or funds are set aside for retirement income and withdrawals before retirement are barred. However, there might need to be a balance between the mandatory restrictions on withdrawals and the need for flexibility of access to these funds. Participation in these schemes should not be mandatory as employers are not involved in the scheme. These schemes can be set up by the following financial corporations; non-money market investment funds (S124), financial auxiliaries (S126) and insurance companies (S128), among others.

Option c) is less restrictive and seems to capture economic substance in a better way than option 2. Though it has the bigger impact as compared with option 2 we agree with the authors that what should prevail is the existence of savings that can only be used to provide income upon retirement. We acknowledge that this could lead to some breaks in the time-series as back data might not be possible to recuperate accurately.

Schemes/funds should be considered as social insurance pensions if the accumulated contributions are set aside for retirement income and are subject to regulation or supervision in line with or similar to employer-related pension schemes/funds. Option 3 as it is also largely in line with BPM6 recommendations on social insurance and pension schemes.

The coverage of employer-independent schemes may require the development of new data sources. However, the restriction to schemes/funds which are subject to pension fund regulation and supervision should facilitate the identification of the relevant schemes and data providers.

There is no need to add the mandatory restriction in option 2. It would be simpler and more useful as stated in option 3.

This would expand our coverage of household pension wealth, which may eb beneficial in light of shifting demographics. However, we would have to undertake additional research and the acquisition of new data sources to accomplish this. We would also need more guidance on what is considered in regulation and supervision with respect to accumulated contributions and their usage as retirement income.
Currently, we have the expanded pension wealth boundary as part of our annual pension satellite account, but this account does rely on a set of assumptions that could be revisited in light of option 3.

To the best of our knowledge, autonomous employer independent schemes classified within S129 are not applicable in our country.
I have not responded to the Practical implementation questions for this reason.
As background, one area of concern would be that, should option 3 be taken forward, this potentially shifts the view of pensions from one where there needs to be an employer relationship to one of ‘building up retirement income’. An extension of the concept of social insurance to cover non workplace pensions is, in our view, problematic and would require significant consultation.

We agree that non-employer-related pension plans be classified as a pension plan, with the exception that it meets the criteria mentioned in the document (regulations must exist to ensure that accumulated contributions are used for income from retirement).

We believe the employer independent pension schemes encouraged by the government through fiscal incentives (such as tax relief for the contributions paid) and which are regulated in the same way as employment related pension schemes, should be treated as pension social insurance scheme.

We think that if employer-independent and employer-related schemes which offer same statutory social pension insurance should be classified similarly. At the moment we think that this matter doesn't affect our country as mandatory/statutory social pension insurance is classified to sub-sector of General Government (S13141, Employment Pension Schemes).