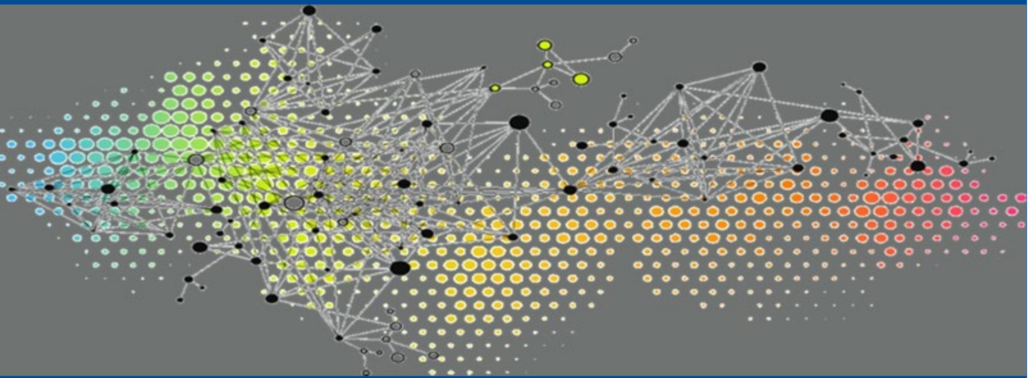

STATISTICS

INTER SECRETARIAT WORKING GROUP ON NATIONAL ACCOUNTS

F.12 Covering Hybrid Insurance and Pension Products (BOPCOM 21/17)

Joint (Virtual) Thirty-Seventh Meeting of the IMF Committee on Balance of Payments Statistics and Seventeenth Meeting of the Advisory Expert Group on National Accounts

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Acknowledgement

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Outline

- Issues, Options, and Recommendations
  - Issue 1: Hybrid Life/Non-Life Insurance Products
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- Comments Received by FITT and CATT Members
- Global Consultation
- Questions for the BOPCOM and AEG

Issue 1: Hybrid Life/Non-Life Insurance Products

Background

- *BPM6* and *2008 SNA* discuss the treatment of two primary types of insurance products: life insurance and nonlife insurance.
- However, there are hybrid insurance products that are mixture of the two primary types. In *BPM6* and *2008 SNA*, there seems to be no clear reference to the treatment of these products.
- This GN examines the options to better account for the classification of such hybrid insurance products.

Issue 1: Hybrid Life/Non-Life Insurance Products

Discussion

- Life insurance is recorded in the financial account because it includes a policyholders’ saving component and funds are regarded as financial assets managed by insurance corporations on policyholders' behalf.
- Nonlife insurance claims and net premiums are regarded as transfers and are recorded in current transfers because they do not have a policyholders’ saving component (i.e., insurance premiums once paid to the insurer will not be returned to the policyholders if the insured event does not occur).
- In spite of its name, in *BPM6* and *2008 SNA*, term life insurance is regarded as “nonlife insurance”, because benefits are payable only on the death or incapacity of the insured.
- The standards highlight that nonlife insurance is distinguished from life insurance in that financial claims arise only if an insured event occurs, while life insurance is an insurance whose financial claims arise regardless of an event occurrence.
- This GN examines the options to better account for the classification of hybrid insurance products.

Issue 1: Hybrid Life/Non-Life Insurance Products

Options for Consideration

- **Option 1:** Introduce a new category for hybrid insurance products and distinguish among the following categories—life insurance; nonlife insurance; and other insurance products.
- **Option 2:** Keep the current categories—life insurance/nonlife insurance. Hybrid products would be allocated to one category or the other depending on which features are predominant.
- **Option 3:** Revise the categories life insurance/nonlife insurance into insurance with a “saving component” and insurance where premiums are "lost" in case covered events do not occur and change the terms and descriptions in the statistical standards. Hybrid products would be allocated to one category or the other depending on which features are predominant.

Recommendation for Issue 1: Option 2

- The *BPM6* and *2008 SNA* classify insurance products based on whether the benefits are payable only if an insured event occurs or not.

  Hybrid insurance products could be classified into one of the two categories of life (financial account) or nonlife insurance (current transfers) by applying the same criteria to the main characteristics of the product, such as how products are structured, and premiums are spent.

- The following chart may be helpful for compilers in classifying insurance products under Option 2.

Classification of Life/Nonlife Insurance Products

<table>
<tr><td colspan="2" rowspan="2"></td><td colspan="2">General category</td></tr>
<tr><td>Life insurance</td><td>Nonlife insurance</td></tr>
<tr><td rowspan="3">Definitions in the manuals</td><td rowspan="3">Insurance providing payouts (based on financial claims) regardless of whether an event occurs (Financial account)

<Life insurance></td><td>Life insurance</td><td>Fire insurance (with saving component)
Personal accident insurance (with saving component)</td></tr>
<tr><td colspan="2">Education endowment insurance</td></tr>
<tr><td colspan="2">Hybrid long-term care insurance</td></tr>
<tr><td></td><td>Insurance providing payouts (based on financial claims) only if an insured event occurs (Current transfers)

<Nonlife insurance></td><td>Term life insurance</td><td>Fire insurance
Personal accident insurance
Marine, aviation, and other transport insurance
Health insurance
Etc.</td></tr>
</table>

Note: The blue boxes denote treatments already reflected in the BPM6.

Issue 2: Employer-independent Pensions Provided by Autonomous Pension Schemes/Funds

Background

- *BPM6* and *2008 SNA* foresee only employer related pensions.
- Pension schemes covering the self-employed exist in some countries which offer comparable benefits and are subject to the same or similar regulations as employer related pensions.
- This GN examines the options for a (more) comprehensive coverage of pensions provided by autonomous pension schemes/funds.

Issue 2: Employer-independent Pensions Provided by Autonomous Pension Schemes/Funds

Discussion

How to record schemes that provide similar benefits as employment-related pension schemes but are employer-independent?

Governments aim to increase old age savings by extending pension options, e.g., to:

the self-employed, employees of SMEs, without long-term contract, internationally mobile.

Classification Issues

- Pension schemes covering the self-employed (DE, ES …)
- Mandatory individual pension (BG Universal pension fund)
- Pan-European Personal Pension product (PEPP regulation)

Consistent Recording of Pension in Financial and Non-financial Accounts

Pension contributions are social contributions – decrease disposable income

Accumulated contributions are set aside for retirement income

- Secure provision of retirement income as decisive criterion
- Is employer involvement an analytically meaningful requirement?

Issue 2: Employer-independent Pensions Provided by Autonomous Pension Schemes/Funds

Options for Consideration

- **Option 1:** Keep the narrow definition of social insurance pension schemes as employer-related schemes only and explore whether it can be aligned with international accounting standards. *2008 SNA* Pension Table 17.10 may be extended to include a column for non-social insurance pension entitlements.

Clarify that autonomous, employer-independent schemes or funds can also qualify as social insurance pensions, and specify the criteria as follows:

- (i) accumulated contributions set aside for retirement income and subject to regulation or supervision in line with or similar to employer-related pension schemes/funds.

- (ii) participation in the schemes is mandatory for certain groups.

- **Option 2:** criteria (i) and (ii)
- **Option 3:** criterion (i)

Advantages and Disadvantages of Options for Issue 2

<table>
<tr><th></th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>Option 1: Keep the narrow definition of social insurance pension schemes as employer-related schemes only</td><td>• No change
• Employer-independent schemes may be covered as non-social insurance pension schemes</td><td>• Different treatment of schemes which provide same benefits
• Creation of additional pension concept</td></tr>
<tr><td colspan="3">Clarify that autonomous, employer-independent schemes or funds can also qualify as social insurance pensions and specify the criteria as follows:
(i) 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.
(ii) participation in the schemes is mandatory for certain groups</td></tr>
<tr><td>Option 2: criteria (i) and (ii)</td><td>• Covers some schemes (e.g., in DE and BG)</td><td>• Different treatment of schemes which provide same benefits
• Change in the definition of social insurance</td></tr>
<tr><td>Option 3: criterion (i)</td><td>Comprehensive, analytically meaningful extension of pension coverage (in addition, e.g., schemes in ES, PEEP provided through autonomous pension funds)</td><td>• Change in the definition of social insurance</td></tr>
</table>

Recommendation for Issue 2: Option 3

- A comprehensive coverage of pension schemes is recommended based on the criterion that the accumulated contributions that are set aside for retirement income and are subject to regulation. This criterion is sufficient to justify the recording of the contribution as social contributions, which, similar to (e.g.) taxes, reduce disposable income.
- 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.

Comments Received from FITT and CATT Members

Issue 1: Hybrid Life/Non-Life Insurance Products

- A majority of FITT and CATT members favored Option 2.
- Some members are in favor of adding the explanation to “Life insurance” and “Nonlife insurance”.

Issue 2: Employer-independent Pensions Provided by Autonomous Pension Schemes/Funds

- Majority (8 members) supported Option 3, which the authors have recommended.
- Two members supported Option 2, and the other 3 members made objection to Option 3 without preferring an alternative option.
- The proposal of a FITT member to make the reference to pension regulations more explicit, was implemented following the argument that this would help compilers to base their decisions on a simpler element (subject to regulation).
- Following comments regarding the distinction between pensions and annuities offered by insurance corporations, it is now clarified that the proposed extension of the pension concept considers only autonomous pension schemes/funds.

Global Consultation Outcomes

Issue 1: Hybrid Life/Non-Life Insurance Products

- **There was wide support (76 percent) for the recommended Option 2—**as it is considered 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.
- Slightly more than half of the respondents confirmed having access to source data for implementing this option.

Issue 2: Employer-independent Pensions Provided by Autonomous Pension Schemes/Funds

- **Most respondents (56 percent) supported the recommended Option 3—**as it is considered as less restrictive, easier to implement, and reflecting the economic substance better than the other options.
- Around 40 percent of the respondents confirmed having access to source data for implementing this option.

Questions for the Discussion

1. What option do the Committee and the AEG favor for the classification of hybrid insurance products (Option 1, Option 2, or Option 3)?

2. What option do the Committee and the AEG favor for the classification of autonomous, employer-independent pension schemes (Option 1, Option 2, or Option 3)?

3. Do the Committee and the AEG have any other comments/suggestions on the issues discussed in the GN?