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Comments on draft SNA chapters
Chapter 17: Cross-cutting and other special issues

<u>§17.7</u>

"Life insurance is an activity whereby a policyholder makes regular payments to an insurer…"
Are single premium life insurances not considered as life insurance? §17.10 seems to treat them as life insurances. Therefore we propose to change the phrase above as follows: "Life insurance is an activity whereby a policyholder makes regular or **lump sum** payments to an insurer…"

<u>§17.12 and §17.59</u>

§17.12 "There are two types of reinsurance, proportionate reinsurance and excess of loss reinsurance. (…) In this case [proportionate reinsurance], any reinsurance commission paid by the reinsurer to the policy holder (…) is treated as a reduction in reinsurance premiums payable. (…) In excess of loss reinsurance (…) the reinsurer may pass a share of his profits to the direct insurer."
As far as we know, profit commissions are paid under proportionate reinsurance treaties, not excess of loss reinsurances.
The treatment of reinsurance and profit commissions was not subjected to an indepth discussion at the OECD task force on non-life insurance. In the Swiss NA they are currently treated as production/intermediate consumption (import/export), because in the P&L accounts of the reinsurers and ceding companies they are accounted for as operating costs (positive and negative). We also tried to change our treatment as defined in §17.12, but this leads to extremely fluctuating service charges and even negative production. We therefore think that further investigation on how these commissions should be estimated and accounted for has to be done.

<u>§17.14</u>

"(b) at least one of the three conditions following is met: …"

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The three conditions always apply to workers (employed or unemployed) while some social insurance schemes may cover the entire community or large sections of the community. In Switzerland this is the case of old age (first pillar), invalidity and sickness insurances. We therefore propose to change the first condition (i) as follows:
"(i) Participation in the scheme is obligatory either by law or under the terms and conditions of employment"

§17.20

"The determinants for the insurance to count as a social insurance policy are that the benefits must be of the social benefit type and an employer makes an actual or imputed contribution to the scheme on behalf of an employee".
This definition is in contradiction with the conditions listed in §17.14, because it takes into account only condition (a) and (b iii). Here again it is assumed that only when there is an employer-employee relationship an individual insurance policy can be part of a social insurance scheme. What if condition (a) is satisfied and the participation in the scheme is obligatory by law for the entire community (condition b (i) if changed as proposed above) and there are individual insurance policies? In Switzerland sickness insurance is compulsory by law for the entire community, and policies have to be taken by individuals in their own name independent of any employer –employee relationship.
Therefore we propose to change the sentence as follows:
"The determinants for the insurance to count as a social insurance policy are that the conditions listed in §17.14 are satisfied" or "Individual insurance policies which satisfy the conditions listed in §17.14 should be considered as part of a social insurance scheme".

§17.24

"…Social insurance schemes can be operated in a number of ways (…) a. by government (…) b. by employers (…) c. by others (…) The last two cases are here called employment-related social insurance schemes other than social security."
Once again this paragraph precludes the possibility of social insurance schemes covering the entire or part of the community, without relationship with employment and operated by institutional units other than government. Please see also our comments on chapter 8.
Furthermore, it could be useful to introduce at the end of the paragraph the notions of unfunded and funded social insurance schemes operated by employers (when is a scheme funded?).

§17.26-§17.28

"Coverage of social security"
In our opinion, the different examples made in this section should be completed by indicating in which sector/type of scheme they have to be allocated.
Furthermore, in §17.26 private schemes are mentioned but a definition is missing.

Section A.4, part 1 of chapter §17

"The units involved"
In this section there is no explicit reference to sector allocation of the different kinds of units involved in social insurance schemes. This section should be complemented in this respect.

Section B, part 1 of chapter §17

"The measurement of output of direct insurance"
This section does not mention the treatment of profit participation within non-life direct insurance. It should be complemented in this respect.
Furthermore, it is not clear whether the change in the provision for bonuses and rebates has to be taken into account when estimating the services charge of life and non-life insurances. Besides, this kind of technical provision is not mentioned in the section C.6 of chapter 11. Non-life insurance corporations may set aside provisions for bonuses and rebates, just as life insurers do (this is the case at least for Swiss non-life insurers).

§17.31-§17.36

"Property income attributed to policyholders"
It is not clear whether this flow (and hence the premium/contribution supplements) contains or not holding gains. Nothing is said about it for non-life insurances, while for life insurances it seems that holding gains could be taken into account when implicitly attributed as bonuses. In that case, the change in liabilities of life insurances towards policyholders (change in life provisions) must also contain holdings gains when measuring the output of life insurances.

§17.37

"Neither the volume nor the price of insurance services is directly affected by the volatility of claims"
The profit of the reinsurer is affected by the volatility of claims. The return of own capital would therefore be different as expected and as loaded in the premium. As profits generated from a production activity are part of value added, why shouldn't this difference affect the insurance services at current prices

§17.42

"…where adjusted claims are determined by using claims due plus the changes in equalisation provisions and, if necessary, changes to own funds"
When do changes to own funds have to be taken into account? In our opinion an example or a reference to specific documents would be useful.
Furthermore, it seems that the change in equalisation provision is part of non-life and life insurance technical provisions (see chapter 13, §13.82 and §13.83)? Shouldn't it be considered as part of actual claims (and not of adjusted claims) and therefore not be recorded as a capital transfer?

Section B.3 part 1 chapter §17

"Defining insurance output"
Here again no reference is made to whether the equation's items should be recorded exclusive of holding gains and losses (ESA95 provision) or not.

§17.57

"Thus a direct insurer pays property income to its policy holders (…) but receives as an offset property income from the reinsurer (…)"
Does this phrase mean that the amount of property income attributed to policyholders by direct insurers which have ceded part of their risks to a reinsurer contains not only actual investment income and

net operating surplus earned by the direct insurer, but also an amount corresponding to the premium supplement that they received from the reinsurer? If yes, then the definition of property income attributed to policyholders under section B.1 has to be completed.

§17.65

"(b) in the secondary distribution of income account (…) social security contributions by households in their capacities as employees"
There is a contradiction in this sentence because in §17.64 it is said that social security schemes may receive contribution from non-employed persons, while in §17.65 it seems that only employees can pay contributions to these schemes.

§17.69

"Output equal to the sum of these costs should be imputed as being paid by the beneficiaries from an imputed element of contribution"
What if it is not possible to identify the costs incurred by the employer due to the operation of the scheme? We think that it could be worthwhile explaining how to measure these costs and whether it is always necessary to impute an output.

Table §17.2

"Accounts for unfunded non-pension social insurance benefits"
The numerical example doesn't show the production and consumption transactions described in §17.71. Furthermore, there is probably a mistake in the table, because the flows concerning the secondary distribution of income account (household contributions, employers' imputed non-pension contributions and unfunded non-pension benefits) are recorded as taking place between households and social insurance funds, which is contrary to what is stated in §17.67 ("but all flows are between households and employers") and §17.71 (c).

§17.74

"Under certain circumstances, a seventh transaction relating to redistribution may be recorded in the capital account"
It seems to us that independently of the method chosen to estimate the insurance service charge, actual claims would quite often be different from adjusted claims. Therefore, it would be better to consider capital transfers as being a usual flow. In this respect, we ask for a change in the numerical example (table 17.3). For a better comprehension of the accounts, the table should show the treatment of capital transfers (difference between adjusted claims and claims due, inclusive of the change in equalisation provisions) and their impact on other transactions.

§17.76

"(b) (…) This applies to both direct insurance and reinsurance."
In the case of reinsurance, it seems that ceding commissions would have to be deducted from premiums earned. We therefore think that it could be useful to remember that in the case of reinsurance premiums earned correspond to actual premiums earned minus received ceding commissions.

§17.76

"(c) Insurance claims due are payable by insurance corporations (…)"
We think that it is necessary to add that in the case of reinsurance, this amount should be increased by the amount of profit sharing.

Section D.5 part 1 chapter 17

"Funded social insurance other than pensions"
Please see our comments concerning the possibility to have individual social insurances managed by insurance corporations independent of an employer-employee relation. All references to "employee" should therefore be replaced by "policy holder".
In our opinion it would be useful to introduce the notion of autonomous and non autonomous schemes, as these social insurances may be allocated both in the employer sector and in the sub-sector "Insurance corporations".

Table 17.5

"Accounts for funded non-pension social benefits"
Why is in the income account (use) a "change in non-pension entitlements" of 1 recorded? This in not explained in §17.86. We thought that the flow D.8 (see chapter 9, section A.4) would only concern pensions entitlements. Is it a mistake?

Section E

"Annuities"
What if it is not possible to distinguish annuities from the other type of life insurances? Wouldn't it be easier to treat life insurance in a single way? Therefore, we wonder whether the result of the proposed treatment of annuities is equivalent to those proposed in § 14.45, apart from the amount of premium supplements.
A numerical example should be introduced in the text. We ask for explanations on how to estimate premiums earned and premium supplements using data available from life insurance accounts.

§17.120

"In certain jurisdictions it is possible…"
This sentence is too long. For the sake of clarity there should be two or more sentences.

§17.128

"In describing the recording of transactions, transactions with the pension fund must be attributed to the sector where the fund is located"
It could be useful to add to which sector the different kinds of funds have to be allocated. It is not clear to us whether a notional fund, which is part of the same institutional unit as the employer, belongs to the same sector as the employer. Furthermore, which sector does a multi-employer pension scheme belong to?

Part 3, section I, point 1

“Defined contribution pension schemes”
We propose to add a paragraph illustrating the formula to calculate the output of these schemes. It is not clear whether the output of these schemes corresponds to the cost of operating the pension fund. If this is the case, such a treatment implicitly means that defined contribution pension funds are non-market producers even when they are managed by an insurance corporation or a multi-employer pension scheme. In our view output of autonomous pension funds should be measured differently from the output of non-autonomous ones.

§17.132

“Part of the income distributed to the pension beneficiaries is used…”
What is it meant with “part of”? Is it meant that pension contribution supplements are not equivalent to the investment income on the cumulated pension entitlements and attributable to the beneficiaries (i.e. property income payable on pension entitlements)? If it is the case, then a change in the table 17.7 is needed to avoid confusion. In fact, in the numerical example, household pension contribution supplements in the secondary distribution of income accounts equal property income payable on pension entitlements in the distribution of primary income account.

§17.133

“…actual contributions by employees and possibly by other individuals plus the contribution supplements just specified.”
This is equivalent to saying “plus investment income attributable to the beneficiaries minus the value of output”. We think that it would be better to use this wording, which also matches with the numerical example in table 17.7.

§17.134 and §17.135

“…The appropriate recording of the benefits is to show the benefit as payable immediately on retirement and then, where appropriate, reinvested in terms of an annuity or other forms of financial assets.”
As said in the text, some schemes may pay annuities and not lump sum at the time of retirement. It is therefore difficult to convert these amounts into lump sums, as the available data make no distinction between pension entitlements of pensioners and those of employees. Furthermore, such a treatment may have a huge impact on the level of households’ disposable income.
Furthermore, we thought that the main reason for treating pension scheme in a different manner than life insurances was to better reflect the observable impact of forced saving on households’ disposable income. If this is true when contributions are paid, why would it not be true when annuities are received?

Table 17.7

“Accounts for pension payable under a defined contribution scheme”
Why is there an entry of 2.5 under the increase in assets (changes in liabilities side) of the employer? In the use of income account a “change in non-pension entitlements” is recorded? This in not explained in §17.86. We thought that the flow D.8 (see chapter 9, section A.4) would only concern pensions entitlements. Is it a mistake?

§17.153

"…the pension benefits payable to households by the pension fund are shown"
It is not clear to us whether pension benefits to be recorded correspond, as for defined contribution schemes, to the amount of pension entitlements of the new retirees (lump sum) or to the amount of annuities actually paid by the fund.

§17.158 and §17.159

"The relationship between the employer and the pension fund"
These two paragraphs are incomplete, as they do not treat the case where the employer cedes the risks of short-fall in the funds to an autonomous pension fund. §17.159 explains the case in which the employer retains the liability for any under-funding. What happens when this is not the case?
In our opinion it is necessary to add explanations and a numerical example for this other case. This is for us of a great importance, as in Switzerland employers have not any liability toward employees/pension funds in case of under-funding of pension funds.

Table 17.8

"Accounts for pension payable under a defined benefit scheme"
There is a mismatch between the amounts shown in the table as households' total pension contribution in the distribution of primary income account (19) and the amount in §17.163 (13.5). Is there a reason for this?
Are the costs of operating the scheme (0.6) expenditure actually incurred? If yes, why aren't they deducted to estimate the decrease in other assets (2.3 in the table, see also §17.165).
There is a problem in the financial account of the employer and of the pension fund. For the former, net total borrowing/lending is -14.1. The total change in pension fund claims on employer is +7.5 and the total change in other financial assets is -13.4, which is a change in net value of -20.9. For the latter, net total borrowing/lending is -1.2. The total change in pension fund claims on employer is +7.5 and the total change in other financial assets is +1.1, while the change in pension entitlements is +3, which is a change in net value of +6.8. Probably the problem is to be found in the other financial assets (imputed) of 3.4, which is negative for employer and positive for pension fund, but that should be negative for pension fund and positive for employer.
Finally, under pension fund's changes in the year, the amount of 6.7 (pension fund claim on employer) should be negative.

§17.172-§17.178

"The issue of promotions"
What if in a defined benefit scheme as described in §17.172, employers and employees which receive a promotion have to catch up with the increase in pension entitlements by paying for example during a year higher contributions to the scheme in order to fill the gap?

§17.200

"Several financial institutions do make explicit fees for the services they render. These should always be recorded as payable by the unit to whom the services are rendered to the institution performing the service. If the services are rendered to a corporation or to government, the costs will form part of intermediate consumption. If they are rendered to households they will be treated as final consumption unless the financial service is performed in relation to an unincorporated enterprise, including the own-

ing and occupying of a dwelling. ***Financial services are never incorporated into the value of any asset****, financial or otherwise, even if their incurrence is necessary for the acquisition of the asset. (This is in contrast with the treatment on nonfinancial assets where the costs of acquiring the asset are included in the value of the asset appearing on the balance sheet.)*
Although §17.200 specifically deals with the case of explicit fees, the wording “Financial services are never incorporated into the value of any asset” may suggest that such a valuation applies to any financial service, either explicitly or implicitly charged. In the latter case, services are embedded in the accrued interests and may therefore be part of the value of some assets (e.g. loans). A sentence like “Explicitly charged financial services are never.....” would be more precise.

§17.218

§17.218 is in contradiction with, for instance, § 6.157 *(“These indirect charges in respect of interest apply only to loans and deposits and only when those loans and deposits are provided by, or deposited with, financial institutions“*), which clearly restricts the production of FISIM to financial institutions. It is our understanding therefore that the provision of credits by non financial corporations (e.g. retailers), as a secondary activity, does not give rise to FISIM. FISIM are only calculated if a specific subsidiary is set up by the retailer for that purpose, this subsidiary being then classified as a financial corporation.

§17.248

Only explicit fees earned at issuance are mentioned while, in some cases, financial institutions may act as market makers, especially for option-like products (or option-based products). A reference to their earned bid/ask spreads should therefore be included (cf §17.242) and Table 17.11 (p. 55) should be adapted accordingly.

Table 17.11

As in §17.248, buy/sell margins should be added for financial derivatives. Furthermore, interest should be added for Monetary Gold to be consistent with §17.209 / §17.210 and the consideration of a margin on interest in the table itself.

§17.265

“...Payments under the financial lease are treated not as rentals but as the payment of interest and repayment of principal.”
This sentence should be rewritten based on §17.267 : “Payments made regularly to the lessor should be shown as a payment of interest, a payment for a service and a repayment of capital”. Our proposal for a new sentence would be “...Payments under the financial lease are treated not as rentals but as a payment of interest, a payment for a service and a repayment of principal.”

§17.267

“... If the terms of the agreement do not specify how these three items are to be identified, the repayment of principal should correspond to the decline in the value of the asset (the consumption of fixed capital), the interest payment to the return to capital on the asset and the service charge to the difference between the total amount payable and these two elements.”

If payments under financial leases are fixed amounts (which is generally the case) and as the interest rate can be considered fixed over the length of the lease, the matching of the consumption of fixed capital (steady or decreasing over the length of the lease) and the principal repayments is problematic. A difference between the paid amounts and the estimated payments of principal and interests will arise in any cases, i.e. even if no fee has been charged, and can take negative values. Only increasing repayments of principal are consistent with fixed interest rates and fixed payments.

Furthermore, reference to FISIM is missing although §6.160 clearly states that :
"When an enterprise acquires a fixed asset under the terms of a financial lease, a loan is imputed between the lessor and the lessee. Regular payments under the lease are treated as being payments of interest and repayment of capital. When the lessor is a financial institution, the interest payable under the terms of a financial lease corresponds to bank interest and should be separated into SNA interest and financial service charge as for any other loan."

The computation presented under §17.267 should therefore make clear that the estimated interests should be further split into a "pure" interest and a service component using a reference rate, if financial institutions are the lessors. If the lessors are non financial corporations, only explicit fees should be taken into account.