

**Comments on draft SNA chapter:
Chapter 17: Cross-cutting and other special issues
Deadline for comments: 1 September 2007
Send comments to: sna@un.org**

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Submission date:	Click here and enter your submission date

This three-part template allows you to record your comments on draft chapter 17 easily and, at the same time, makes it easy for us to use your comments in considering revisions to the draft chapter. You may complete any one, any two, or all of the three parts of the template.

There is no file comparing existing text with draft text for this chapter because the draft is all new text.

Save this template and send it as an attachment to the following e-mail address:
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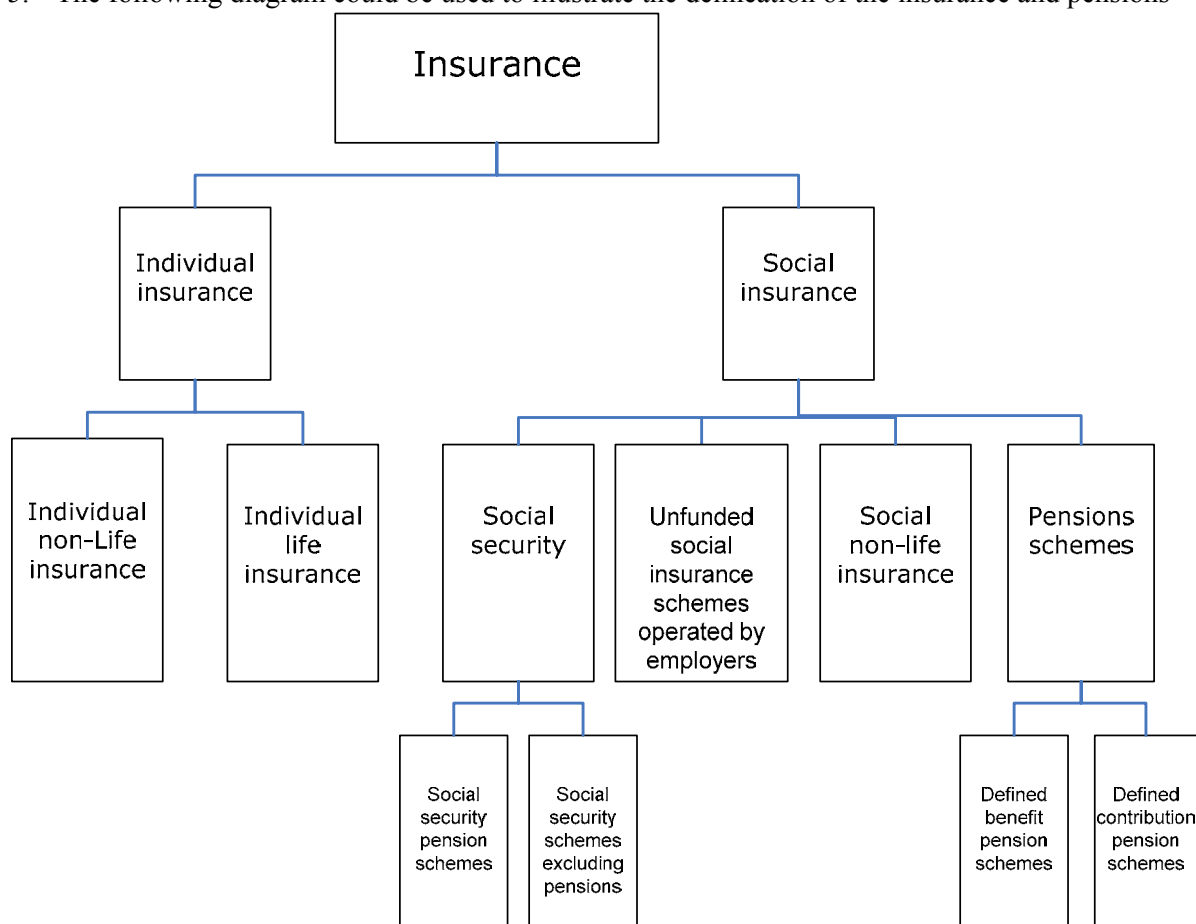
Part I: General comments

In the space below, please provide any general comments, such as about the clarity with which the new recommendations were incorporated (30 words or less).

Comment:

<p>1. Para. 17.22: It may help to define individual insurance, more precisely. A definition can be as followed: <i>Individual insurance are insurance policies that are obtained directly by individual policy holders on their own initiatives, where individual policy holders may be an individual person or a legal unit.</i> To avoid confusion: the title "individual policies qualifying as social insurance" may be changed to "insurance policies written for individuals as part of social insurance scheme"</p> <p>2. The sequence of Part 1 seems to be incomplete. Section A distinguishes direct insurance, reinsurance and social insurance. Section B discusses measurement of output of direct insurance. Section C discusses measurement of reinsurance. It would be helpful the have in Section B a separate section on the measurement of output of social schemes (social security, unfunded social insurance and funded social insurance) or at least a more detailed description of the output of social non-life insurance in Par 17.44. In doing this, there is no need to use the combined term like "premiums/contribution" or "claims/benefits" in the formulas and throughout the text. Premiums and claims are used for direct insurance; contributions and benefits are used for social insurance.</p> <p>3. Part 1 Section D: The term "non-life" should replaced by the term "individual, as "individual life insurance" is also discussed in this section under point 4 (par 17.19).</p> <p>4. Part 1, Section D, point 5 (par 17.83) : The term "Funded" should deleted and the term "non-life" inserted after the word "social"</p>
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5. The following diagram could be used to illustrate the delineation of the insurance and pensions



6. Par 17.33 and 45: There is no social life insurance, therefore “contributions” and “benefits” can be dropped from the formula.

7. Par. 17.42: "equalization provisions" and "change in own funds" are not defined. It is referred to as technical provisions in par 13.82.

8. Par 17.45: In par 13.83 the term life insurance entitlements is used to describe actuarial reserves. "Actuarial reserves and reserves for with profits" are not defined in the draft..

9. Par 17.71 (1) refers to output for unfunded social insurance operated by employers, while Par 17.62 indicate that separate insurance services are not recorded for these types of insurance. UNSD prefers the latter treatment.

10. Par 17.125 to129: The measurement of output for pension funds needs to be described here as calculated at cost (for non-autonomous funds) and for autonomous funds using the formula of par 17.45 (replacing premiums and claims with contributions and benefits respectively).

11. Tables of examples may need to be carefully reviewed. Below are observations that lead to that suggestion.

12. The example in table 17.2 needs a production account if the guidelines of par 17.69 and 17.71 (1) is accepted. Employers' imputed contribution should then be more than 9.0 to include the service charge. Let us assume that output/cost is 1.0, then imputed contribution is 10 and **net** contribution is 9.0. 1.0 will be also treated as final consumption expenditure. However, this guideline may be too data-demanding to implement. The cost of operating unfunded schemes can be treated merely as intermediate consumption by the producers, which is similar to the treatment of social security.

13. Table 17.3: When the actual flows of receipts and expenses by the non-life insurance company is analyzed, the totals do not balance as shown below.

Actual receipts and expenses of the non-life insurance company (based on table 17.3)

USES		RESOURCES	
Claims	45	Total premiums	51
		Premiums	45
		Service charges (output)	6
		Property income	6
Cost + profit (=output of insurance)	6		
Increase in technical provision	3		
Total	54	Total	57

(a) The increase in technical provision should be 6 instead of 3. Claims must be recorded as paid by the insurance companies and not by households as shown in the table.

Too many values are the same (equal to 6). It is better use different values for different variables.

(b) It is suggested that a simplified business account on receipts and expenses of an insurance company, similar to the one presented above, be presented for all tables so that readers can understand what additional imputations are needed in order to record the flows according to the SNA.

(c) It is suggested that when an example is given, the recording of all related and essential transactions should be shown. The editor may choose to deliberately skip some transactions but it is confusing to the readers when it is done

14. Table 17.7 is understandable, although I suggest that the actual receipts and expenses of the pension funds be described before the recording is described so that readers can easily understand it. The figures in table 17.7 are shown in the example of business accountants below. In this case, actual receipts and expenses are balanced.

Actual receipts and expenses of a defined contribution scheme (based on table 17.7)

Expenses		Receipts	
Cost + profit (=output of insurance)	1.4		
		Property income	3
Benefits	26	Contribution	25.5
		Employers' actual contribution	14.0
		Employees' actual contribution	11.5
Change in pension entitlement	1.1		

Total	28.5	Total	28.5
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Given the information, the recording in table 17.7 can be improved as follows: (a) Compensation of employees' actual contribution, (11.5), are produced somewhere in the economy and must be shown in the table; (b) The saving of the pension fund **must zero (output is equal to cost of operating the fund (assume all it is COE))**

Below is the SNA recording in table 17.7 may be as follows, the financial accounts shows the treatment of net contribution and benefits:

Table 17.7

		Business		Pension funds		Households	
		U	R	U	R	U	R
Output					1.4		
Value added	Compensation of employee	14+10.1		1.4			
	<i>Employers' contributions</i>	14					
Primary							
D1	Compensation of employees						25.5
D122	<i>Employers' contributions</i>						14
D41, D42	Property income	3			3		
D44	<i>Property income attributable to insurance policy holders</i>			3			3
Secondary							
D61	<i>HH net contributions</i>				27.1	27.1	
D6112	<i>Employers' contributions</i>				14	14	
D6121	<i>Employees' net contribution</i>				11.5+3-1.4	11.5+3-1.4	
D62	Pension benefits			26			26
D8	<i>Pension entitlements</i>			1.1			1.1
	Final consumption					1.4	
B8g	Saving	-27.1		0.0		27.1	
Financial accounts							
Currency				+27.1 - 26		-27.1 +26	
Pension entitlement					+27.1 -26	+27.1 -26	

15. Table 17.8 is very difficult to understand and the paras from 17.161-17.166 are not very helpful. Besides, from my own verification, table 17.8 also needs review. Below, I put the numbers into the actual flow of receipts and expenses for the pension fund first in order to have the equality of the total of expenses and the total of receipts. The actual change in pension entitlement (shown by the editor to be -4.5) should be -2.9. See below.

**Actual receipts and expenses of a defined contribution scheme (based on table 17.8)
WITHOUT IMPUTATION**

Expenses		Receipts	
Cost + profit (=output of insurance)	0.6		
		Property income	2.2
Benefits	16	Contribution	11.5
		Employers' actual contri.	10.0
		Employees' actual contri.	1.5
Change in pension entitlement	-2.9		
Total	13.7	Total	13.7
		Actual should be -2.9, not -4.5 as in table 17.8 as this can be calculated by deducting benefits and output from the total on the right hand side	

Given this basic data, imputations can then be added (similar to the way Francois Lequiller did in his AEG paper on non-life and pension funds), but in a way that there is a balance between receipts and expenses. If additional imputed contribution must be made then imputed change in pension entitlement must be introduced (which is in addition to the actual pension entitlement kept by the insurance company). Given imputed pension supplement is 4 as done by the editor, the imputed change in pension entitlement can be calculated as shown in the table below.

**Actual receipts and expenses of a defined contribution scheme (based on table 17.8)
WITH IMPUTATION**

Expenses		Receipts	
Cost + profit (=output of insurance)	0.6		
		Property income	2.2
Benefits	16	Contribution	19.6
		Employers' actual contri.	10.0
		Employers' imputed contri.	4.1
		Employees' actual contri.	1.5
		Imputed pension supplement	4
Change in pension entitlement	5.2		
Actual	-2.9		
Imputed	8.1		
Total	21.8	Total	21.8

As currently presented, it is not possible to figure out the sequence of assumptions.

Part II: Comments on specific draft paragraphs or passages

In your review of draft chapter 17, you may wish to devote particular attention to the passages listed below. For ease of reference, we have identified the relevant paragraphs. For each passage, a Word table is provided for you to use in making your comments. There is a row for general comments at the top of the table. Thereafter please use a separate row for each paragraph on which you wish to make detailed comments.

Chapter 17, Part 1: The treatment of insurance and social insurance other than pensions
Part 1 is based loosely on annex IV of the 1993 SNA, but includes several passages that introduce changes. Some of these are identified below.

1. A refined treatment of non-life insurance is introduced in paragraphs 17.37-17.39 to prevent the variation in claims made each year from affecting output. A different treatment is permissible when the claims are exceptionally large and beyond expectation (17.50). Are these paragraphs clear?

General comment	Overall, it's clear. However, some terms need definitions. Please also see comments in PDF files.
17.37	Click here and start typing.
*	Click here and start typing.
17.50	Click here and start typing.

* Insert rows in this Word table for each paragraph on which you wish to comment.

2. The simplification in the SNA whereby direct insurance and reinsurance transactions were consolidated was seen to be causing errors especially in countries where all reinsurance was carried out with non-resident corporations (as is often the case). Is the description of how and why to treat direct insurance and reinsurance separately sufficiently clear (paragraphs 17.54-17.60)?

General comment	Good description.
17.54	Click here and start typing.
*	Click here and start typing.

* Insert rows in this Word table for each paragraph on which you wish to comment.

3. A treatment for annuities as a form of life insurance is introduced in Rev. 1. This is desirable in itself and because it is how regular payments in retirement under defined

contribution pensions are recorded. Paragraphs 17.90-17.97 describe this treatment. Are the paragraphs clear?

General comment	UNSD considers the proposed treatment in the draft unsatisfactory. It is currently written from an analytical point of view of the insurance company at the time the contract is initiated with assumed claims, assumed interest rate and given the assumed possible output, the premium the annuitant has to pay. It is written to describe how the present value of claims is calculated over time. However, as market conditions change over time, at any accounting period, the actual property income received by the insurance company from investing the premiums (earned and unearned) must be taken from its business accounting book, thus the actual premium supplement may differ from the value that is based on an assumed interest rate. We suggest that an example is given (as promised in the previous draft) to show how data from the insurance company can be used to calculate output.
17.90	Click here and start typing.
*	Click here and start typing.

* Insert rows in this Word table for each paragraph on which you wish to comment.

Chapter 17, Part 2: The treatment of loan guarantees in the System

Rev. 1 distinguishes three classes of loan guarantees. The first is composed of those guarantees provided by means of a financial derivative (described in chapter 11). The second is composed of the sorts of guarantees where large numbers of very similar guarantees are issued. Another is described as one-off guarantees, where each guarantee is tailored to specific circumstances.

- The second class is called standardized loan guarantees. A treatment of such guarantees is introduced in paragraphs 17.106-17.111. It resembles the treatment of insurance in several respects. Is the description clear and comprehensive?

General comment	Good and clear description.
17.106	Click here and start typing.
*	Click here and start typing.

* Insert rows in this Word table for each paragraph on which you wish to comment.

Chapter 17, Part 3: The treatment of pensions in the System

Part 3 describes the treatment of pensions. It does so in some detail, in part because the means by which pensions are provided to persons in retirement varies considerably from country to country.

5. Rev. 1 incorporates a number of changes in the treatment of defined benefit pension schemes. After distinguishing between defined benefit and defined contribution schemes in paragraphs 17.141-17.146, the text describes the transactions recorded for a defined benefit scheme and provides a numerical example. This text begins in paragraph 17.147 and continues through paragraph 17.166. Is the text clear and comprehensive?

General comment	See comments above and other comments on PDF files.
17.147	Click here and start typing.
*	Click here and start typing.

* Insert rows in this Word table for each paragraph on which you wish to comment.

6. Paragraphs 17.183-17.193 describe the proposed supplementary table that gives flexibility to countries not to include all liabilities for pensions in the main accounts while still providing the information for analysts. Is the table clear?

General comment	Clear.
17.183	Click here and start typing.
*	Click here and start typing.
Table 17.10	Click here and start typing.

* Insert rows in this Word table for each paragraph on which you wish to comment.

Chapter 17, Part 4: The recording of flows associated with financial assets and liabilities
Part 4 describes the flows associated with financial assets and liabilities more extensively than in annex III of the 1993 SNA text, including the services associated with them.

7. The introduction, paragraphs 17.194-17.204, provides an overview of financial services that is wider than the traditional view of financial intermediation as applied to only deposits and loans. Is this wider perspective on financial services comprehensive and is the material presented in a helpful manner?

General comment	Helpful.
17.194	Click here and start typing.
*	Click here and start typing.

* Insert rows in this Word table for each paragraph on which you wish to comment.

8. A new table summarizing the types of flows that relate to each instrument is given in table 17.11, which is introduced in paragraph 17.205. Is this table helpful?

17.205	Click here and start typing.
Table 17.11	Click here and start typing.

* Insert rows in this Word table for each paragraph on which you wish to comment.

Chapter 17, Part 5: Contracts, leases and licences

The 1993 SNA did not have a comprehensive, coherent discussion of contracts, leases and licences. Part 5 brings together the material on the subject discussed under several of the 44 agreed Update issues.

9. Paragraphs 17.261-17.269 describes the three kinds of leases, including a description of resource leases, which are introduced in Rev. 1 in paragraph 2.269. Is the description of resource leases clear? Is the greater clarification of the distinction between operating and financial lease clear?

General comment	Clear.
17.261	Click here and start typing.
*	Click here and start typing.

* Insert rows in this Word table for each paragraph on which you wish to comment.

10. Paragraphs 17.301-17.305 describe how to record in balance sheets the benefits for each party corresponding to a shared asset. Are these paragraphs clear?

General comment	Clear.
17.301	Click here and start typing.
*	Click here and start typing.

* Insert rows in this Word table for each paragraph on which you wish to comment.

11. Paragraphs 17.306-17.311 describe the treatment of permissions to undertake a specific activity. Is it clear when a permit is to be treated as a tax and when it can simultaneously become an asset?

General comment	Clear.
17.306	Click here and start typing.
*	Click here and start typing.

* Insert rows in this Word table for each paragraph on which you wish to comment.

Part III. Other specific comments

You are welcome to make other comments. Please do so by using Adobe Acrobat Version 6 or 7 to comment directly on the PDF of the draft chapter.

If you don't have Adobe Acrobat Version 6 or 7 and would like to make detailed comments, please send a message to sna@un.org requesting a version of the draft chapter that permits you to comment. To optimize your commenting tools, please download Adobe Reader 7.0 for free from <http://www.adobe.com/products/acrobat/readstep2.html>