Country experience: United States: insurance services (Chapter 14)

Country experience: United States: insurance services

14.271. The United States method for measuring trade in insurance services most closely conforms to that outlined in example 4 in MSITS 2010.[1] In addition to premiums minus a proxy measure of expected claims (actual claims payable with an adjustment for claims volatility), called normal losses, and premium supplements, as outlined in table 14.9, the United States measure of insurance services also includes a measure of auxiliary insurance services. The measure includes separate estimates of trade in direct insurance and reinsurance. Although both the present *Guide* and BPM6 recommend estimating life and non-life insurance separately, the United States treats all direct insurance as non-life insurance because United States cross-border transactions in life insurance are thought to be insignificant.

14.272. The United States measure of trade in insurance services is compiled using data from a variety of sources. The main source is a survey of United States insurance enterprises. That survey, conducted by the Bureau of Economic Analysis (BEA), collects quarterly data on reinsurance premiums sold to and purchased from abroad and annual data on reinsurance claims paid and received, primary insurance premiums sold and claims paid and auxiliary insurance services. Every five years, BEA conducts a benchmark survey of insurance enterprises to collect information on enterprises that fall below the reporting threshold on the quarterly survey. A separate survey of United States businesses, also conducted by BEA, collects data on primary insurance premiums purchased and claims received by non-insurance enterprises and additional data on auxiliary insurance. Data on the income generated by insurance enterprises' reserves, used to calculate premium supplements, are from *Best's Aggregates and Averages: Property/Casualty* by A. M. Best Company.

14.273. Insurance services include three components: (a) premiums less normal losses, called "risk-pooling services", (b) premium supplements and (c) auxiliary insurance. The calculation of risk-pooling services requires information on current premiums and a measure of what insurers expect their claims to be. Premiums are collected on BEA surveys as outlined above. The proxy measure for insurers' expected claims, called normal losses, is estimated by applying a ratio based on historical premiums and claims to current period premiums. That method assumes that insurance enterprises base current premiums on their expectation of current period losses and that they base their expectation of losses on their loss history.

14.274. The United States method assumes that insurance enterprises plan for two basic types of losses: (a) regularly-occurring losses that occur every period and (b) catastrophic losses that occur at infrequent intervals. Separate estimates are made for the two types of losses. To calculate separate estimates, catastrophic losses must be separated from regularly-occurring losses in the loss data reported by insurance enterprises. When a catastrophe, such as a major hurricane, occurs, the magnitude of the related loss is estimated using data from the survey of insurance enterprises and publically available reports from insurance enterprises affected by the event. Losses other than catastrophic losses are considered regularly-occurring.

14.275. Expected regularly occurring losses are estimated by applying to current period premiums a six-year arithmetic moving average of each prior period's ratio of regularly occurring losses to premiums. Loss data for the current period are not included in the average in order to achieve an ex ante concept of regularly occurring losses.

14.276. Because catastrophic losses occur much less frequently than regularly occurring losses, they are assumed to affect loss expectations over a much longer period. To account for this, catastrophic losses are removed from current period losses, and spread over the 20 years following their occurrence in equal increments. Similar to regularly occurring losses, expected catastrophic losses are estimated by applying to current period premiums a six-year arithmetic moving average of the ratio of each prior period's share of catastrophic losses to premiums. Thus, only a small fraction of catastrophic losses is factored into each year's calculation of expected claims.

14.277. Normal losses are the sum of expected regularly occurring and catastrophic losses. Separate estimates of normal losses are calculated for primary insurance, reinsurance and credits and debits. For the United States, the ratio of losses to premiums is lower for primary insurance than for reinsurance because administrative and financial intermediation services differ for those two types of insurance. Primary insurance is more retail-oriented, with a large number of individual policies sold and written, and, thus, may have higher administrative and other costs than reinsurance, which involves fewer, larger transactions between insurance enterprises.

14.278. BEA does not directly collect information on the technical reserves of insurance enterprises on its surveys because such collection is deemed too burdensome for enterprises. Due to the lack of data on technical reserves, it is not possible for BEA to use a relationship between investment returns and technical reserves to estimate premium supplements. As a result, BEA developed a ratio of expected investment gains to premiums, and multiplies that ratio by current premiums to estimate premium supplements. The ratio of investment income to premiums is from *Best's Aggregates and Averages: Property-Casualty* by A.M. Best Company. A.M. Best provides data on investment gains that are attributable to insurance transactions, as opposed to investment gains attributable to the insurers' own funds. The ratio is a weighted moving average of the previous ratios of actual investment gains to premiums. In the cross-border trade data, the expected investment gains-to-premiums ratio is estimated separately for primary insurance and reinsurance, in recognition of the fact that reinsurers may have different ratios of net gains to premiums than primary insurers. The different ratios may arise because reinsurers hold larger reserves than primary insurers, or because reinsurers hold reserves for a longer period of time.

14.279. Once those ratios have been calculated, they are applied to the estimates of premium receipts for direct insurance and reinsurance obtained from BEA surveys to derive premium supplement receipts. Because similar data on the investment income of foreign insurance enterprises are not available for payments, the ratio used for receipts is applied to the estimates of premium payments in order to estimate premium supplement payments.

14.280. Auxiliary insurance services cover items such as agents' commissions, actuarial services, insurance brokering and agency services and salvage administration services. Data are collected on BEA surveys. Auxiliary insurance is a component of primary insurance; there are no auxiliary services associated with reinsurance.

Table 14.9
Numerical example of measuring insurance services in United States

		2010	2011	2012
1	Primary insurance receipts (line 2 plus line 3 plus line 4)	1,090	1,575	1,350
2	Risk-pooling services (line 5 minus line 6)	825	1,200	1,015
3	Premium supplements (line 5 times line 9)	165	260	210
4	Services auxiliary to insurance (from survey)	100	115	125
	Primary insurance supplementary information			
5	Premiums received (from survey)	1,500	2,000	1,750
6	Normal losses (line 5 times line 8)	675	800	735
7	Actual losses paid (from survey)	500	3,000	800
8	Normal loss ratio[a]	0.45	0.40	0.42
9	Premium supplement ratio[b]	0.11	0.13	0.12
10	Catastrophic losses paid (from survey and public reports)	0	1,750	0
	Non-service entries in balance-of-payments accounts			
11	Current transfers (line 6 minus line 7 plus line 10)[c]	175	-450	-65
12	Capital transfers (line 10 with sign reversed)[c]	0	-1,750	0
13	Income payments (line 3 with sign reversed)	-165	-260	-210

[a] Based on a six-year moving average of premiums and losses, see paras. 14.57-14.61.
[b] Based on a moving average of investment gains to premiums, see para. 14.63.
[c] Negative sign denotes outflow from US insurance company to foreign policy holder.

Back to B.4. Insurance, pension and financial services

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[1] See MSITS 2010, box III.7.