Country example: Japan: recording insurance services on an accrual basis (Chapter 14)
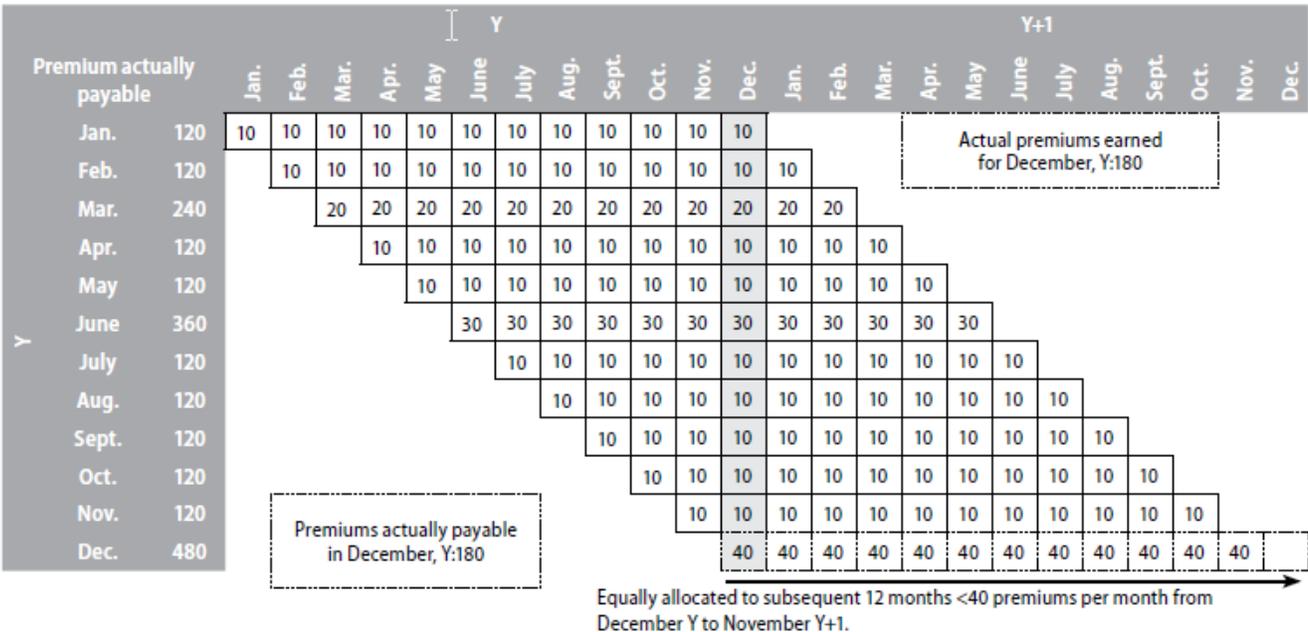
Country example: Japan: recording insurance services on an accrual basis

14.281.   Since Japan employs an ITRS as a major data source, recording insurance services on an accrual basis has been challenging. To deal with the problem, Bank of Japan (BOJ) adjusts ITRS data in implementing a method that most closely conforms to that outlined in example 3 in MSITS 2010, box III.7. The method measures insurance services by multiplying actual premiums earned by the insurance service ratio.

14.282.   The ITRS captures premiums actually paid rather than actual premiums earned that accrue to the accounting period. Thus, data are adjusted under the following assumption: BOJ assumes that insurance premiums payable cover 12 months' risks and, as insurance premiums are generally paid at the inception of a policy, actual premiums earned are calculated by equally allocating premiums in the subsequent 12 months (figure 14.3). That adjustment is made for other direct insurance and reinsurance.[1]

14.283.   The insurance service ratio for other direct insurance and reinsurance, which is the ratio of service charges to gross premiums earned, is estimated from resident non-life insurance enterprises' financial statements and is applied to both imports and exports. Operating and administrative expenses are regarded as costs for providing insurance services, and the service ratio is estimated by dividing aggregated operating and administrative expenses by corresponding premiums. That ratio is fixed for a year and is updated when new financial statements become available. The insurance service ratio for freight insurance is captured separately and obtained from resident insurance enterprises.

Figure 14.3
Estimation of actual premiums earned

Premium actually payable		Y												Y+1											
		Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Jan.	120	10	10	10	10	10	10	10	10	10	10	10	10												
Feb.	120		10	10	10	10	10	10	10	10	10	10	10	10											
Mar.	240			20	20	20	20	20	20	20	20	20	20	20	20										
Apr.	120				10	10	10	10	10	10	10	10	10	10	10	10									
May	120					10	10	10	10	10	10	10	10	10	10	10	10								
June	360						30	30	30	30	30	30	30	30	30	30	30	30							
July	120							10	10	10	10	10	10	10	10	10	10	10	10						
Aug.	120								10	10	10	10	10	10	10	10	10	10	10	10					
Sept.	120									10	10	10	10	10	10	10	10	10	10	10	10				
Oct.	120										10	10	10	10	10	10	10	10	10	10	10	10			
Nov.	120											10	10	10	10	10	10	10	10	10	10	10	10		
Dec.	480												40	40	40	40	40	40	40	40	40	40	40	40	

Actual premiums earned for December, Y:180

Premiums actually payable in December, Y:180

Equally allocated to subsequent 12 months <40 premiums per month from December Y to November Y+1.

14.284.   Insurance services are calculated by multiplying the service ratio by monthly actual premiums earned.[2] Premium supplements are regarded as zero, since retained incomes for non-life insurance reserves are negligible. Claims are recorded when paid, under secondary income for normal claims and under capital transfer for high claims, when catastrophic events have occurred.

14.285.   That method is likely to stabilize outputs. Compared with a simple cash-based method, which calculates   premiums minus claims, the volatility of the outputs is substantially reduced. More importantly, negative figures, which are due mainly to lumped claims, are avoided.

Box 14.6
Numerical example of actual premiums received and claims paid to non-residents

Actual premiums received for December...¥180

Insurance service ratio for year .... 40 per cent

Claim paid to non-resident in December ¥85

Insurance service (export) .... 72 (=180 x 40 per cent)

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

[1] Since freight insurance policies cover a single contract, which is usually short-term, the same adjustment is not applied to freight insurance premiums. Life insurance and pension services are excluded from the estimation of services, as cross-border life insurance and annuity contracts are negligible in Japan.

[2] Freight insurance premiums receivable on both exported and imported goods are obtained through a direct report from resident non-life insurance companies. The corresponding values for imported goods are also used to derive a premium ratio. Freight insurance premiums paid by a resident to a non-resident on imported goods are estimated by excluding those earned by resident insurance companies from the total value. The total value is derived by multiplying the premium ratio on imported goods by the total value of imports.