

To: Organisation for Economic Co-operation and Development
Statistics Directorate
Chief Statistician
Ms Martine Durand
2 rue André-Pascal
75775 PARIS CEDEX 16
FRANCE

cc:

Date: 14 March 2014

Subject: Representation of the Insurance Industry in National Accounts

Dear Ms. Durand,

The Global Federation of Insurance Associations (GFIA) is a non-profit association established in October 2012, which, through its 37 member associations, represents insurers that account for around 87% or more than \$4.0 trillion in total insurance premiums worldwide. As the global voice of insurance, the GFIA has a keen interest in a number of activities carried out by the OECD, which may have an impact on the sector, notably in the areas of long-term investment, trade and pensions.

The members of the GFIA also follow with great interest the ongoing work at the international level in the field of national accounts, where again the OECD plays a decisive role. The national accounts are instrumental in providing an accurate image of the different economic sectors. In our opinion, with the adoption of SNA 2008, an important step was made in the right direction as far as the insurance sector is concerned. Specifically, the adoption of new rules for calculating reinsurance transactions (which have already been applied in the US and will come into force this year in the European Union) will result in a more accurate calculation of the gross value added of the insurance sector and thus in turn is a better picture of the importance of insurance as an economic sector.

The GFIA is however of the opinion that additional changes would lead to further improving the accuracy of the calculation of the gross value added of the insurance sector. In particular, we are concerned by the current treatment of capital income in the measurement of the gross value added of the insurance industry, which as it stands leads to an underestimation of the insurance sector's contribution to economic activity. You shall find in the document attached to this letter the GFIA's main findings on this particular question.

As a possible way forward, the GFIA would suggest including the treatment of capital income from own funds in the field of insurance on the SNA Research Agenda, which lists the areas which should be discussed in order to increase the accuracy of the calculation of national accounts. We understand that for now, the issue raised in this letter is not on the Research Agenda.



We are at your full disposal to discuss this issue with you in more depth, and would be grateful for an opportunity to explain our concerns to you or your collaborators in more detail.

Yours sincerely,

Frank Swedlove
Chair, Global Federation of Insurance Associations

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About the GFIA

Through its 37 member associations, the Global Federation of Insurance Associations (GFIA) represents the interests of insurers and reinsurers in 58 countries. These companies account for around 87% of total insurance premiums worldwide. The GFIA is incorporated in Switzerland and its secretariat is based in Brussels.

ANNEX — Contribution of the insurance industry to GDP – Treatment of Capital Income

In insurance, the measurement of output in the national accounts is calculated as the sum of premiums and premium supplements, from which payments and changes in insurance technical reserves are subtracted.

Premium supplements relate to the income earned by insurance companies from their investment. However, according to the System of National Accounts investment income is only considered as output for the part of the investment that corresponds to an insurer's technical reserves, thus excluding the part that corresponds to own funds. This can be deducted from the description of premium supplements provided in the System of National Accounts (chapter 17, p. 343):

[...] In the time between the premium being paid and the claim being payable, the sum involved is at the disposal of the insurance corporation to invest and earn income from it. These amounts are called reserves [...] The income concerned comes from the investment of the reserves of the insurance corporations, which represent liabilities towards the policyholders.

This definition creates a link between the investment income and the technical reserves, which represent liabilities towards the policyholders. The approach excludes the investment income earned on the basis of an insurer's own funds. As a consequence, according to the methodology of the System of National Accounts, only the percentage of investment income that corresponds to the share of insurance technical reserves in the balance sheet constitutes a part of the gross value added; the percentage of capital income that corresponds to own funds is on the other hand not considered as part of the gross value added of the insurance sector.

The specific accounting perspective of the SNA implies that an insurance company should be in a position to separate its assets between those linked to policyholders and linked to the investment of "own funds", since only the first category of assets is regarded as contributing to the gross value added of the insurance sector. This disaggregation, however, does not correspond to the way insurers manage their assets.

The suggested differentiation of assets is also not in line with how insurers use their assets from a risk management perspective. Specifically, all the assets of an insurer serve the ultimate purpose of improving the risk-bearing capacity of an insurer – and thus the interests of policyholders –, irrespective of whether they have been acquired through an insurer's own funds or collected premiums. In this sense, all capital income is part of the production process of insurance protection. In addition, the current approach for measuring the output of insurance companies does not correspond to the treatment of most other industries in the System of National Accounts. There is hardly any other industry where the output calculation is adjusted to take account of own funds, even



though the reasoning behind the artificial segregation of assets could also be applied to any other economic sector.

Assessment of Impact

The current approach leads to a significant underestimation of the insurance sector in the national accounts. According to model calculations, the gross value added would increase in some cases by about 50% if capital income from own funds is included in the measurement of output. The issue is therefore not just a matter of principle.