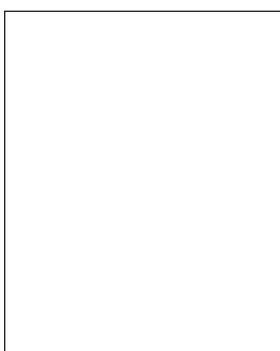


The production account of insurance enterprises

The link between the business accounts of insurance enterprises and the production account in the European System of Accounts

by **August Götzfried**, Luxembourg and **John Walton**, London¹



For several years Eurostat² has been developing a European statistical system on insurance enterprises: Eurostat's Insurance Services Statistics. One of the main aims of this work was to receive aggregated data on EU insurance enterprises at Eurostat on a regular base from the competent national authorities (i.e. the national insurance supervisory bodies or the national statistical offices).

August Götzfried

On the basis of the data collected from the Member States Eurostat intends to edit annual publications which provide a comprehensive overview on the national and the European insurance markets (the first is due in April 1996). Moreover additional analytical reports are planned which will treat specific questions of current interest.

Beside the aim of establishing high quality information on the EU insurance markets, the information collected from the Member States should also be used for comparing the insurance sector to other services or non-services sectors. Moreover the accuracy of derived statistics such as national accounts or balance of payments statistics could be improved by making use of the high quality business statistics.

In the following one specific aspect in the context of insurance services statistics and national accounts is tackled: How can the macro-economic production account of insurance enterprises be derived from the enterprises' business accounting framework on which Eurostat's Insurance Services Statistics are based ?

The production account of insurance enterprises

The efforts at establishing a production account for insurance enterprises have to be seen in the framework of the new European System of Accounts³ (ESA 1995). Beside general rules on production and output of financial intermediation services, the ESA

Table 1: Output of private funded social insurance schemes or of other insurance schemes

<i>Output of private funded social insurance schemes (1)</i>	<i>Output of other insurance schemes</i>
(1) (+) Total actual contributions earned	(1) (+) Actual premiums earned
(2) (+) Total contribution supplements (2)	(2) (+) Premiums supplements (2)
(3) (-) Benefits due	(3) (-) Claims due
(4) (-) Increases (plus decreases) in pension funds reserves (3)	(4) (-) Increases (plus decreases) in technical provisions against outstanding risks and technical provisions for with-profits insurance (3)

(1) In this context private funded social insurance schemes are regarded as schemes in which the social contributions are paid to insurance enterprises or autonomous pension funds (being separate institutional units). The insurance enterprises or the autonomous pension funds are responsible for managing the resulting funds and paying the social benefits.

(2) These items are representing the income from the investment of the technical provisions and other liabilities/reserves due to the contributors or policy-holders. Capital gains are excluded.

(3) Capital gains are excluded.

1995 includes an annex specifically on insurance (annex 3). This annex illustrates a number of details on the output of social and other (life and non life) insurance services. But it does - of course - not provide the direct link to enterprises' business accounts.

The main items necessary for meeting this structure of the macro-economic production account stem from the enterprises' profit- and loss account as shown in the Accounting Directive 91/674/EEC⁴ or from Eurostat's list of variables being part of Eurostat's Insurance Services Statistics. Using those sources the macro-economic variables (like the value of production, the gross value added at basic prices or the gross operating surplus) can be derived in detail. In order to calculate those macro-economic variables the enterprises' profit and loss - account needs regrouping and methodological adaptation.

The Accounting Directive 91/674/EEC specifically on insurance enterprises aims to harmonise the structure and contents of the enterprises' published accounts as far as possible or necessary. Moreover, Eurostat's Insu-

rance Services Statistics also lead to considerable harmonisation of the data reported. Both harmonising effects increase quality and comparability of the derived macro-economic variables.

In Table 2, on the next page, the detailed structure of insurance enterprises' production account is illustrated. Most of the variables will be commented upon and annotated.

The gross premiums earned consists of gross direct premiums written, gross reinsurance premiums accepted, written premiums and the change in gross provision for unearned premiums.

Item 2, the gross portfolio investment income is based on the income from the investment portfolio, as shown in the technical part of the profit and loss account for life insurers and in the non technical part for non life insurers. Income from participating interests, representing income on direct investments, is excluded. Capital gains (net of losses, realized and unrealized) are included, but are offset in item 5. This portfolio investment income is gross of reinsurance; when premi-

Table 2: Production account of life and non life insurance enterprises

(Strictly the production account of which the closing balance is 'gross value added', plus the generating of income account, of which the closing balance is 'gross operating surplus')

Production account of life and non life insurance

1) (+) Gross premiums earned
2) (+) Gross portfolio investment income
3) (+) Other services produced
4) (-) Gross claims incurred
5) (+/-) Capital gains and provisions
6) (=) Output (Value of production)
7) (-) Intermediate consumption (Services from reinsurers and other intermediate consumption)
8) (=) Gross value added at basic prices
9) (-) Labour costs
10) (=) Gross operating surplus

ums are ceded to reinsurers the estimated investment income obtained by the reinsurers on these amounts is added (being offset as part of the value of services from reinsurers, in item 7). All these modifications are - in detail - commented upon in the new version of the Methodological Manual on Eurostat's Insurance Services Statistics (to be edited later in 1996).

In item 3 (other services produced) other technical and non technical income (such as income from affiliates for services rendered) is allocated. Details can also be found in Eurostat's manual.

The gross claims incurred cover all gross claims payments and the gross change in the provision for outstanding claims. Claims management expenses (internal and external ones) are excluded.

Item 5 includes the balance of capital gains (net of losses, realized and unrealized), and the change in gross life insurance provision, the change in equalization provision, the

change in the fund for future appropriations and the change in other technical provisions.

As first balance the value of production is shown. It is gross of reinsurance ceded and sums up the items 1 to 5.

The intermediate consumption (item 7) covers both, services received from reinsurers and other intermediate consumption. The services received from reinsurers comprise the reinsurance balance and the portfolio investment income of reinsurers on their share of the gross technical provisions ceded from the direct insurer. Commissions payable to agents, the external part of claims management expenses and other external expenditure on goods and services are part of the other intermediate consumption.

Item 8, the gross value added at basic prices is the balance of the value of production and the intermediate consumption. In deducing the labour costs from the gross value added at basic prices finally the gross operating surplus is calculated.

More details on the methodological background, the contents and the breakdowns of the variables can be found in Eurostat's Methodological Manual on Insurance Services Statistics. This manual is currently being revised and will be published in its new version later in 1996.

The revised manual will also provide detailed guide-lines for calculating the macro-economic variables mentioned above. These calculations will define each variable in terms of the items in Eurostat's' list of variables.

Principle of territoriality

The macro-economic data above are elaborated on the base of the enterprises' accounts. This data refers to the total activity of the insurance enterprises i.e. the activity in the enterprises' home country and their activity abroad (via branches or via providing the insurance services directly). The activities of

subsidiary enterprises, whether located at home or abroad, are excluded. Branches of enterprises in non EEA countries are treated like resident enterprises.

In contrast the national accounts aim to measure the economic activity of the national economy which excludes the business of enterprises written abroad but which includes the activity of branches of both EEA and non EEA enterprises in the host country.

In order to observe the national insurance economy corrections of the results achieved above have to be undertaken. As data is available on the gross premiums written abroad from the point of view of the home country of the enterprises (business written abroad via branches and via providing services directly, broken down by products and even by Member States) this data could be used for elaborating the necessary corrections. This implies an indirect reallocation of the business of branches located within the EEA from the home country to the host country.

Conclusion

Eurostat's Insurance Services Statistics are currently at a very mature stage. As the data collection on insurance enterprises has already been started for the accounting years 1992 and 1993 Eurostat will be in a position to publish regular reports on the EU insurance markets. A first comprehensive publication is due to become available in April 1996.

Eurostat's list of variables to be collected from the national authorities covers all important data on insurance enterprises' business accounts. Those variables will be largely harmonized. They will allow the calculation

of macro-economic data for the purposes of comparing insurance enterprises to other services enterprises but also for the purposes of national accounts.

The Methodological Manual accompanying Eurostat's statistical system will provide all necessary details on calculation and methodology. Not all problems are solved yet. Compared to the situation beforehand quality and comparability of the macro-economic data will increase considerably.

As regards other derived statistics such as Balance of Payments Statistics, Eurostat's Insurance Services Statistics will also be able to improve the quality and accuracy of those statistical systems.

Notes

- ¹ August Götzfried: Administrator in Eurostat, Directorate D, Unit D 4, (Eurostat is the Statistical Office of the European Communities which is based in Luxembourg and part of the European Commission; Eurostats unit D 4 deals with enterprise statistics on distributive trade, services and transport); John Walton, Consultant to Eurostat, Directorate D, Unit D 4. This article sets out the authors' personal opinions and is not to be regarded as an official publication of the European Commission.
- ² Here Eurostats unit D 4 is meant which works on statistics of transport, distributive trade and services enterprises (under those also financial services enterprises).
- ³ European System of Accounts, ESA 1995, in its version from December 1995.
- ⁴ Council Directive of 19 December 1991 on the annual accounts and consolidated accounts of insurance undertakings (91/674/EEC), OJ No L 374 of 31 December 1991, p. 7