



Contribution of Insurance Statistics to Market Transparency and Recent Developments in the OECD Insurance Statistics Framework

OECD-Asia Regional Seminar:
Enhancing Transparency and Monitoring of Insurance Markets

Kuala Lumpur, 23-24 September 2010

Outline

1. Background on the OECD and its financial surveillance efforts and statistics
 - Recent evolution of the insurance statistics framework
2. Contribution of insurance statistics to insurance market transparency
3. Recent international efforts to improve global insurance statistics



1. Background on the OECD and its financial surveillance efforts and statistics

OECD Mandate and Objectives

- OECD comprises 33 member countries
 - Chile, Slovenia, and Israel the newest members
 - Engaging more directly with key global partners (EE)
 - Brazil, China, India, Indonesia, and South Africa; SEA region
- OECD Convention (1960) – formal agreement to promote policies that:
 - achieve highest sustainable economic growth and employment ...while maintaining financial stability
 - contribute to sound economic expansion in member/non-member countries in the process of economic development
 - contribute to the expansion of world trade on a multilateral, non-discriminatory basis in line with international obligations

OECD Structure, Instruments, and Methods

- Organisational structure
 - Committees
 - Working Parties
 - Task forces (e.g., insurance, pensions statistics)
 - Council
- Legal instruments
 - Decisions
 - Recommendations (e.g., principles, good practices)
- Working methods
 - Data collection - statistics and questionnaires
 - Comparative policy analysis and analytical studies
 - Country studies and peer reviews

Insurance and Private Pensions Committee

- Established in 1960
 - Official observers (e.g., IAIS, IAA) and the private sector
 - Complements the Committee on Financial Markets (CMF)
- Broad mandate
 - Promote efficient, open and sound market-oriented insurance and private pensions systems, based on high levels of transparency, confidence, and integrity, and respecting recognised social objectives of these systems
- Specific objectives
 - Improving insurance and private pensions awareness and education
 - Strengthening private pensions systems to address ageing challenges
 - Enhancing the efficiency and effectiveness of financial regulation
 - Improving the financial management of large-scale risks
- Surveillance and structural reports
- Largely complementary to IAIS standard setting

OECD Financial Surveillance and Statistics

- Monitoring of financial markets, insurance, and private pensions through the CMF and IPPC
- Surveillance activities
 - Reports and publications
 - *Financial Market Trends*
 - *Pension Markets in Focus*
 - *Private Pensions Outlook*
 - Roundtables
 - Tour d’horizons
 - Structured country interventions/updates

OECD Financial Surveillance and Statistics

- Private sector databases
 - Datastream, BankOne, ISIS
- Financial statistics (see OECD.stat)
 1. National accounts
 - Not unique to the OECD - System of National Accounts
 - OECD includes finer breakdown of household financial and non-financial assets
 2. Banking statistics (“bank profitability”)
 3. Institutional investor asset statistics
 4. Private pensions statistics
 5. Insurance statistics

1. National Accounts

Financial Balance Sheets (financial net worth)		
Financial assets		Financial liabilities
Monetary gold and SDRs	Monetary gold	
	Special drawing rights (SDRs)	
Currency and deposits	Currency	Currency and deposits
	Transferable deposits	
	Other deposits	
Securities other than shares	Securities other than shares, except financial derivatives	Securities other than shares
	Short-term securities	
	Long-term securities	
	Financial derivatives	
Loans	Short-term loans	Loans
	Long-term loans	
Shares and other equity	Shares and other equity, except mutual funds shares	Shares and other equity
	Quoted shares	
	Unquoted shares	
	Other equity	
	Mutual funds shares	
Insurance technical reserves	Net equity of households in life insurance and pension funds reserves	Insurance technical reserves
	Net equity of households in life insurance reserves	
	Net equity of households in pension funds	
	Prepayments of premiums and reserves against outstanding claims	
Other accounts receivable	Trade credits and advances	Other accounts payable
	Other accounts receivable (payable), except trade credits and advances	
Net financial transactions use same categories and breakdowns		

National Accounts

Finer breakdown of household financial and non-financial assets	
	Financial assets
	Investment fund shares
	Money market fund shares
	Real estate fund shares
	Bond fund shares
	Mixed fund shares
	Equity fund shares
	Other fund shares
}	Net equity of households in life insurance reserves
	Net equity of households in non-unit-linked life insurance reserves
	Net equity of households in unit-linked life insurance reserves
}	Net equity of households in pension funds
	Pension plans managed by autonomous pension funds (DB, DC, hybrid)
	Pension plans managed by non-autonomous pension funds (DB, DC, hybrid)
	Insured pension plans (DB, DC, hybrid)
	Other pension plans
	Unfunded pension plans
	Liabilities
	Short-term loans
	Long-term loans
	Non-financial assets (of which dwellings, land, and consumer durables)

2. OECD Banking Statistics

- Objective

- Assess changes in the state of health of national banking systems

- Features

- Income and balance sheet data
 - Includes information on capital adequacy (Tier I & II, RWA)
- Structure of the financial system
 - All financial institutions included, including insurers
- Classification of assets and liabilities
 - Domestic versus foreign currency
 - Resident versus non-resident origination/claims
- Starting from 1979 and OECD country coverage

OECD Banking Statistics

Income Statement	
Interest income	
Interest expenses	
Net interest income	
Net non-interest income	Fees and commissions receivable
	Fees and commissions payable
	Net profit or loss on financial operations
	Other net non-interest income
Net interest and non-interest income	
Operating expenses	Staff costs
	Property costs
	Other operating expenses
Net income before provisions	
Net provisions	Provisions on loans
	Provisions on securities
	Other net provisions
Income before tax	
Income tax	
Net income after tax	
Distributed profit	
Retained profit	

OECD Banking Statistics

Balance Sheet	
Assets	Cash and balance with central bank
	Interbank deposits
	Loans
	Securities
	Other assets
Liabilities	Capital and reserves
	Borrowing from central bank
	Interbank deposits
	Customer deposits
	Bonds
	Other liabilities
<i>Memorandum Items</i>	
Assets	Short-term securities
	Bonds
	Shares and participations
	Claims on non-residents
Liabilities	Liabilities to non-residents
Capital adequacy	Tier 1 Capital
	Tier 2 Capital
	Supervisory deductions
	Total regulatory capital
	Risk-weighted assets
Number of institutions, branches, and employees	

NB: Differences among countries regarding consolidation of business (global consolidation or aggregate business activity within reporting country only)

OECD Banking Statistics

Structure of the financial system	Number of Institutions, branches, employees	Total assets or liabilities	Total financial assets
Central bank			
Other monetary institutions			
Commercial banks (of which foreign-controlled)			
Savings banks			
Co-operative banks			
Other miscellaneous monetary institutions			
Other financial institutions			
Mortgage credit institutions			
Development credit institutions			
Finance companies			
Other miscellaneous financial institutions			
Insurance institutions			
Insurance companies			
Pension funds and foundations			
Other insurance institutions			
All financial institutions			

OECD Banking Statistics

Classification by currency and residency		Residents	Non-residents
Assets	Domestic currency		
	Foreign currencies		
Liabilities	Domestic currency		
	Foreign currency		

3. OECD Institutional Investor Statistics

- Objective

- Provide comparable statistics on the financial assets of institutional investors in order to understand their importance and role in the financial system

- Features

- Investment funds, insurers, pension funds considered to be the main “institutional investors”
- Breakdown of financial assets, consistent with System of National Accounts
- Data from 1992 onwards and coverage of OECD and OECD-accession countries

OECD Institutional Investor Statistics

Institutional investor assets	Investment funds				Insurance corporations and pension funds		Other forms of institutional savings	
	Open-end companies (mutual funds)		Closed-end companies		Insurance corporations			Autonomous pension funds
	Money market funds	Other mutual funds	Real estate	Other	Life insurance corporations	Non-life insurance corporations		
Financial assets								
Currency and deposits								
Securities other than shares, except derivatives								
Short-term								
Long-term								
Issued by residents								
Issued by non-residents								
Loans								
Short-term								
Long-term								
Issued by residents								
Issued by non-residents								
Shares and other equity								
Issued by residents								
Issued by non-residents								
Other, not elsewhere classified								
Non-financial assets								

4. OECD Pensions Statistics

- Purpose

- Provide comparable statistics on the structure, operation, and performance of private retirement systems

- Main features

- Covers main types of private pensions funds
 - Occupational plans and personal plans
 - Different funding vehicles, e.g., autonomous pension plan, booked reserves, pension insurance contracts, managed funds
 - Defined benefit and defined contribution schemes, and hybrid
- Breakdown of financial assets, and investment return (%)
- Contributions and benefits paid, membership
- Data mainly from 2001 and coverage of OECD and a range of non-OECD countries

OECD Pensions Statistics

Private pension plan types	Traditional DB occupational plans				
	Hybrid DB-DC occupational plans				
		DC occupational or personal plans (protected or unprotected)			
Asset vehicle	Book reserves	Autonomous pension funds	Pension insurance contracts	Investment company managed funds	Bank-managed funds
INVESTMENTS					
Cash and deposits					
Bills/bonds issued by public/private sector					
Loans					
Shares					
Land and buildings					
Mutual funds					
Unallocated insurance contracts					
Private investment funds					
Hedge funds					
Private equity funds					
Other private funds					
Other investments					
Average net investment return (nominal)					
Investments:					
Of which investments in the plan sponsor					
Of which issued by non-resident entities (cash and deposits, bills and bonds, shares)					
Of which issued abroad in foreign currencies					

OECD Pensions Statistics

Private pension plan types	Traditional DB occupational plans				
	Hybrid DB-DC occupational plans				
		DC occupational or personal plans (protected or unprotected)			
Asset vehicle	Book reserves	Autonomous pension funds	Pension insurance contracts	Investment company managed funds	Bank-managed funds
LIABILITIES					
Capital (if applicable)					
Net technical provisions (if applicable)					
Other liabilities					
INCOME					
Contributions					
Employer contributions					
Employee contributions					
Other income					
EXPENDITURES					
Benefits paid					
Lump sum					
Pension					
Insurance premiums payable					
Operating expenses					
Other expenses					

OECD Pensions Statistics

Private pension plan types	Traditional DB occupational plans				
	Hybrid DB-DC occupational plans				
		DC occupational or personal plans (protected or unprotected)			
Asset vehicle	Book reserves	Autonomous pension funds	Pension insurance contracts	Investment company managed funds	Bank-managed funds
MEMBERSHIP					
Total members					
Men					
Women					
Total active members					
Of which deferred members					
Of which passive members					
Other beneficiaries					
TOTAL NUMBER OF FUNDS					
TOTAL NUMBER OF PLANS					

5. OECD Insurance Statistics

● Background

- Initiated in 1982 with the creation of the Working Group on Insurance Statistics under the Insurance Committee
 - Data collected from 1983 onwards
- *Insurance Statistics Yearbook* – flagship publication
- Underpinned, in part, by a Council Recommendation on the common classification of classes of insurance recognised by supervisory authorities of Member countries (1984)
 - List of non-life class categories replicates the Recommendation and parallels EU non-life directive (and Solvency II definitions)

OECD Insurance Statistics

● Purpose

- Provide comparable statistics on insurance markets
- Historical focus -- growth and depth of insurance markets and cross-border aspects
 - Reflective of original overarching OECD objectives regarding economic expansion and cross-border trade
 - Also reflective of long-standing interest within OECD Insurance Committee on insurance market development and liberalisation in both OECD and non-OECD countries

OECD Insurance Statistics

- Historically, main features:
 - Premium volumes – direct and reinsurance
 - Gross net premiums, with breakdown by class of non-life
 - Gross commissions, operating expenses, and claims
 - Insurance activity by type of undertaking
 - Domestic, foreign-controlled, foreign branches
 - Domestic versus foreign risks written domestically, and business written abroad
 - Outstanding investments
 - Breakdown of financial assets, and investment return (%)
 - Breakdown by type of undertaking and domestic/foreign assets

OECD Insurance Statistics

- Reflected in published indicators:
 - Density (per capita) and penetration (per GDP)
 - Life versus non-life insurance share of business
 - Premiums per employee
 - Retention ratio and ratio of reinsurance accepted
 - Foreign share of domestic market
 - Market shares of countries within OECD

OECD Insurance Statistics

- Problems identified with framework
 - Timeliness
 - Two-year lag
 - Important gaps
 - No balance sheet data except for outstanding investments
 - E.g., assets, technical provisions, shareholder equity
 - Lack of refinement in classification of investment assets
 - E.g., public versus private-sector debt
 - No information on investment income or net income
 - No information on capital adequacy/solvency levels
 - Very limited information on the reinsurance sector
 - Just business volumes

OECD Insurance Statistics

- Discussions started in 2006 within the Task Force to improve the framework
 - Pilot initiative to accelerate data collection, e.g., premiums
 - Consideration of new variables and indicators
- Financial crisis – accelerated change in order to obtain a proper overview of sector developments
 - Special crisis questionnaire (spring 2009)
 - New balance sheet and income data
 - Refinements in investment asset categories
 - Capital/solvency data
 - Basis for special report: *The Impact of the Financial Crisis on the Insurance Sector and Policy Responses* (April 2010)

OECD Insurance Statistics

- Global Insurance Statistics project launched in 2009
 1. Augment framework
 - Addition of new variables collected in crisis questionnaire
 - Implementation phase in 2010
 - Expected future improvements
 - Need to ensure continued relevance, quality, and timeliness
 2. Encompass a wider range of countries
 - Turn OECD statistical exercise into a more global exercise



2. Contribution of insurance statistics to insurance market transparency

Transparency

- Purpose of transparency?

“The operations of the financial system and its participants should be sufficiently transparent, both to:

- (a) facilitate a proper empirical understanding of the functioning of the system, its features, and evolution, and
- (b) promote the efficiency of the system, given the value of high-quality and accurate information for its functioning.”

(From OECD General Guidance on a Policy Framework for Effective and Efficient Financial Regulation (November 2009))

Transparency

- Financial system transparency means timely, comprehensive, and comparable data/information on:
 - i. Products, services, processes, transactions
 - ii. Institutions, markets, and supporting infrastructures
 - iii. Participants
 - iv. Interlinkages (e.g., sectoral, macroeconomic, international)
- Transparency provides the basis for effective:
 - Surveillance
 - Market failure analysis
 - Identification of economic and social needs
 - Policy analysis, decision-making, interventions, and evaluation

Elements of Insurance Market Transparency

- Market development and penetration
 - Insurance as an indicator of well-being – coverage against financial and non-financial risks
 - Level and growth of (re)insurance activity
 - Number of firms and employment
- Market structure, pricing/loss dynamics, and efficiency
 - E.g., concentration, brokers, market hardening/softening
- Financial risks and risk transfer
 - Nature and magnitude of risks, losses; interconnections
 - Ability of insurers to manage risks
 - Role of reinsurance, capital markets in transferring risks

Elements of Insurance Market Transparency

- Financial intermediation
 - Role of insurers as institutional investors and contribution to the financial system and economic growth
- Internationalisation
 - Foreign control and market penetration
 - Foreign risks written within country; business written abroad
 - Role of onshore and offshore jurisdictions
- Consumer behaviour and market conduct
 - Lapse rates on policies, changes in desired coverage
 - Complaints, lawsuits
- Taxation
 - Contribution of insurance sector to tax base

Insurance Statistics

- Insurance statistics a core vehicle for data collection and dissemination
 - Insurance statistics: aggregate sectoral data and possibly also firm-level data
 - Collected and publicly disseminated by government authorities, insurance trade associations, and/or possibly other bodies
 - Common template, agreed methodology, tested/quality
 - Low cost relative to private-sector databases – a “public good”
- Help to address transparency needs in insurance markets
 - Provide the basis for basic surveillance and policy analysis
 - Governments, supervisors, industry, NGOs, academia, etc
 - Low-cost benchmarking and market analysis

Limitations of Insurance Statistics

- Limitations of aggregate insurance statistics in providing transparency
 - Timeliness
 - Differences in accounting methods and methodologies
 - Level of aggregation
 - Masking of individual firm exposures and performance
 - Interconnections, risk concentrations
 - Impact of insurance industry structure on outcomes
 - Extent of mutual insurer sector may affect country indicators
 - Lack of qualitative information
 - Understanding drivers of change and market-specific factors
 - Importance of qualitative supplements to OECD questionnaire

Other Data Collection Vehicles

- Relevance of firm-specific disclosures and, for supervisors, more granular (confidential) information
 - Market data: disclosures made by undertakings
 - Collected and disseminated by private-sector sources
 - Permit considerable “slicing and dicing” of data
 - Supervisory information: collected by supervisory authorities
 - More detailed, granular, and sensitive (confidential) data
 - E.g., concentrated exposures
 - Aggregate disclosures might be possible (e.g., IAIS GRMR)
- Surveys as an additional vehicle to promote transparency (e.g., consumer attitudes/behaviour)



3. Recent international efforts to improve global insurance statistics

International Efforts

- In November 2009, G-20 Finance Ministers and Central Bank Governors endorsed 20 recommendations to address information gaps
- Goals :
 - Capture the build-up of risk in the financial system
 - Improve data on international financial network connections and systemically important global financial institutions
 - Develop sectoral, financial, and other economic datasets
 - Improve communication of official statistics
- Many recommendations relevant for insurance sector

- *No. 8:* Investigate the possibility of improved collection and sharing of information on linkages between individual financial institutions....
- *No. 9:* Develop a template for systemically important financial institutions to better understand their exposures to different financial sectors and markets.
- *No. 11:* Consider separate identification of nonbank financial institutions in consolidated banking data.
- *No. 13:* Investigate the issue of monitoring and measuring of cross-border exposures of nonfinancial, and financial, corporations.
- *No. 14:* Examine the feasibility of developing a standardised template covering the international exposures of large nonbank financial institutions.
- *No. 15:* Develop a strategy to promote the compilation and dissemination of the balance sheet approach, flow of funds and sectoral data more generally. Data on nonbank financial institutions should be a particular priority.
- *No. 16:* Compile distributional information (such as ranges and quartile information) alongside aggregate figures.

International Efforts

- Inter-Agency Group on Economic and Financial Statistics (IAG)
 - Addressing specific G20 recommendations (13, 14, and 15)
 - Created in 2008
 - OECD, IMF, World Bank, Eurostat, ECB, and BIS
- Need to ensure that OECD insurance statistics can support G20 efforts where possible/appropriate
 - Importance of sectoral data (consistent with SNA 2008) has been underlined by the IAG
 - Issue of consistency with BIS consolidated banking statistics
- Key role of supervisors in filling (confidential) gaps

Improving OECD Insurance Statistics

- More useful framework, e.g.:
 - Less aggregation
 - More refinement in the breakdown of life business and further breakdown of non-life business
 - Breakdown of claims by classes of non-life insurance
 - Construction of industry segment loss ratios
 - Possible collection of other key variables by industry segment
 - Breakdown of financial assets by accounting classification and information on recognised and non-recognised G/L
 - Structure of the insurance system
 - Breakdown by type of insurer, e.g., corporate, mutual
 - Specific data on catastrophe loss claims
 - Better measurement of costs of catastrophes

Improving OECD Insurance Statistics

- Better integration and greater consistency with:
 - Other OECD financial statistics frameworks (banking, institutional investors, private pensions)
 - E.g., investment categories and sub-categories, short-term versus long-term debt securities
 - Definitions found in System of National Accounts
- Coordination and consultations
 - Need for better coordination with other international bodies
 - Improve consultations to ensure a relevant, high-quality, and cost-effective framework responsive to user needs
 - Building a more robust, globally accepted framework

A Global Insurance Statistics Exercise?

- A more global framework, e.g.:
 - SEA and, more generally, the ASEAN region
 - Central and South America
 - Middle East and North Africa
- Need for a Global Insurance Statistics (GIS) framework?
 - New streamlined version of the OECD framework?
 - Or a more comprehensive, balanced statistical framework?

Thank You

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