

Session 8:

Insurance Companies & Pension Funds

(S.128 & S.129)

Contents

Definition

Insurance sector in national accounts

Life Insurance

Non-life Insurance

Reinsurance

Pension Funding

Insurance Sectors in Turkey

Definition

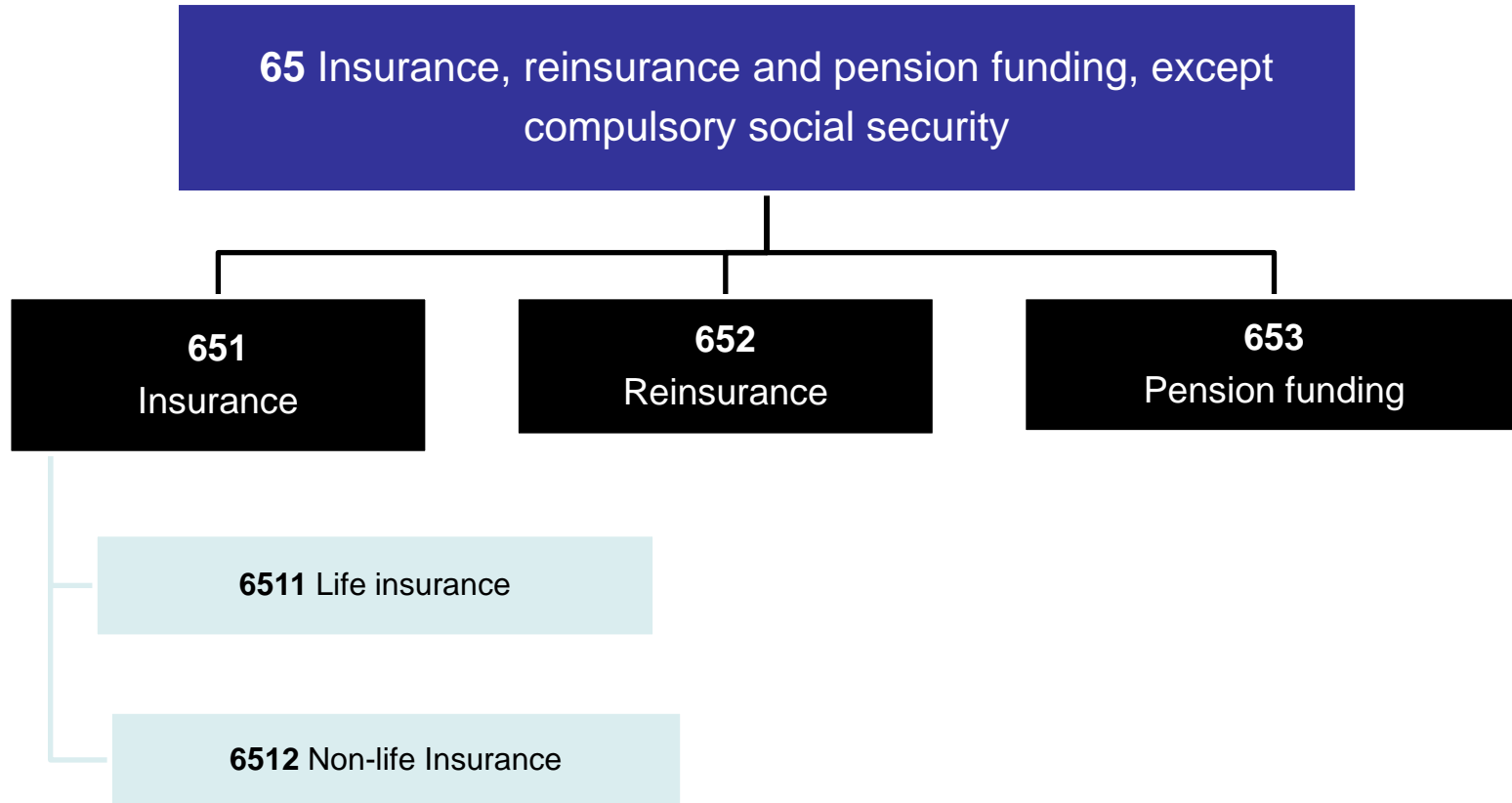
Insurance is the activity where the risks of individuals, groups of individuals or other (groups of) entities are pooled. By pooling their risks, the negative financial consequence of an uncertain occurrence that happens with an individual person or other entity is shared with all others that participate in the insurance. All insured pay the premium which allows compensation for the negative financial consequences of an insured event to those that run across such an event.

Insurance sector in national accounts

ESA 2010 institutional sector codes of Insurance, which is one of the financial services activities that constitute financial corporations, are as follows;

- financial corporations (S.12), with subsector:
 - insurance corporations and pension funds (ICPF)*
 - insurance corporations (S.128)
 - pension funds (S.129)

Insurance sector in national accounts



Life Insurance

Life insurance is an activity whereby a policyholder makes regular payments to an insurer in return for which the insurer guarantees to provide the policyholder (or, in some cases, another nominated person) with an agreed sum, or an annuity, at a given date or earlier if the policyholder dies beforehand.

Life Insurance

The output of *life insurance*:

- total premiums earned
- *plus* premium supplements,
- *less* benefits due
- *less* increases (plus decreases) in life insurance technical reserves

Life Insurance

Total premiums earned are including premiums earned for the year concerned. It is calculated by adding premiums written and less the change (less increase or plus decrease) in the reserves for premiums unearned.

Premium supplements are composed by all investment income earned from policyholder reserves and more significant for life insurance than for non-life insurance.

Life Insurance

Benefits are recorded as they are awarded or paid. There is no need under life insurance to derive an adjusted estimate of benefits since there is not the same unexpected volatility in the payment under a life policy.

Life insurance technical reserves increase each year because of new premiums paid and new investment income allocated to the policyholders (but not withdrawn by them) and decrease because of benefits paid.

Non-life Insurance

Non-life insurance is an activity similar to life insurance, the insurer guarantees to provide the beneficiary with an agreed sum on the occurrence of an event such events are accidents, sickness, fire, etc. other than the death of a person.

Non-life Insurance

Methods of output of *non-life insurance*:

1. Expectation approach
2. Accounting approach
3. Sum of costs plus “normal profit” approach

Non-life Insurance

The output of **non-life insurance** with accounting method:

- total premiums earned
- plus implicit premium supplements
- less adjusted claims incurred

Non-life Insurance

Total premiums earned are defined in exactly the same way as for life insurance.

Implicit premium supplements are composed by all investment income earned from policyholder reserves. Non-life insurance corporation's disposal reserves consisting of unearned premiums (actual premiums relating to the next accounting period) and claims outstanding that have not yet been reported, have been reported but are not yet settled or have been reported and settled but are not yet paid. These reserves are called technical reserves and are used to generate investment income. Holding gains and losses are not incomes from investment of the insurance technical reserves. These also include bonuses-declared-for-with-profits policies.

Non-life Insurance

Adjusted claims (*expected claims incurred*) are new concept that one of the main changes that ESA and SNA bring. Aim of this adjustment is that unexpectedly large claims do not lead to volatile and negative estimates of output.

Adjusted claims calculated by using geometrically weighted moving average technique for non-life insurance and reinsurance.

Insurance

Intermediate consumption of the insurance corporations consists of goods and services consumed as inputs by a process of activity, excluding fixed assets whose consumption is recorded as consumption of fixed capital.

Reinsurance

Reinsurance can be defined as an indirect insurance. It is provided by one insurance corporation to another. In that case, insurer may protect against an unexpectedly large number of claims, or exceptionally heavy claims, by taking out a reinsurance policy with a reinsurer.

Reinsurance

The **output** of reinsurance :

- total premiums earned
- *less* commissions payable
- *plus* premium supplements
- *minus* both adjusted claims incurred and profit sharing

Intermediate consumption of the reinsurance corporations are calculated also same way with direct insurance.

Pension Funding

Pension funding includes legal entities (i.e. funds, plans and/or programmes) organised to provide retirement income benefits only for the sponsor's employees or members. This includes pension plans with defined benefits, as well as individual plans where benefits are simply defined through the member's contribution. Compulsory social security schemes are not included in the class.

Pension Funding

The output of pension funds/plans/programmes depends on the way in which it is organised. If there is not enough data for them, last option for calculation is the sum of costs method.

Intermediate consumptions are calculated as total of inputs by a process of activity.

Insurance Sectors in Turkey

The coverage of the insurance sector in Turkey includes;

- life corporations
- non-life corporations
- pension corporations
- reinsurance corporations
- Agricultural Insurance Pool (AIP)
- Turkish Natural Catastrophe Insurance Pool (TCIP)
- the data of foundations and funds which promise pension to their members.

Insurance Sectors in Turkey

NACE Division	NACE Class	Company Type	Active	Premiums / Contributions Earned (P/CE)	P/CE Share in Total %
65	651	Non-life Ins. Company	35	16.036	72,2
		Life Ins. Company	6	415	1,9
	652	Reinsurance Company	1	1.116	5,0
	653	Pension Company	17	2.800	12,6
		Foundation and chests which have found in the pension commitments to members	87	1844	8,3
	Total			146	22.211

Insurance Sectors in Turkey

Data sources;

NACE	Units	Data Source
65	Insurance Companies (life and non-life) (S.128-S.129) Pension Funding(S.128-S.129) Reinsurance Company(S.128)	Undersecretariat of Treasury (UT), Agricultural Insurance Pool (AIP), Turkish Catastrophe Insurance Pool (TCIP)
	Foundations and chests' (found in the pension commitments to members) (S.128-S.129)	General Directorate of Foundations

Thank You For Your Attention...