**Enhancing insurance corporations and pension funds statistics**

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**Introduction**

*The necessity to collect more detailed and timely data concerning insurance corporations and pension funds (ICPF) has risen since the last crisis considering their financial linkages with banks and other financial intermediaries. Currently, these statistics are produced under a “short-term approach” based on available sources, mostly collected by national supervisory authorities. The coming regulation on ICPF statistics, mainly based on the Solvency II reporting templates, will allow a better monitoring of data as well as a substantial enhancement of the users’ need . Its conception follows the general procedure adopted inside the ESCB, especially concerning the crucial step aiming at an assessment of the merits and costs associated to a new data collection. This “Merits and costs procedure” is one of the key elements allowing to respect the principles presented in the Public Commitment on European Statistics by the ESCB.*

**1. An insight of the ESCB ICPF statistics**

***1.1 The current statistics are collected under a short term approach***

* New ICPF statistics to fill up the data gaps (G20 summit)

In 1998, when the legislation empowering the ECB to collect statistical data was introduced, it was thought that ICPF statistics were not essential for the ECB’s monetary policy purposes. The financial crisis which began in 2007 has shown that the aggregated statistics traditionally used for the economic and monetary analysis were not sufficient from financial stability perspective.

The recommendations of the Group of Twenty leading countries (G20) following the crisis have greatly increased the importance of the ECB’s financial stability function. A new task[[1]](#footnote-1) was assigned to the ECB to provide statistical support to the European Systemic Risk Board[[2]](#footnote-2) and has led to place a higher priority on developing new statistics related to financial stability analysis.

Among these new statistics, ICPF statistics are crucial in view of the size and importance of this sector (Balance sheets of euro area ICPFs amounted to some €8 trillion at end-2013, with insurance corporations representing 80% of the total) which is likely to increase as populations age.

* Review of the development of ICPF statistics collected by the ECB

The ECB has published, since 2003 quarterly balance sheet data for insurance corporations and pension funds and alongside the quarterly integrated economic and financial accounts by institutional sector. The data were, however, highly aggregated and available about 110 days after the reference quarter. After the financial crisis, these data were enhanced in 2011 and made available only 85 days after the reference quarter but still collected on a best efforts basis, under a ‘short-term approach’, and not fully comparable across countries.

The last changes in regulatory environment for insurance corporations, with the adoption of the Solvency II directive[[3]](#footnote-3), and for financial accounts, with the adoption of the ESA 2010 prompted a new enhancement in ICPF statistics that has to be adopted through a new regulation.

***1.2 Need for enhanced ICPF data: changes in the regulatory environment***

* Review of the prudential regime for insurance and reinsurance undertakings in the European Union: Solvency II

Solvency II Directive is the new solvency regime for all EU insurers and reinsurers, which also covers the insurance operation of bancassurers. Due to come into effect on 1 January 2016, Solvency II aims to implement solvency requirements that better reflect the risks that insurance companies face and deliver a supervisory scheme that is consistent across all EU member states.

The supply by the relevant European Supervisory Authority, EIOPA, of harmonized reporting templates for the purpose of supervising insurance corporations under the Solvency II forms an improved background to collect enhanced ICPF statistics by adopting an ad-hoc regulation.

***1.3 Setting up a regulation for ICPF statistics compliant with ESA 2010***

In the ECB framework, new requirements for statistics can be grouped into three main categories:

- Simple fine-tuning measures which are included in the internal ECB work programs

- Interim data collections based on existing data sources called “short-term approaches”

- The production of new or substantially enhanced statistics with an impact on reporting agents : subject to a new regulation and a merits and costs procedure

Until 2009, the EU framework legislation on ECB statistics (Council Regulation (EC) N° 2533/98) excluded insurance corporations and pension funds (S.125 in the ESA 95 coding) from the reference population to which the ECB could address statistical regulations. This is no more the case since the amendment to the EU framework legislation[[4]](#footnote-4) on ECB statistic (Council Regulation (EC) No 951/2009 amending Council Regulation (EC) No 2533/98) now includes euro area insurance corporations and pension funds in the ECB’s reference reporting population.

In this context, the ECB will issue a regulation addressed to insurance corporations[[5]](#footnote-5) which will enable NCBs to derive, as far as possible, the required data from insurance corporations’ supervisory reporting, thus reducing their reporting burden.

The regulation on insurance corporations will also partly reflect the requirements of the ESA 2010. Indeed, unlike the SNA 2008 and BPM6 which essentially recommend best practice, the ESA 2010[[6]](#footnote-6), like the current ESA 95, is legally enforceable in the European Union as a European Parliament and Council regulation.

The information on counterpart sector of the assets held by insurance corporations (see new requirements 2b, 3c and 4b in the annex) is part of the new requirements of the ESA 2010 which requires a thorough details on sub sectors, on who to whom basis, that will be available from September 2015 in the financial accounts.

**2. Towards a regulation for ICPF statistics: implementation of the merits and costs procedure**

***2.1 The merits & costs procedure as to reduce the reporting burden of respondents***

* Core principle of the ESCB collection of data : “collection of the necessary statistical information of an appropriate quality while trying to keep the reporting burden on respondents to an acceptable level”

The ECB regulation on ICs statistics will be addressed to euro area insurance corporations. The procedure for issuing this regulation entails a consultation on user requirements (merits) as well as a cost assessment exercise.

The merits and costs procedure was introduced in 2000 by the Governing Council of the ECB with the objective of ensuring that the reporting burden is kept to a minimum and that statistics are collected and compiled in a cost-efficient way. Indeed, the Council Regulation[[7]](#footnote-7) requires the ECB to satisfy user needs with high quality statistics while keeping the burden placed on reporting agents to a minimum. To this end, well-defined approaches in order to identify new statistical requirements and to develop new statistics or enhance existing statistics, taking account of related merits and costs, are part of quality assurance in the ESCB.

* Main steps of the merits & costs procedure (start date - end date of the step)

The merits and costs procedure consists of the following main steps:

Step I: An initial assessment is carried out by the ECB, including consultations with NCBs and possibly respondents, to determine whether or not new requirements can be met using existing statistics.

Step II: (July 2012- October 2012) A fact-finding exercise carried out by the ECB is used to analyze the feasibility, significance and methodological aspects of specific requirements where NCBs and, if it is necessary respondents, can answer.

Step III: (April 2013- September 2013) A cost assessment is implemented in which the NCBs and reporting agents according to a grading scheme – for example, from 1 (limited change) to 5 (fundamental change) – for both implementation and recurrent costs give their evaluation of the global cost of the data required.

Step IV: (December 2013-February 2014) A merits assessment is carried out where the main users of the statistics under development are asked for both a qualitative and a quantitative assessment. The quantitative assessment is based on a set of scores according to certain criteria, such as policy relevance or operational usefulness, international availability and harmonization, and data quality enhancement.

Step V: (March 2014-October 2014) Merits and costs are matched in preparation for the final decision by the Governing Council of the ECB.

***2.2 Results of the merits & costs procedure for ICPF statistics***

* Matching of merits and costs exercise

The cost assessment exercise covered the estimated costs by NCBs and reporting agents (RA) for the new statistical requirements on balance sheet of insurance corporations. For the merits exercise, quantitative and qualitative answers were received from the Financial Stability Committee[[8]](#footnote-8), Monetary Policy Committee, and the Statistical Committee (Balance of Payments, Euro Area accounts). For each requirement (see annex for the complete table), the ECB put an overall assessment of merits and costs.

**Assets:**

The highest merits were obtained on detailed information on :

* *Holdings of debt securities* by original maturity, counterpart area, sectors for euro area counterparts (2b)
* *Holdings of debt securities* by individual EU countries and sectors (2c)
* *Loans* by original maturity, counterpart area, sectors for euro area counterparts (3d)
* *Holdings of equity* by counterpart area and sectors for euro area counterparts (4c)
* *Holdings of equity*, *o/w listed shares* by counterpart area and sectors for euro area counterparts (4.1c)
* *Holdings of equity, o/w unlisted shares and o/w other equity* (4.2c)
* *Holdings of investment fund shares/units* by counterpart area(5a)



 Source: ECB, for more details see Annex.

**Liabilities:**

Overall highest merits were obtained on detailed information on:

* *Listed shares, unlisted shares and other equity issued* (8a),
* *Insurance technical reserves* (9b)
* *Insurance technical reserves*, *o/w pension fund reserves, separately defined contribution, defined benefit and hybrid schemes* (10a)
* *Insurance technical reserves*, *o/w* *flow data, including revaluations of technical reserves* (11b)
* *Improved timeliness* t+4 weeks instead of t+5 weeks scheduled by EIOPA (12a)



 Source: ECB, for more details see Annex.

* Implementation in France

The total balance sheet of ICs[[9]](#footnote-9) in France amounts to € 2.2 billion at the end 2013 (30% of the total of the euro area). The French IC sector[[10]](#footnote-10) is very concentrated (5% of IC companies represent 80 % of total balance sheet). It is also characterized by a large number of small entities (mutual insurance companies).



The fact finding and the cost assessment were conducted in close cooperation with reporting agents and national supervisory authority. In France, the reporting population is characterized by its heterogeneity with a very large number of small entities. These latter support very high costs to fulfill the annual reporting requirements given the size of their balance sheet which its insignificant compared to the total of the sector (About 85% of the population stands for only 5 % of total balance sheet). This is why reporting agents were also actively associated to the cost assessment by setting up multiple meetings with French professional associations (during July 2013) in order to draw their attention on the ECB statistical requirements that are not part of solvency II reporting templates. Thus, reporting agents had been made aware of the ECB new statistical requirements since the very beginning of the process in order to enhance their motivation and participation to the coming IC regulation.

**3. The merits & costs exercise: a quality assurance procedure**

* 1. ***Cost effectiveness through the merits & costs exercise***
* Balancing the stakeholders interests : minimizing the costs of NCBs and reporting agents while satisfying the needs of users

The merits and costs procedure ensures the cost effectiveness of the ESCB statistics through the balancing of merits and costs for each new statistical requirement seeking in the meantime if the information needed can be collected from already available sources. Doing that, this procedure ensures that resources are used optimally and that user’ requirements on timeliness, frequency, instruments detail and sector counterpart breakdown are fulfilled.

Moreover Solvency II templates are seen as a key element to meet user needs, i.e. both the expected requirements of the ESRB and of financial stability analysis, as well as those for monetary policy purposes, as the supervisory templates cover reporting of solo and consolidated accounts.

***3.2 Minimizing the reporting burden***

* Taking into account the highest costs : suppression of some features

In the ESCB statistics context, the minimization of the reporting burden is related to the procedures that enable user requirements to be met while reducing the burden on reporting agents.

The application of this principle in the merits and costs procedure has conducted to drop some features that were not estimated necessary to the users’ needs and/or too costly given the estimations of the reporting agents. For instance, requirements on loans at nominal value (3e), and on holding of investment fund shares/units by individual countries (5b) were dropped**.** The requirements finally adopted are those considered as not representing a heavy burden on insurance corporations.

* Difficulty of getting a totally harmonized measure of costs

The costs expressed by NCBs or reporting agents in the merits and costs procedure are summed up to give an overall measure for the entire euro area. This method which enables to reach a global result can sometimes induce higher costs in countries where the reporting population is not exactly the same as in the euro area aggregated population. These side effects could be taken into account by, for instance, allowing exceptional derogations to these countries in the regulation.

At the country level, the calculation of an average cost can sometimes not entirely reflect the high costs supported by small entities. Indeed, the summing of costs weighted by the size of balance sheet does not take into account asymmetric distribution of population.

To conclude, it appears that the Merits and Costs Procedure is a crucial step during the conception phase of a new data collection process. In particular, it is an efficient way to guarantee that the project is feasible at an acceptable cost. As such, it is one of the most powerful tools available inside the ESCB to respect most of the principles stated in the Public Commitment on European Statistics, especially :

* Principle 9: minimization of the reporting burden
* Principle 10: Cost effectiveness
* Principle 11: Relevance
* Principle 12: Accuracy and reliability
* Principle 14: Consistency and comparability

**Annex**

**New requirements asked by the ECB**

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| **ASSETS** |
| **1** | **Holdings of currency and deposits** |
| (a)    by individual countries (EU, RoW) |
| (b)   by original maturity and counterpart area |
| **2** | **Holdings of debt securities** |
| (a)    by individual countries (EU, RoW) |
| (b)   by original maturity, counterpart area, sectors for euro area counterparts |
| (c)    by individual EU countries and sectors |
| **3** | **Loans** |
| (a)    by individual countries (also for deposit guarantees in connection of reinsurance) |
| (b)   by original maturity and counterpart area |
| (c)    by counterpart area and sectors for euro area counterparts |
| (d)   by original maturity, counterpart area, sectors for euro area counterparts |
| (e)    loans at nominal value |
| **4** | **Holdings of equity** |
| (a)    by individual countries (EU, RoW) |
| (b)   by counterpart area and sectors for euro area counterparts |
| (c)    by individual EU countries and sectors |
| **4.1** | **Holdings of equity, o/w listed shares** |
| (a)    total holdings of listed shares |
| (b)   by counterpart area |
| (c)    by counterpart area and sectors for euro area counterparts |
| **4.2** | **Holdings of equity, o/w unlisted shares and o/w other equity** |
| (a)    total holdings of unlisted shares and total holdings of other equity |
| (b)   by counterpart area |
| (c)    by counterpart area and sectors for euro area counterparts |
| **5** | **Holdings of investment fund shares/units** |
| (a)    MMF s/u and non-MMF s/u (separately), by counterpart area |
| (b)   Total IF s/u by individual countries |
| **6** | **Non-life insurance technical reserves (reinsurance recoverables)** |
| (a)    by counterpart area |
| (b)   by individual countries |

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| **LIABILITIES** |
| **7** | **Debt securities issued and loans received** |
| (a)    separate totals for debt securities and loans received |
| (b)   loans received by sector and counterpart area |
| (c)    loans received, of which deposit guarantees by counterpart area |
| **8** | **Listed shares, unlisted shares and other equity issued** |
| (a)    separate totals |
| **9** | **Insurance technical reserves (ITR)** |
| (a)    separately life unit-linked, life non unit-linked and non-life, by counterpart area |
| (b)   separately life and non-life, by individual countries |
| **10** | **ITR: identification of pension fund reserves in life insurance** |
| (a)    pension fund reserves, separately defined contribution, defined benefit and hybrid schemes |
| (b)   pension fund reserves, by counterpart area |
| (c)    pension fund reserves, by individual countries |
| **11** | **ITR** |
| (a)    non-life ITR by sector for euro area counterparts |
| (b)   flow data, including revaluations of technical reserves |

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| **GENERAL** |
| **12** | **Timeliness** |
| (a)    Improved timeliness t+4 weeks, for all balance sheet items, as of 2020Q1 |
| (b)   Improved timeliness t+4 weeks, only for assets, as of 2020Q1 |
| **13** | **Implementation of host approach** |
| (a)    Using balance sheet information |
| (b)   Using basic information of branches (e.g. premiums and/or reserves) |

1. Report to the G-20 Finance Ministers and Central Bank Governors, recommendation n°15, October29, 2009 [↑](#footnote-ref-1)
2. The European Systemic Risk Board was established in January 2011. [↑](#footnote-ref-2)
3. Directive 2009/138/EC on the taking-up and pursuit of the business of insurance and reinsurance. [↑](#footnote-ref-3)
4. It should be mentioned that contrary to the ECB, the EIOPA is not empowered to issue regulations, although it can issue guidelines and recommendations as well as draft regulatory and technical standards. [↑](#footnote-ref-4)
5. The ECB’s main focus for monetary policy is on the life business of insurance companies, and not on non-life insurance business (motor, fire, accident, etc.) [↑](#footnote-ref-5)
6. Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union (the ESA 2010). [↑](#footnote-ref-6)
7. Council Regulation (EC) No 2533/98 concerning the collection of statistical information by the European Central Bank, as last amended by Council Regulation (EC) 951/2009 [↑](#footnote-ref-7)
8. The Committees assist the work of the decision-making bodies of the ECB, which can request them to provide any information in their fields of expertise in order to facilitate the decision-making process and the implementation of decisions. [↑](#footnote-ref-8)
9. There is no pension fund in France. [↑](#footnote-ref-9)
10. The French IC sector is composed of 96 life insurance companies, 212 non life insurance companies and 650 mutual insurance companies. [↑](#footnote-ref-10)