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**Treatment of Insurance Claims Incurred as Current or Capital Transfers**

**Prepared by the Statistics Department  
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## Treatment of Insurance Claims Incurred as Current or Capital Transfers

### 1. Introduction

In the *1993 SNA* treatment, claims and net premiums are treated as current transfers in all cases while the *AEG Issues Paper on Insurance* raises the possibility that some claims be treated as capital transfers:

“However, in the case of major catastrophes, when nonexpected claims can be massive, it can be useful to record exceptional flows as a capital transfer.” (proposed revised *1993 SNA* para. 8.88)

In section 7.3 of the issues paper, it is proposed that the difference between “very exceptional claims” and expected claims would be shown as a capital transfer to avoid the effect on disposable income. This treatment is described in the summary as being applied “on a case by case basis” and “optionally.”

This proposal raises concerns that:

- (a) on a theoretical level, that the distinction between capital and current transfers is being changed in that capital transfers could occur where there is no link to the acquisition or disposal of assets; and
- (b) on a practical level, that claims data would not always be able to be treated consistently by payers and recipients.

### 2. Existing Principles

The *1993 SNA* defines capital transfers in the following way:

“... a transfer of cash is capital when it is linked to, or conditional on, the acquisition or disposal of an asset (other than inventories) by one or both parties to the transaction, for example, an investment grant. (para. 8.31)

(Para. 10.132 has a definition in similar terms. The effects of current and capital transfers on income are contrasted.)

The *1993 SNA* goes on to consider other criteria:

In practice, capital transfers tend to be large, infrequent and irregular, whereas current transfers tend to be comparatively small and are often made frequently and regularly. However, while size, frequency and regularity help to distinguish current from capital transfers they do not provide satisfactory criteria for defining the two types of transfer. (para. 8.32)

The *1993 SNA* also highlights a concern for transfers to be consistently classified as current or capital by both parties to the transaction:

It is possible that some cash transfers may be regarded as capital by one party to the transaction and as current by the other.... In an integrated system of accounts such as the *SNA*, however, it is not feasible to have the same transaction classified differently in different parts of the System. Accordingly, a transfer should be classified as capital

for both parties if it clearly involves a transfer of an asset for one of the parties. (para. 8.33)

(Para. 10.133 is expressed in similar terms.)

The treatment of all insurance claims as current transfers is explained:

The amounts received by claimants are not usually committed to any particular purpose and goods or assets that may have been damaged or destroyed need not necessarily be destroyed or replaced. (para 8.88)

The qualifications of “usually” and “necessarily” seem to suggest that the authors recognized that there were possibly some capital elements, but that a convention to classify all claims as current was adopted to avoid splitting claims.

### 3. Comments

The *1993 SNA* recognizes that capital transfers are associated with “large, infrequent and irregular” transactions. Catastrophic losses may be lumpy and one-off, but in para. 8.32 suggests that these “help distinguish” but are not “satisfactory criteria” presumably because they could give rise to different answers.

The link to the acquisition of an asset in the case of catastrophic claims is not always clear:

- As the *1993 SNA* explains, insurance payouts for loss of an asset do not usually require that the funds be used for the acquisition of another asset.
- Some catastrophic claims are not related to assets, in the *1993 SNA* sense, at all, such as payments for loss of income, medical costs; and loss of consumer durables.
- Noncatastrophic claims are just as likely to be related to the acquisition of assets.

Alternatively, if the aspect of the definition (in paras. 8.31 and 10.132) that mentions the disposal of assets by the transfer-payer were applied to insurers, many claims, both catastrophic or not, would be capital transfers to the extent that they are funded by the insurer disposing of financial assets.

The *SNA* expresses concern about the need for a classification that can be determined consistently by both parties to a transaction, but the proposal would undermine this consistency:

- A high proportion of catastrophic loss risks is ceded to reinsurers. Whether losses are seen as exceptional or catastrophic may be viewed differently by the insurer and reinsurer, because reinsurers’ risk-spreading function means they have a wide portfolio of risks.
- To highlight differing perspectives, probably most claims are seen as exceptional and catastrophic by the claimant, a much smaller a proportion by the direct insurer, a lower proportion still by the first reinsurer, and almost none by a global reinsurer.
- The proposed change offers no operational definition of claims to be treated as capital.

- Since much reinsurance occurs cross-border, coordinated reporting between insurer and reinsurer (and between subsequent reinsurers, as there may be long chains of reinsurance) is often impractical.
- With the increasing emphasis on consistency of international recording of international transactions, it is particularly unfortunate to add a new treatment that is intrinsically likely to be recorded inconsistently.
- International inconsistencies for this item would be particularly serious, as they occur on the borderline between the current and capital accounts, and the current account balance is one of the key variables for balance of payments statistics.

To address concerns that exceptional claims cause volatility in disposable income measures, the possibility of identifying such claims separately within current transfers on an “as relevant” basis should be considered.

#### **4. Conclusion**

On balance, it would be more satisfactory to continue the convention that all insurance claims be treated as current transfers.