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Towards statistics on insurance brokers

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Introduction

There is a lack of information concerning the financial auxiliary enterprises and the financial auxiliary services at the moment in most (or all) western countries. The Netherlands are no exception. Concerning this class of enterprises and services one of the largest gaps appear to exist in the Dutch system of economic statistics.

To improve this situation, Statistics Netherlands intends to set up statistics on the financial auxiliaries, starting with the insurance brokers. This paper gives an overview of activities which have been undertaken or which will be undertaken in future.

The outline of this paper is as follows. It starts with a brief description of financial auxiliary services and financial auxiliary enterprises in general. Next, the existing registers on insurance brokers and the possibilities to arrive at an adequate statistical register on insurance brokers are discussed. The final part of the paper deals with data-collection concerning insurance brokers. Apart from general data on the profit and loss account and the balance sheet information is included on the type of services these enterprises provide.

Financial auxiliary services

Financial auxiliary services are produced by specialized financial auxiliaries classified in ISIC, rev.3. division 67 and by units classified in other ISIC-divisions. For example banks (ISIC 651) and insurance companies (ISIC 660) also produce financial auxiliary services. Other examples of non-specialized producers are travel agencies (ISIC 630), transport enterprises (ISIC 60 - 62), garages (ISIC 50). Frequently, these insurance brokerage services are closely related to the main services of these enterprises (i.e. a transporter also offering freight insurance brokerage).

Financial intermediaries often produce, in addition to financial intermediation services, financial auxiliary services as well. Likewise, financial intermediaries and financial auxiliaries are frequently part of the same group of companies. Depending on national legislation and statistical practices such financial intermediaries and financial auxiliaries might be part of a single statistical unit or constitute separate units.

Also, the brokerage of insurances and the brokerage of loans (mortgages) are often produced by the same enterprise or within a group of related enterprises. Real estate brokerage is often part of the total set of services produced by this group as well.

Within the total group of financial auxiliaries some enterprises specialize in a certain type of financial auxiliary service. Other produce a wider range of financial auxiliary services. E.g. insurance brokers might produce loan brokerage services as well.

It follows that a survey amongst financial auxiliaries will never produce a complete description of the market for the financial auxiliary services. For that purpose, information on the production of this type of services by other classes of enterprises is needed as well.

Financial auxiliary enterprises

Financial auxiliary activities constitute a rather broad spectrum of activities, ranging from the stock and the insurance exchanges and supervisors on the one end and loan, security and insurance brokers, loss adjusters and insurance and pension consultants on the other. The ISIC contains a break-down of this range of activities into four groups. Annex A of this document contains the relevant part of the ISIC-classification.

Contrary to the old SNA and the existing ESA 1978, the financial auxiliaries are part of the financial corporations sector in the new SNA/ESA. Within this sector they are classified into one separate subsector. Annex B gives the text of the new SNA and ESA on financial auxiliaries.

The distinction between financial intermediation and the financial auxiliary activities is that the financial auxiliaries themselves do not engage in financial transactions. The auxiliary services only facilitate financial intermediation (by the financial intermediaries) and credit granting, issuing, buying and selling of financial instruments by non-financial corporations.

Overview of financial corporations by ISIC-class and SNA/ESA-sector*)

financial corporations	SNA/ESA-sector	ISIC-class
financial		
intermediaries - central bank	S.121	65.11
- other MFI	S.122	65.12
- other fin. institutions	S.123	65.2
- insurers	S.124	66.1 + 66.3
- pension funds	S.124	66.2
financial		
auxiliaries - aux's to banking	S.125	67.1
- aux's to insurance	S.125	67.2

*) It is noticed that some enterprises classified in NACE 65 - 67 might be included in other sectors than the financial corporations sector.

ISIC-division 67 can be broken down into two separate but related groups, i.e.:

- a. enterprises producing auxiliary services related to banking, credit, investment and related areas between third parties (ISIC-class 67.1);
- b. enterprises producing auxiliary services related to insurance (ISIC-class 67.2).

ISIC-group 67.1 is broken down into three separate ISIC-classes whereas ISIC-group 67.2 contains no further subdivision. Insurance brokers constitute, with regard to their number as well as e.g. their total employment, the main part of class 67.2. Other activities auxiliary to insurance, e.g. insurance exchange, insurance and pension advisors, loss adjusters are classified in the same ISIC-class without any further break-down. Annex A contains the break-down of ISIC-division 67.

Insurance brokerage consists of the advising of clients on the appropriateness of insurance policies, the conclusion of policies and the collection of premiums. A distinction can be made between brokers who are allowed to sign new policies themselves and those who have to refer the policy to the insurance company. A second distinction is between brokers also active on the insurance exchange (in Amsterdam or Rotterdam) and those who are not. The latter class of brokers can place a policy (concerning large industrial risks) on the insurance exchange only through an insurance exchange broker.

Existing registers on insurance brokers

In the area of insurance brokerage the following classes of enterprise registers exist in the Netherlands:

- statistical registers;
- supervisory registers;
- registers of professional organizations;
- fiscal (VAT, income tax, enterprise tax) registers.

A statistical register should exist in each EU-country. Because Statistics Netherlands makes little use of the financial auxiliary part of this register, the quality thereof is doubtful. The first step in setting up statistics concerning insurance brokers has to be an improvement of the quality of the statistical register.

The other registers mentioned above could be used to establish an adequate statistical register on insurance brokers. Additionally, some external registers also contain statistical information. This especially applies to the tax register.

Supervision of insurance brokers consists largely of inspection of the adequacy of their professional skill (education in the field). No supervision exists on the performance of their activities (as e.g. with insurance companies).

For realizing this objective a supervisory register of insurance brokers has existed since the beginning of the fifties in the Netherlands. Every enterprise or person providing insurance brokerage services is obliged to register with the supervisory authority. The institutions active in the field of insurance brokerage (as their main or its secondary activity) have to appoint at least one person who is in charge of this activity. This person should be registered with the supervisory authority.

So, this supervisory register contains all enterprises and persons which produce insurance brokerage services independent of their main activity. Additionally, persons are included who are responsible for the insurance brokerage activities of the enterprises admitted. Finally, persons admitted to produce insurance brokerage services but not or no longer active on their own account (e.g. pensioners, employees, others than those in charge) are included in the register.

Two professional organizations of insurance brokers exist in the Netherlands. Additionally, there is a professional organization of real estate agents, who as well often provide insurance brokerage services. These organizations appeared to be very cooperative in making their registers available.

Questions, however, exist on the usefulness of their registers for statistical purposes. These questions relate especially to the coverage of the sector and the concept of the unit included in this register.

Tax registers could be useful. They predominantly concern the income and/or the enterprise tax. As the insurance brokers are not subject to VAT, the VAT-register is of little use. At least three problems might exist with tax registers. The first problem relates to the activity classification within the tax register. The second problem concerns the delineation of the fiscal unit. The interconnection of the tax register with the statistical register is the third problem to be solved.

The establishment of an adequate statistical register

Statistics Netherlands is currently establishing an adequate statistical register on insurance brokers. This work is largely based on the existing statistical register and the supervisory register. The registers of the professional organizations have been used mainly in solving problem cases.

The first step was to find the connections between the units included in both registers. This exercise has been complicated because of the inclusion within the supervisory register of inactive units (enterprises, pensioners and employees) and of the persons in charge of the insurance brokerage activities. Secondly, it was complicated by the fact that private persons, who are active as an insurance broker on their own account, do not need to register at the Chamber of Commerce: the prime source of the statistical register on units without employees. The third problem has to do with the lack of a common identifier. Therefore, joining the two registers has to be based on the name and address of the insurance broker. The comparison of the two registers resulted in the following cases:

- a. units from the supervisory register which are included in the statistical register within ISIC-67.2;
- b. units from the supervisory register which are included in the statistical register outside ISIC-67.2;
- c. units from the supervisory register which have not been traced in the statistical register;
- d. units from the statistical register within ISIC-67.2 which have not been traced in the supervisory register.

Especially c and d need further investigation. Depending on their activity code within the statistical register b might be a problem as

well. Most of these units are being surveyed to check for register purposes on their activities and their admission to act as a insurance broker. This work is expected to be completed by the end of this year.

Statistics on insurance brokers

Once an adequate register on insurance brokers is available the compilation of statistics on these institutions can be started. The following data seems necessary:

1. the profit and loss account of the insurance brokers, including their value of production (output), intermediate consumption and staff costs;
2. a break-down of their output by type of product (type of service);
3. a break-down of their insurance portfolio by line of insurance, by type of consumer (households, enterprises) and type of business;
4. the employment with insurance brokers and a break-down of staff costs;
5. the balance sheet of the insurance brokers.

It is doubted whether it is relevant to collect information on imports and exports and investments. Sales of insurance brokers are largely on the domestic markets. Only occasionally, transactions are with non-residents. This relates mainly to the large brokers, mostly those active on the insurance exchange. Purchases with non-residents are even less important. Information on investment can largely be derived from the real asset information in the balance sheet and the depreciation figures in the profit and loss account. These two items are left for further discussion.

The five objectives relate to the various modules of the enquiry. Annex C contains these modules.

Overview of modules

Module 1.1	The profit and loss account
Module 1.2	The distribution of profits
Module 2.1	Break-down of insurance commissions received
Module 2.2	Break-down of other commissions received
Module 2.3	Break-down of other income
Module 3.1	Composition of the insurance portfolio
Module 3.2	Number of clients and policies
Module 3.3	Where is the risk insured?
Module 4.1	Staff costs
Module 4.2	Employment
Module 5	Balance sheet

Module 1. The profit and loss account and distribution of profits

The aim of this module is to measure the value of production (output) of the insurance brokers. Their sales are largely on the domestic markets. All transaction of the insurance broker with third parties, including the entrepreneur's household, should be included.

The second part of this module is the distribution of profit amongst the owners (shareholders), government (tax) and retained earnings. With unincorporated enterprises, this part may not be feasible.

Module 2. Break-down of commissions and other income

The aim of this module is to get a break-down of the commissions received and other income by type of service and by type of insurance. The proposed break-down is more detailed than the existing break-down of the CPC.

Module 3. Break-down of the insurance portfolio and the placement of risks

This module gives information on the existing policies concluded through the insurance brokers in terms of their numbers, the premiums involved (exclusive of insurance tax), the clients and the placement of the policies. The brokers have a choice of placing the policies directly with an insurer or placing them through the insurance exchange. If the broker has no access to the insurance exchange, the latter necessarily goes via an insurance exchange broker.

Module 4. Staff costs and employment

This module contains information on the employment with insurance brokers with the inclusion of family workers. Because insurance brokerage is a small scale activity, members of the family cooperate in the enterprise rather often.

Module 5. Balance sheet

This module contains information on the balance sheet of insurance brokers. Brokers who have not organized their activities in a separate legal unit are probably not in a position to produce a balance sheet.

Organization of data collection

Some possibilities exist for the collection of the data as included in the various modules. Partly these data might be compiled from the existing tax registers. Other data might be overlapping with existing surveys. A new survey seems necessary on the remaining modules .

The current strategy of Statistics Netherlands is as follows. Both tax registers (income tax and enterprises tax) are expected to be linked with the statistical register in 1996. Research will be done to investigate the possibilities of deducting statistical data on insurance brokers from these tax sources during the forthcoming year. This applies especially to the modules 1 and 5. The paper of Van de Stadt deals with this approach in more detail.

Information on employment should be coordinated with existing surveys on this subject. The possibilities in this area will be investigated in 1996 as well.

The break-down of commissions by product and the further break-down of the portfolio of the insurance brokers might be collected through separate surveys. It is not yet clear how and when these surveys will be organized at this juncture.

Annex A. ISIC on insurance brokers

Tabulation categories	Group	Class	Description
	DIVISION 66		INSURANCE AND PENSION FUNDING, EXCEPT COMPULSORY SOCIAL SECURITY
	660		Insurance and pension funding, except compulsory social security
		6601	Life insurance
		6602	Pension funding
		6603	Non-life insurance
	DIVISION 67		ACTIVITIES AUXILIARY TO FINANCIAL INTERMEDIATION
	671		Activities auxiliary to financial intermediation, except insurance and pension funding
		6711	Administration of financial markets
		6712	Security dealing activities
		6719	Activities auxiliary to financial intermediation n.e.c.
	672	6720	Activities auxiliary to insurance and pension funding

DIVISION 67 ACTIVITIES AUXILIARY TO FINANCIAL INTERMEDIATION

This division includes the provision of services involved in or closely related to financial intermediation, but not themselves involving financial intermediation.

671 Activities auxiliary to financial intermediation, except insurance and pension funding

This group includes activities involved in or closely related to financial intermediation, other than insurance and pension funding, but not themselves involving financial intermediation.

6711 Administration of financial markets

This class includes the operation and supervision of financial markets other than by public authorities and includes the activities of stock exchanges and other bodies that regulate or supervise the activities of financial markets, including exchanges for commodity futures contracts.

6712 Security dealing activities

This class includes dealing in financial markets on behalf of others (e.g. stock broking) and related activities.

Exclusions: Dealing in markets on own account is classified in class 6599 (Other financial intermediation n.e.c.).

6719 Activities auxiliary to financial intermediation n.e.c.

This class includes all activities auxiliary to financial intermediation not classified elsewhere, including financial advisers, mortgage advisers and brokers, bureaux de change, etc.

Exclusions: Insurance agents' and other activities closely related to insurance and pension funding are classified in class 6720 (Activities auxiliary to insurance and pension funding).

672 6720 Activities auxiliary to insurance and pension funding

This class includes activities involved in or closely related to the management of insurance and pension funding other than financial intermediation and includes activities of insurance agents, average and loss adjusters, actuaries, and salvage administration.

Exclusions: Marine salvage is classified in class 6303 (Other supporting transport activities).

Annex C. Modules

Module 1.1 The profit and loss account

costs	amount	income	amount
Staff costs	Insurance commissions	.....
Rent	Other commissions	.....
Commissions paid	Income from secondary activities	.....
Interest		
Costs of advertisements		
Costs of automation		
Depreciation on:		Gross profit	.....
building		
transport equipment		
computers		
insurance portfolio		
General costs		
	----- +		----- +
Total	Total	.....

Module 1.2 The distribution of profits

	amount
Gross profit
Entrepreneurs tax
Profit after tax	----- -/.
Profit to the owner(s)/dividend
Retained earnings	----- -/.

Annex B. SNA and ESA on financial auxiliaries

Financial auxiliaries (S.124)

- 4.96. This sub-sector consists of all resident corporations and quasi-corporations engaged primarily in activities closely related to financial intermediation but which do not themselves perform an intermediation role. They consist of corporations such as securities brokers, loan brokers, flotation corporations, insurance brokers, etc. They also include corporations whose principal function is to guarantee, by endorsement, bills or similar instruments intended for discounting or refinancing by financial corporations, and also corporations which arrange hedging instruments such as swaps, options, and futures or other instruments which are continually being developed as a result of wide-ranging financial innovation.

Sub-sector: Financial auxiliaries (S.124)

- 2.57. Definition: The sub-sector financial auxiliaries (S.124) consists of all financial corporations and quasi-corporations which are principally engaged in auxiliary financial activities, that is to say activities closely related to financial intermediation but which are not financial intermediation themselves (see 2.39.).
- 2.58. In particular, the following financial corporations and quasi-corporations are classified in sub-sector S.124:
- a) insurance brokers, salvage and average administrators, insurance and pension consultants, etc.;
 - b) loan brokers, securities brokers, investment advisers, etc.;
 - c) flotation corporations that manage the issue of securities;
 - d) corporations whose principal function is to guarantee, by endorsement, bills and similar instruments;
 - e) corporations which arrange derivative and hedging instruments, such as swaps, options and futures (without issuing them);
 - f) corporations providing infrastructure for financial markets;
 - g) central supervisory authorities of financial intermediaries and financial markets when they are separate institutional units;
 - h) managers of pension funds, mutual funds, etc.;
 - i) corporations providing stock exchange and insurance exchange;
 - j) non-profit institutions recognized as independent legal entities serving financial corporations, but not engaged in financial intermediation or auxiliary financial activities (see 2.44.).

Module 2.1 Break-down of insurance commissions received

Type of commission	amount
Life insurance commissions	
acquisition commission
collection and continuous commission +
Total life insurance commissions
Commission on group pension insurance
Non-life insurance commissions	
accident and health insurance
motor vehicle insurance
marine, aviation and transport insurance
fire and other damage to property
general liability insurance
credit and surety insurance
other non-life insurance +
Total non-life insurance commissions
of which:	
households
other
of which:	
acquisition commission
collection and continuous commission +
Total insurance commission

Module 2.2 Break-down of other commissions received

Type of commission	amount
Mortgage brokerage commission
Other loan brokerage commission
Saving and investment brokerage commission
Other commission +
Total

Module 2.3 Break-down of other income

Income from secondary activities	amount
Income from real estate brokerage
Income from administrative services
Income from fiscal services
Income from other services +
Total

Module 3.1 Composition of the insurance portfolio

type of insurance	number of policies	amount of premium
Life assurance		
households
other
Total life assurance + +
Group pension insurance
Non-life insurance		
accident and health insurance
motor vehicle insurance
marine, aviation and transport insurance
fire and other damage to property
general liability insurance
credit and surety insurance
other non-life insurance
Total non-life insurance + +
of which:		
households
other

Module 3.2 Number of clients and policies

	clients	policies
Households
Other
Total + +

Module 3.3 Where is the risk placed?

	policies	premium
Total business
of which:		
with an insurer
directly on the insurance exchange
on the insurance exchange through an insurance exchange broker

Module 4.1 Staff costs

	amount	
Wages and salaries	
Commissions to staff	
Social contributions, incl. of pension premiums	
Bonuses	
Subtotal	+
Refunded social benefits	-/-
Subtotal	
of which:		
field staff	
office staff	
Costs of temporary staff	
Sundry staff costs	+
Total	

Module 4.2 Employment

	number	
Self-employed (owner of the enterprise) or Director of the enterprise	
Other employees	
Members of the family (non-employees)	+
Subtotal	
of which:		
field staff	
office staff	

Module 5 Balance sheet

assets	amount	liabilities	amount
Immaterial assets		Own capital	.....
insurance portfolio	Reserves	.....
others	Provisions	
		for pensions	.....
Real assets		other	.....
buildings	Long term loans	.....
transport equipment	Short term loans	.....
computers		
Financial assets		Trade credit	.....
Cash and other liquid			
assets		
Other financial assets		
Trade credit +	 +
Total	Total	.....