

Box 15

USING PROVISIONAL ECB STATISTICS FOR INSURERS AND PENSION FUNDS TO ANALYSE THEIR INVESTMENT RISKS AND LINKAGES

Investment risks are one of the most prominent risks that insurers and pensions funds are confronted with, and the analysis of insurers' and pension funds' financial asset positions is therefore an important element in financial stability analysis. From a broader financial stability perspective, it is also important to analyse the investment of insurers and pension funds, since portfolio reallocation of insurers, or the unwinding of positions, has the potential to affect financial stability by destabilising asset prices.¹ In addition, the investment of insurers and pension funds create important financial links to, in particular, governments and banks.

¹ See ECB, "The importance of insurance companies for financial stability", *Financial Stability Review*, December 2009.

Such analyses of insurers' and pension funds' financial assets are, however, often hampered by the lack of harmonised and timely data. The financial accounts published by insurers and pension funds often fail to contain information in sufficient detail to analyse investment links with other types of institutions and firms. However, new provisional ECB statistics for the euro area insurance corporations and (autonomous) pension funds (ICPF) sector make such analyses possible on an aggregate basis.²

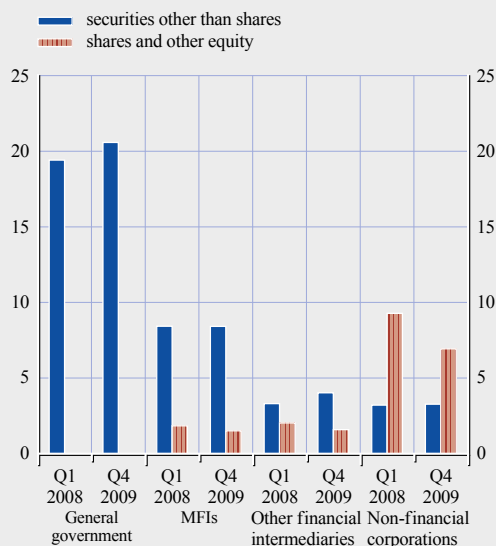
This new dataset follows the concepts and definitions of the European System of Accounts 1995 (ESA 95). It comprises quarterly stock data for the ICPF sector as a whole, available three months after the end of the reference quarter. Assets and liabilities are valued at market prices, with the exception of deposits and loans that are recorded at nominal value. The data are broken down by type of instrument, by regional (euro area and non-euro area) and sectoral counterparts, as well as, where applicable, by original maturity. The data are compiled on a host approach covering, therefore, all businesses in the euro area, either by domestically or foreign-owned entities and on a non-consolidated basis.

The statistics, which are still experimental, show that the most important asset class in which euro area insurers and pension funds invest is "securities other than shares", which mainly comprises bonds issued by governments and monetary financial institutions (MFIs). Nearly half of the securities of this class held by insurers and pension funds are issued by euro area governments (see the table below), which represent around 20% of the total euro area financial assets of the ICPF sector. The share of holdings of government bonds increased during the financial crisis when many insurers and pension funds shifted their investment strategies away from, in particular, equities to government bonds (see the chart). As a result of the increased exposures, insurers and pension funds now account for around 20% of the debt securities issued by euro area governments, which make an important provision for governments' funding.

Euro area ICPFs are also providing funding to other sectors. After governments, the euro area ICPF sector has its second biggest debt securities exposure to euro area MFIs, a sector that consists, in particular, of credit institutions (see the table and chart). Euro area insurance corporations and pension funds hold about

Financial assets of euro area insurance companies and pension funds

(percentage of total financial assets)



Sources: ECB.

² So far, data on the ICPF sector were part of the euro area accounts (see Table 3.5 in the ECB's Monthly Bulletin and the ECB Statistical Data Warehouse (SDW)). The new provisional data are derived from an ongoing ECB project to develop more detailed regular statistics on the assets and liabilities of insurers and pension funds. Apart from insurers (insurance and reinsurance), the statistics cover autonomous pension funds, i.e. funds that have autonomy of decision-making and keep a complete set of accounts. Non-autonomous pension funds set up by, for example, credit institutions or non-financial corporations are not covered since they are not separate institutional units.

Financial assets of euro area insurance companies and pension funds

(Q4 2009; EUR billions)

	Total	MFIs	Non-MFIs					Rest of the world	Not allocated
			General government	Other residents			Households		
				Other financial intermediaries	ICPF	Non-financial corporations			
Total financial assets	6,482	1,387	1,227	1,669	416	631	190	796	166
Currency	8	0	0	0	0	0	0	0	8
Deposits	813	738	0	0	0	0	0	75	0
Securities other than shares, excl. financial derivatives	2,416	465	1,136	222	17	180	0	396	0
<i>Up to 1 year</i>	42	19	11	1	0	2	0	9	0
<i>Over 1 year</i>	2,374	446	1,125	221	17	178	0	387	0
Financial derivatives	44	11	0	7	0	0	0	26	0
Loans	440	9	90	18	87	56	143	38	0
Shares and other equity	746	84	0	88	30	383	0	162	0
<i>Quoted shares</i>	351	53	0	27	21	160	0	90	0
<i>Unquoted shares and other equity</i>	395	30	0	61	8	224	0	72	0
Mutual funds shares/units	1,486	81	0	1,334	0	0	0	71	0
Prepayments of insurance premiums	296	0	0	0	268	0	0	29	0
Other accounts receivable/payable	232	0	1	0	15	12	46	1	158

Source: ECB.

€465 billion of debt securities issued by euro area MFIs, which represents around 10% of the total debt securities issued by euro area MFIs.

With a total value of €1.5 trillion, mutual fund shares take second place to debt securities as an asset class in which euro area insurers and pension funds invest (see the table). Estimates show that ICPFs have about one-third of their mutual fund investment in bond funds, followed by investments in mixed funds and equity funds (about one-quarter each). The share of investments in real estate funds, hedge funds and other funds together amounted about 10% of the total, and money market funds account for the remaining 5%.

As highlighted in previous FSRs, insurers and pension funds suffered from a significant decline in the value of their equity holdings during the financial crisis, and many also sold equities in an attempt to de-risk their investment exposures. As a result, the importance of shares and other equity declined from around 14% to 11% of total financial assets (see the chart and table). ICPFs have invested mainly in shares issued by non-financial corporations, but they also hold €53 billion of quoted shares issued by euro area MFIs. This represents around 9% of MFIs' total quoted shares and highlights the size and importance of the links between the ICPF and MFI sectors.

Finally, ICPF investments in the rest of the world represented 12% of their total financial investments; around half of these investments are in debt securities (mainly with a maturity of over one year) and 20% in shares and other equities.

To sum up, the ECB's new, more detailed statistics on insurance companies and pension funds will make an important contribution to the analysis of the sector's financial condition and risks, and of financial asset linkages with other sectors of the economy and, in particular, other financial sectors. Aggregate data for the ICPF sector are valuable to study trends in the sector as a whole.

It is also important to analyse such aggregate data from a broader financial stability perspective as it is often the ICPF sector as a whole, or clusters of insurers and pension funds, that has the potential to affect financial stability, in particular via the investment behaviour. Nevertheless, aggregate data can hide important differences across institutions. Sector-wide assessments therefore need be complemented with an analysis of a set of large and important insurers to allow a more timely and detailed analysis.