

Box 2

Financing and financial investment of insurance corporations and pension funds in the euro area

In this issue of its Monthly Bulletin, the ECB is publishing for the first time financial investment and financing data for insurance corporations and pension funds in the euro area (see new Table 6.2 in the “Euro area statistics” section). This data set complements the quarterly table on financing and financial investment of the non-financial sectors in the euro area and the data on balance sheets of monetary financial institutions and other financial intermediaries, as published in Table 6.1 and Tables 2.1 to 2.11 respectively in the “Euro area statistics” section.

According to the European System of Accounts 1995 (ESA 95), insurance corporations and pension funds are financial corporations engaged in financial intermediation as a result of risk pooling. Among pension funds, only those that have autonomy of decision and maintain a complete set of accounts are included. By contrast, non-autonomous pension funds remain part of the institutions that set them up, for instance non-financial corporations. Furthermore, government units that impose, control and finance social security schemes, whether funded or unfunded, are not covered.

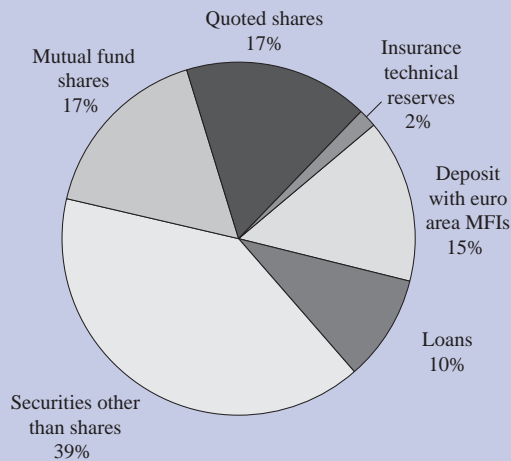
The quarterly table on financing and financial investment of insurance corporations and pension funds in the euro area

The financing of insurance corporations and pension funds mainly takes the form of insurance and pension fund reserves which cover the net equity of households in the provisions set aside for the purpose of satisfying, once the conditions are met, the claims and benefits foreseen. To a lesser extent, they also cover the prepayments of insurance premiums by policyholders and reserves for outstanding claims. The remaining financing components are of less importance, and include loans, debt securities and quoted shares.

Financial investment comprises, inter alia, deposits, debt securities, quoted shares and mutual fund shares. Insurance corporations and pension funds mainly invest in long-term debt securities and in quoted and mutual fund shares, in line with their long-term investment horizon (see Chart A). In so doing, they take into account various restrictions imposed on them in relation to their risk exposures. As for the non-financial sectors, the short-term investment of insurance corporations and pension funds is predominantly in monetary assets.

Chart A: Financial investment of insurance corporations and pension funds in the euro area

(amounts outstanding, as a percentage of main financial assets, at the end of the third quarter of 2002)



Source: ECB.

Developments in financing and financial investment of insurance corporations and pension funds since end-1997

Data have become available now for the period from end-1997 to the third quarter of 2002. These data make it possible to distinguish transactions from other changes in balance sheets, for instance valuation changes. Over this period, according to transaction data, insurance corporation and pension fund financing was almost exclusively through life insurance and pension fund reserves. The annual growth rate of these reserves has been relatively high over the last few years, reflecting the fact that the growth of the net equity of households in life insurance and pension fund reserves exceeded that of investment in many other assets (see Box 1). However, the annual growth rate declined from 9½% at the end of 1998 to 7¾% by the end of the third quarter of 2002 (see table below).

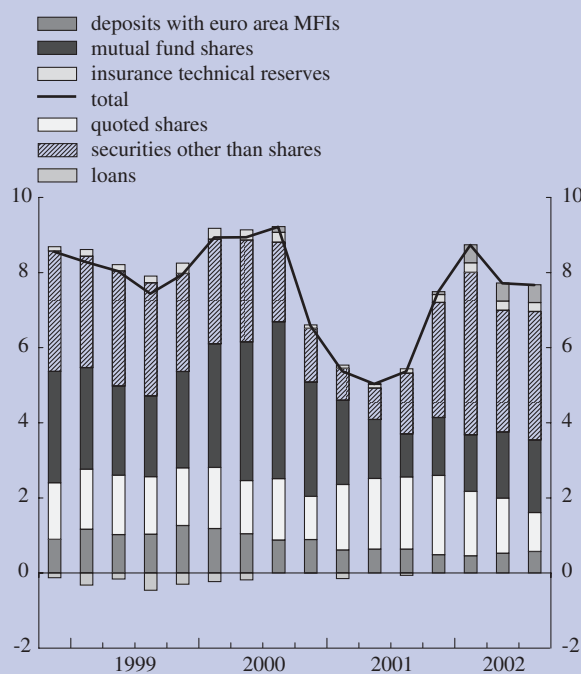
Insurance corporations and pension funds mainly invested in long-term debt securities and shares (see Chart B). With regard to long-term debt securities, the annual growth rate was between 7% and 8½% in 1998 and 1999, falling to

3.6% in the second quarter of 2001. Since then investment in these securities has rebounded considerably, with annual growth rates of between 9% and 12%. Investment in quoted shares showed a similar pattern throughout the period to end-2001. During 2002, however, the annual growth rate of investment in quoted shares declined substantially, in contrast to the rather high annual growth rate of investment in long-term debt securities over the same period. In the case of investment in mutual fund shares, annual growth rates were initially extraordinarily high (between 18% and 25%) until end-2000. Since the start of 2001 growth has been more moderate, with annual rates of between 6% and 13%.

As a result of these transactions, and also reflecting, in particular, the fall in stock prices since early 2000, the proportion of debt securities in the financial portfolio of insurance corporations and pension funds peaked at 40% in the third quarter of 2002, up from around 32½% in 2001. By contrast, the importance of quoted shares dropped slightly to less than 17% in the third quarter of 2002, down from 24% in the third quarter of 2000. The proportion of mutual fund shares in the financial portfolio of insurance corporations and pension funds remained relatively stable between the third quarter of 2000 and the third quarter of 2002, ending the period at around 17% after having increased significantly in the late 1990s.

Chart B: Financial investment of insurance corporations and pension funds in the euro area

(annual growth rates; contributions in percentage points)



Source: ECB.

Financing and financial investment of insurance corporations and pension funds in the euro area

	Share of the amount outstanding 2002 Q3	Annual growth rates									
		1998	1999	2000	2001	2001	2001	2001	2002	2002	2002
		Q4	Q4	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Financing	100.0	9.4	9.0	8.3	7.2	7.0	7.0	7.3	7.5	7.4	7.5
Loans	1.9	23.5	5.7	7.2	-2.2	-5.6	7.0	2.7	6.7	15.2	18.1
Securities other than shares	0.4	-46.4	161.2	83.7	64.7	73.1	19.1	9.9	10.1	6.4	5.4
Quoted shares	3.7	4.4	0.1	0.9	0.7	0.2	1.3	1.5	1.5	1.6	0.5
Insurance technical reserves	94.0	9.7	10.1	9.1	8.0	7.9	7.7	8.0	8.2	7.8	7.8
Financial investment	100.0	8.6	7.9	6.6	5.4	5.0	5.4	7.5	8.7	7.7	7.7
Deposits with euro area MFIs	15.0	5.4	8.2	6.2	4.4	4.6	4.6	3.3	3.1	3.6	3.8
Loans	9.6	-0.9	-2.5	0.0	-1.6	0.2	-0.7	0.8	5.1	5.1	4.9
Short-term	1.8	10.6	-0.9	22.3	11.9	15.0	12.2	10.5	11.7	15.3	19.6
Long-term	7.8	-2.4	-2.7	-3.4	-3.8	-2.3	-3.0	-1.0	3.9	3.0	1.9
Securities other than shares	40.0	8.4	6.9	4.3	2.6	2.5	5.0	9.2	12.7	9.6	9.6
Short-term	1.4	4.9	6.4	4.5	-23.3	-20.7	-19.5	-7.5	37.0	-0.1	22.8
Long-term	38.6	8.5	6.9	4.3	3.7	3.6	6.1	9.9	11.9	9.9	9.1
Mutual fund shares	16.9	25.4	18.9	18.3	12.8	8.7	6.2	8.4	8.4	9.8	11.2
Mutual fund shares, excluding money market fund shares/units	15.4	24.5	18.7	18.7	12.2	8.3	5.2	7.3	8.7	10.0	11.7
Money market fund shares/units	1.4	37.5	20.6	12.4	21.6	14.5	22.2	24.0	4.7	7.1	5.6
Quoted shares	16.7	9.0	8.3	4.9	7.3	8.0	8.1	9.5	7.8	6.6	5.1
Insurance technical reserves	1.8	4.5	12.4	4.7	4.7	4.9	6.3	11.2	13.7	13.4	12.2

Source: ECB.