

EURO AREA INSURANCE CORPORATIONS AND PENSION FUNDS STATISTICS

EXPLANATORY NOTES

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Coverage of institutions

These statistics present the assets and liabilities of insurance corporations and (autonomous) pension funds (ICPFs) resident in the euro area as presented in the European System of Accounts 1995 (ESA 95).¹

Insurance corporations comprise both insurance (life and non-life) and reinsurance types of business. Pension funds consist only of those pension funds that are institutional units separate from the units that create them. These are funds that have autonomy of decision-making and keep a complete set of accounts. Non-autonomous pension funds set up, for example, by credit institutions or non-financial corporations are not covered since they are not separate institutional units. Furthermore, social security schemes are not included in this definition.

The reporting population comprises ICPFs resident in the euro area, including the ICPFs which are foreign-owned subsidiaries² or branches of foreign entities. Branches and subsidiaries abroad of domestically owned entities are not included.

Data sources

The euro area ICPF balance sheet statistics are compiled by the Eurosystem, exploiting data available for the ICPF sector at the national level, without addressing any new data requirements to the reporting agents. In the case of missing data in the national contributions provided by NCBs to the ECB, estimates are compiled by the ECB in order to derive euro area aggregates. The main national data sources are existing supervisory collection systems, complemented with other existing NCB datasets, such as data from monetary financial institutions (MFIs), securities issues statistics or balance of payments statistics, or, in some cases, existing direct reporting by ICPFs and estimates made for the national financial accounts. Owing to this, the statistics are standardised across euro area countries, but not fully harmonised.

Frequency and timeliness

Euro area ICPF aggregates are available at a quarterly frequency, except certain detailed breakdowns which are only shown at an annual frequency. The following sections describe data that are available at quarterly and annual frequency.

The statistics are made available with a time lag of around three months after the end of the reference period. Quarterly time series date back to the reference period Q1 2008; annual data date back to 2008.

National aggregates are published by the ECB at an annual frequency.

¹ <http://circa.europa.eu/irc/dsis/nfaccount/info/data/ESA95/en/titelen.htm>

² Subsidiaries are distinct legal entities. For this reason, they differ from branches, which are entities that are fully integrated within the main company and not legally or otherwise distinct from the parent company. Subsidiaries are usually limited liability companies, while branches do not have their own legal status.

Outstanding amounts and transactions

For all items, *outstanding amounts*, i.e. the value of the assets and liabilities at the end of the reference period, are published.

In addition, *transactions* during the period are published for selected items. Transactions account for the net changes in outstanding amounts between two periods, adjusted for price revaluations, exchange rate changes in the case of instruments denominated in currencies other than the euro, or statistical reclassifications. In the case of insurance contracts issued by the ICPFs, the transactions provide an approximation of the ICPFs' net change of technical provisions by type of insurance during the reference period.

Financial transactions are available for *insurance technical reserves* with the following breakdowns:

- net equity of households in life insurance reserves;
- net equity of households in pension fund reserves; and
- non-life insurance reserves, i.e. prepayments of insurance premiums for outstanding claims.

Balance sheet asset and liability categories

The aggregate balance sheet of the sector is compiled as the sum of the balance sheet information of all individual ICPFs, without any consolidation of insurance group or insurance sector internal transactions.

The **assets** side contains the investment portfolio of ICPFs. The following categories are presented:

Currency includes all available cash positions not placed with another institution.

Deposits include all the deposits that the ICPFs hold with MFIs. These may be very liquid deposits representing the cash position of ICPFs, or deposits with longer maturities. The claims resulting from cash paid out in exchange for securities in reverse repo operations are also considered as deposits. Deposits are recorded at nominal value, without any accrued interest being included in the underlying series.

Loans include any loans that ICPFs may have granted to another operating counterparty, i.e. households, non-financial corporations, etc. Loans are recorded at nominal value, without any accrued interest being included in the underlying series.

Securities other than shares include ICPFs' holdings of all negotiable debt securities, such as government and corporate bonds, treasury and local authority bills, commercial paper and certificates of deposit.

Shares and other equity include ICPFs' holdings of all shares and other equity, with the exception of investment fund shares/units (included separately in the next asset category). Shares and other equity data are broken down into quoted shares and

unquoted shares. Quoted shares refer to listed shares, while unquoted shares refer to shares which are not listed in a stock exchange. Quoted shares are valued at market prices as at the end of the reference period.

Investment fund (IF) shares include ICPFs' holdings of shares/units issued by any type of investment fund, except for money market funds which are reported as a separate category, valued at market prices as at the end of the reference period.

Money market fund (MMF) shares include ICPFs' holdings of shares/units issued by MFIs' investment undertakings that primarily invest in money market instruments and/or other transferable debt instruments with a residual maturity of up to one year, and/or that pursue a rate of return that approaches the interest rates on money market instruments. MMF shares are valued at market prices as at the end of the reference period.

Prepayments of insurance premiums and reserves for outstanding claims include ICPFs' reinsurance claims. Reinsurance is an insurance between one insurer, which is usually a pure reinsurance company (the accepting undertaking/acceptant), and another insurer (the ceding undertaking/cedant, also called the direct insurer), by which the reinsurer agrees to indemnify the direct insurer for the losses on one or more contracts issued by the direct insurer. The direct insurer pays a premium in exchange. The direct insurer transfers some or all of the risk that it has assumed to the reinsurer, but it does not transfer the obligations that it has towards the policyholder (e.g. the household or corporation). The direct insurer remains legally responsible for all policyholder obligations of the reinsured policies. The reinsurer protects and indemnifies the direct insurer, but not the policyholders. Furthermore, reinsurers may take out a further reinsurance policy, which is called "retrocession". Reinsurance is recorded on a gross basis so that the reinsurance operations are recorded on the assets and liabilities sides without being netted out.

Other accounts receivable/payable and financial derivatives consist of all transactions in other accounts receivable/payable that are financial claims which are created as a counterpart of a financial or non-financial transaction in cases where there is a timing difference between this transaction and the corresponding payment.³ In particular, interest accrued, but not yet paid, on the deposits and loan claims, as well as financial derivatives with a positive market value, are included in this category.

Non-financial assets comprise all assets that have a physical value such as land, buildings, equipment or goodwill from which future economic benefits are expected to flow to the enterprise.

On the **liabilities** side, the following categories are presented:

Loans received include any funds the ICPFs may have received in the form of deposits or loans. For instance, ICPFs may borrow money from a banking institution and invest it or receive a deposit as a guarantee. Any deposits received from the ICPF sector are to be recorded in this category. For instance, the guarantee amounts paid by the reinsurer to the insured entity (due to reinsurance operations) as deposits are recorded as a loan between two units within the ICPF sector. Loans received are recorded at nominal value, without any accrued interest being included in the underlying series.

³ <http://circa.europa.eu/irc/dsis/nfaccount/info/data/ESA95/en/een00258.htm>

Securities other than shares include all outstanding negotiable or non-negotiable debt securities (e.g. corporate bonds) issued by ICPFs and are valued at market prices as at the end of the reference period.

Shares and other equity comprise the ICPF share capital in the form of shares owned by the company's shareholders. Shares and other equity data are broken down into quoted shares and unquoted shares. Quoted shares refer to listed ICPFs' share capital, while unquoted shares refer to ICPFs which are not listed in a stock exchange. Quoted shares are valued at market prices as at the end of the reference period.

Net equity of households in life insurance reserves includes all life insurance reserves for households' claims against life insurance contracts or investment schemes. It reflects the part of household financial wealth (income) invested in life insurance schemes. There are two breakdowns for this category: unit-linked and non-unit-linked insurance contracts.

Unit-linked insurance contracts do not guarantee a return to the policyholder, but rather offer a return which depends on the performance of the underlying portfolio. For unit-linked reserves, the investment risk is borne by the policyholder, i.e. any holding gain or loss is directly channelled from the insurer to the policyholder. This is not the case for *non-unit-linked* business, where the investment risk is borne by the insurer: the claims (assets) of households against the insuring party do not change due to valuation changes; instead, the insurer's shares and other equity or its net worth are affected.

Net equity of households in pension fund reserves comprises all insurance reserves for households' claims against pension plans. It reflects the part of household financial wealth (income) invested in pension fund schemes. This item includes three further breakdowns: defined contribution, defined benefit and hybrid schemes.

In a *defined-contribution pension scheme*, the participant's contributions are determined in advance, but the level of pension payments is not. During the accumulation phase, the contributions are invested in a certain portfolio and the participant bears all the investment risk. Upon retirement, the participant usually buys a life annuity (from an insurer) that provides protection against longevity risk and changes in interest rates. However, during the accumulation phase, a participant is not protected against changes in real rates of return, in future earning paths, and in the future pricing of annuities.

In a *defined-benefit scheme*, future pension payments are determined in advance, based, for example, on the wage history and years of service of a participant. In contrast, the level of contributions may vary substantially over time, depending on the reserves or funding shortfall of the fund. In this case, the risk of the scheme not providing an adequate income is shared between the policyholder and the insuring party.

In practice, many schemes are neither pure defined benefit, nor pure defined contribution. A *hybrid scheme* is a combination of the two types of pension scheme described above.

The breakdowns by insurance scheme and pension plan are available on an annual basis for outstanding amounts only.

Prepayments of insurance premiums and reserves for outstanding claims include all ICPFs' non-life insurance reserves against claims other than life and pension, as well as reinsurance premiums received from the reinsurer in order to provide reinsurance to the direct insurer. (For further details on *reinsurance*, please refer to the explanation given above – assets side.)

Other accounts receivable/payable and financial derivatives consist of all transactions in other accounts receivable/payable that are financial claims which are created as a counterpart of a financial or non-financial transaction in cases where there is a timing difference between this transaction and the corresponding payment. They include transactions in financial claims which stem from the early or late payment for transactions in goods or services, distributive transactions or secondary trade in financial assets. They consist of the counterpart transactions in case payment is due and not yet paid. Debts arising from income accruing over time and arrears are also classified under this category.⁴ In particular, interest accrued, but not yet paid, on the loans and deposits received, and financial derivatives with a negative market value, are included in this category.

Net worth is a balancing entry which is equal to the difference between total assets (non-financial and financial) owned at a particular point in time and liabilities outstanding (including the issue of equity capital at market value), i.e. the amount by which assets exceed liabilities. Net worth provides an indication of the underlying value (wealth) of the shareholders' equity (i.e. the amount by which the value of shareholders' equity differs from the share capital market value, recorded on the liabilities side). However, differences in statistical sources and accounting standards among countries may also have an impact on the value of the euro area net worth aggregate.

Further breakdowns of assets and liabilities

A number of asset and liability items presented in the previous section are further broken down. The breakdowns presented in this section are in general available on a quarterly basis. Information on net equity of households in life insurance reserves broken down by policy scheme and net equity of households in pension fund reserves broken down by pension plan is available on an annual basis.

The *geographical breakdown* indicates the residency of the counterpart of the ICPFs in a given asset or liability item. The breakdown consists of a split into domestic⁵, other euro area countries and non-euro area counterparts.

On the assets side, the majority of items (except currency, other accounts receivable/payable and financial derivatives, and non-financial assets) include the geographical breakdown. For example, holdings of securities are broken down according to the geographical location of the issuer of the security.

On the liabilities side, the geographical breakdown of loans received, of net equity of households in life insurance reserves and in pension fund reserves, and of prepayments of insurance premiums, shows the residency of the lenders and of the policyholders.

⁴ <http://circa.europa.eu/irc/dsis/nfaccount/info/data/ESA95/en/een00258.htm>

⁵ For euro area aggregates, “domestic” means the sum of national contributions which all only cover the respective domestic (national) positions.

The *sectoral breakdown* indicates the economic sector of the counterpart. The available sectors consist of MFIs (including money market funds), general government, other financial institutions (including in particular investment funds and financial vehicle corporations), insurance corporations and pension funds, non-financial corporations and households (the latter also including non-profit institutions serving households). This breakdown is available if the counterpart of the financial assets is resident in the euro area. This makes it possible, for example, to identify to what extent the ICPFs are investing in debt issued by euro area governments, non-financial corporations or financial institutions. Similarly, on the liabilities side, the sector split allows the identification of the ICPFs' funding sources; for instance, ICPFs are predominantly funded by their policyholders (mainly households and non-financial corporations) and this is reflected in the insurance technical reserves.

The *maturity breakdown* refers to the original maturity of deposits, loans and securities other than shares held by the ICPFs. The maturity breakdown is available for the *up to one year* and *over one year* bands.

The table below summarises the data that are available on a quarterly (Q) and annual (A) basis.

Table: ICPF statistics – published euro area aggregates

EURO AREA ICPFs	Breakdowns		
	Total	Geographical breakdown of counterparts	Sector breakdown of counterparts
ASSETS			
Total assets	Q		
Currency	Q		
Deposits	Q	Q	Q
up to 1 year	Q	Q	Q
over 1 year	Q	Q	Q
Loans	Q	Q	Q
up to 1 year	Q		
over 1 year	Q		
Securities other than shares	Q	Q	Q
up to 1 year	Q		
over 1 year	Q		
Quoted shares	Q	Q	Q
Unquoted shares and other equity	Q		
Investment fund shares	Q	Q	Q
Money market fund shares	Q	Q	Q
Prepayments of insurance premiums and reserves for outstanding claims	Q		Q
Non-financial assets	Q		
Other assets (incl. financial derivatives)	Q		
LIABILITIES			
Total liabilities	Q		
Loans received	Q	Q	Q
Securities other than shares	Q		
Quoted shares	Q		
Unquoted shares and other equity	Q		
Insurance technical reserves *	Q	Q	Q
Net equity of households in life insurance reserves *	Q	Q	Q
Unit linked	A	A	A
Non-unit linked	A	A	A
Net equity of households in pension fund reserves *	Q	Q	Q
Defined contribution	A	A	A
Defined benefit	A	A	A
Hybrid schemes	A	A	A
Prepayments of insurance premiums *	Q	Q	Q
Other liabilities (incl. financial derivatives)	Q		
Net worth	Q		

(*) indicates that data on financial transactions are also available for these categories.

Empty cells indicate that no further breakdowns are published.

“*Sector breakdown*” refers to monetary financial institutions, general government, other financial institutions, insurance corporations and pension funds, non-financial corporations and households.

Sub-sector breakdown of insurance corporations and pension funds

In addition to statistics on the assets and liabilities of all ICPFs aggregated for the sector as a whole, separate statistics on the balance sheets of insurance corporations (ICs) and pension funds (PFs) are also available on a quarterly basis. These statistics only cover the main instrument types without further breakdowns.

Dissemination of ICPF statistics

The quarterly release of the ECB’s ICPF statistics consists of a press release and the update of the statistics on the ECB’s website⁶, including the Statistical Data Warehouse. The updated statistics are also published in the ECB’s Monthly Bulletin (Table 2.11 of the “Euro area statistics” section).

In addition to the euro area aggregates, national ICPF sector data, with a sector split into ICs and PFs, where appropriate⁷, are available on an annual basis on the ECB’s website.

⁶ <http://www.ecb.europa.eu/stats/money/icpf/html/index.en.html>

⁷ In some countries, the sub-sector split does not apply, as autonomous pension funds, as defined in ESA 95, do not exist. Hence, in these countries the ICPF data are the same as the IC data.