Insurance corporations and pension funds in OECD countries

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Outline

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Motivations

- Insurance corporations and pension funds (ICPF) play an increasing role in the financial systems of industrialized countries

- Analysis of the impact of the recent financial crisis

- ICPF are particularly important for households

- Increased availability of cross-country comparable statistics: OECD.Stat
Insurance corporations in OECD countries

- **Market structure** (number of insurers, number of employees, market share)

- **Sector evolution:**
  - Economic indicators:
    - Penetration
    - Density
  - Financial indicators:
    - Total financial assets of insurance corporations (IC) as a % of total financial assets of financial corporations (S12)
    - Asset composition
    - The weight of insurance reserves in the households’ financial assets
Insurance corporations in OECD countries

Economic indicators

Gross premiums to GDP (penetration)
- France, Ireland, Korea, Luxembourg, Switzerland, the UK and the US above 10 per cent of GDP in 2009 (confirmed by data on 2010)
- Luxembourg is clearly an outlier

Gross premiums to population (density)
- Penetration dynamics confirmed even though exchange rates impacted on data converted in US dollars
- Luxembourg still an outlier
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Financial indicators

Total financial assets of IC as % of total financial assets of S12
- The intermediation role of IC less important than that played by banks and other intermediaries (e.g. mutual funds)
- In 2009, Sweden and France had the highest ratios (less than 20%). In the overall OECD area stable at around 9 per cent

Balance sheet composition
- Investment strategy fundamental to meet obligations with policy holders.
- Bonds are the dominant asset category
- Bonds and equities are channel for transmission of financial turmoil to IC

Weight of insurance reserves in households’ financial assets
- Ratios have generally remained at a low level
- Life insurance reserves 80% on average for the overall OECD area
Pension funds in OECD countries

- Contributions to private pension schemes
- Financing vehicles for the accumulation of pension savings
- Autonomous pension funds (APF)
  - APF total assets as a percentage of GDP
  - APF total financial assets as a % of total financial assets of S12
  - APF asset allocation
- Pensions from a household perspective
Pension funds in OECD countries

Contributions

- The ratio of private pension contributions to household disposable income has increased in most OECD countries over the last decade
- In 2009, private pension contributions represented a significant proportion of household disposable income in many OECD countries

Financing vehicles

- APF are the most common financing vehicle for the accumulation of retirement savings in most OECD countries
- However, pension insurance contracts prevail in France, Sweden and Denmark
- Non autonomous pension funds are rather uncommon in OECD countries
Pension funds in OECD countries

**APF assets as a percentage of GDP**
- Huge disparities across countries and over time
- Relatively stable growth until 2007, a fall in 2008 and a recovery in 2009

**APF financial assets as a % of financial assets of S12**
- This ratio remains low in most OECD countries
- Downward trend over the last decade

**APF asset allocation**
- Significant increase of the proportion of shares and other equity in 1995-2005
- The financial crisis has prompted a reallocation in favour of less risky assets such as currency and deposits and securities other than shares
- However, in the majority of countries, shares and other equity continue to represent the highest share of pension funds investments
Pension funds in OECD countries

Household perspective

Net equity of households in pension funds reserves as a % of households financial assets

- The weight of pension funds reserves in household financial assets has increased over the last decade and proved to be resilient to the recent financial crisis.
- In 2009, pension funds reserves represented more than 30 per cent of the household financial assets in Australia (54%), Canada (35%), Netherlands (47%) and Switzerland (34%)

Net equity of households in pension funds reserves as a % of household disposable income

- The decline of this ratio in 2008 reveals that these reserves were actually affected by the recent financial turmoil.
- However, a partial recovery took place in 2009.
Conclusions

Insurance corporations

- Since 1995, the weight of the IC in the total financial sector has grown in many OECD countries. Nevertheless, for the OECD area as a whole, IC far less important than banks and other intermediaries.
- As regards the asset allocation, bonds and equities are the primary asset categories.
- The financial crisis hit the balance sheet of insurers especially through the equity component. Balance sheet data for 2009 shows a recovery towards the pre-crisis values.
- Since 1995, the weight of life and non-life reserves in household financial assets has increased in most OECD countries, even though country ratios have generally stayed at a low level showing a limited role of this asset category.
Conclusions

Private pensions

- **Contributions** as a % of household disposable income have increased over the last decade in most of OECD member countries
- APF are the most important financing vehicle
- **Stable growth of APF.** Impact of the crisis in 2007-2008 followed by signs of recovery in 2009. APF’s weight in the whole financial sector is still low in most OECD countries
- From a **household perspective**, the weight of pension fund reserves in household financial portfolios has increased, although these reserves were affected by the financial crisis and the values did not recover completely in 2009
- In some countries, household pension reserves have represented, for several years, more than 100 per cent of their disposable income. In the Netherlands household private pension wealth well above two times the disposable income of the household sector
Conclusions

The role of statistics

- Increased data availability
- Statistical gaps still to filled in
- The role of international organizations (OECD, ECB, Eurostat)
- The need for cooperation
- Recent initiatives
  - G20 recommendations
  - ECB’s new ICPF statistics since June 2011
  - Solvency II Quantitative Reporting Templates on insurance corporations
ICPF in the OECD countries

Thank you for your attention.
Insurance corporations

Number of companies in the OECD area in 2009 (percentages)

Insurance corporations

Gross premiums: country market share in the OECD area in 2009

Insurance corporations

Insurance sector penetration in 2009 (percentages)

Insurance corporations

Financial assets of insurance companies as % of S12 financial assets

Source: Institutional Investors's Statistics and Financial Balance Sheets non consolidated, STD, OECD.Stat
Insurance corporations

Insurance companies: balance sheet composition in 2009

Insurance corporations

Households: life and non-life insurance reserves as a % of their total financial assets

Private pension schemes

Private pension contributions as % of household disposable income

Private pensions’ financing vehicles

Pension assets by financing vehicle as a % of total pension assets in 2009

Pension funds

Autonomous pension funds assets as a % of GDP in 2002 and in 2009

Pension funds

Autonomous pension funds financial assets as a % of total financial assets of S12

Pension funds

Autonomous pension funds: asset allocation in 2009 (percentages)

Pension funds

Net equity of households in pension funds reserves as a % of total financial assets of the household sector

Source: Financial Balance Sheets, non consolidated (except for Australia and Israel for which only consolidated data are available), STD, OECD.Stat.