Spring Financial Stability Report 2010
First half-yearly report
Introduction

CEIOPS’ Financial Stability Committee (FSC) has prepared CEIOPS half-yearly report on the financial conditions and financial stability of the insurance and occupational pension fund sector in the EU/EEA as requested by CEIOPS’ Members and the EFC. The current report covers developments in the insurance, reinsurance and occupational pension fund markets for recent years, including observations regarding 2009 and 2010 and an outlook beyond.

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1. Summary of main issues and conclusions

CEIOPS considers that for the first half of 2010 risks have shifted, though not significantly increased, compared to 2009, due to the recent developments concerning sovereign risk in the Euro area. Though the insurance and occupational pension fund sector had a more favourable financial position by end-2009, the consequences of the crisis are felt in the sectors. This uncertainty on the future outlook for the insurance and occupational pensions sector is mainly related to developments in interest rates and credit spreads, equity prices and business outlook.

Insurance sector

In 2008 the financial market turmoil reduced demand for life insurance products significantly, and recessionary pressure on household income is expected to continue to reduce demand further throughout 2010 in many Member States. Though, the developments in 2009 differ a lot between Member States and business lines, there have also been considerable increases in life insurance premiums in some Member States.

Solvency positions of insurance undertakings deteriorated in 2008 and some undertakings received capital injections. In 2009 solvency margins have slightly increased due to the recovery in financial markets. Also a few insolvencies occurred in the insurance sector, mainly of smaller undertakings. It seems that most insurance undertakings’ solvency margins still include shock absorption capacity helping them to get through the recession period.

In 2009 claims from weather-related natural catastrophes were lower compared to 2008. However the course of the softening global reinsurance market continued, thereby lowering the levels of reinsurance premiums. Due to the financial turmoil the demand for reinsurance capacities is increasing however the supply is expected to increase as well. In the European renewal season 2010 the prices were flat or even decreasing.

The insurance industry as a whole faces several risks and challenges going forward, of which the most prevalent are financial risks, in particular the risk of low or even again decreasing interest rates as well as risks related to depressed equity markets and volatility of credit spreads on bond instruments. A prolonged period of economic recession would be particularly challenging for the underwriting performance.

Pension Funds sector

The recovery of financial markets, especially after the third quarter of 2009, led to relatively high investment returns, appreciation of assets and higher funding ratios of Institutions for Occupational Retirement Provisions (IORPs). The impact of the financial turmoil on the European occupational pension system had not been as severe as seen in other financial sectors, as the long term nature of the liabilities affords some protection in this respect, and IORPs had not experienced the liquidity problems seen elsewhere. However the crisis hit pension funds primarily in their role as institutional investors and had a significant impact on consumer confidence.

The funding ratios of defined benefit (DB) schemes are improving, but remain below the levels observed in 2007. In many countries the funding conditions were strengthened quite substantially thus not requiring the need of substantial increases in contributions or reductions in benefits. In other countries, some pension funds needed to increase the capital/contributions required from sponsors or to extend funding periods taking account of the underlying economic conditions. The financial turmoil directly affected the portfolio of defined contribution (DC) members, with the greatest impact being on those close to retirement and/or heavily invested in equities. However, almost all DC systems
are relatively young, so the number of older workers affected is small in absolute as well as in relative (to DB schemes) terms. For those members further away from retirement age, there is the potential for markets to recover and the recovery of equity markets in the last year has partially offset the losses experienced previously.

In response to the crisis, supervisory authorities focused on the flexibilities within the current framework allowed within the IORP Directive and the different security mechanisms available. No major changes in the supervisory approaches have been reported or are expected. However some EU governments have started to consider how to improve the management of IORPs and how to reduce risks affecting members. In DC systems, a careful plan design, such as suitable default and lifecycle options, and the promotion of financial education initiatives are increasingly considered crucial to allow people to minimise the effects of the financial crisis as well as being able to make sensible and informed choices regarding their pension provisions in the future.
2. Recent financial market developments

During the first half of 2010, both economic and financial indicators showed signs of further recovery. However, the increasing unrest in sovereign bond markets has increasingly dented market sentiment during the spring, causing bond yields for individual countries within the Euro area to diverge. This trend has accelerated in April 2010, prompting Euro area member states and the IMF to implement large-scale measures in support of financial stability. Meanwhile, flight-to-quality caused by the negative market sentiment has pushed the risk-free rate lower from its already low level (see Figure 1 - 10 year Euro benchmark bond). Money market rates are still at historically low levels, as a result of policy rate decreases by central banks and substantial liquidity-providing operations.

![Figure 1: European short- and long-term interest rates](image)

A sustained period of low interest rate environment is especially challenging for life insurers and pension funds. Persistently low risk-free rates will cause insurers and pension funds to suffer losses on products that guarantee higher interest rates than they can fund in such market conditions. It also increases risks as undertakings might be searching for higher yields as well as the present value of liabilities, leading to deterioration in the capital position.

Sovereign debt accounts for a major share of insurers’ investments. Hence, if rating downgrades or market unrest push up yields (Figure 2) and cause declines in the market value of government bond holdings, this can create negative effects on the sector. This risk has recently materialised for some sovereigns. Through channels of contagion, e.g. rating downgrades of corporate securities issued in the same country, negative effects on local equity markets and the valuation effect of higher risk premiums on bonds resulted in a further decline in the market value of insurers’ and pension funds investments. The rescue package adopted by the EU institutions in
May 2010 helped stabilising the financial markets, fiscal pressures however were aggravated.

**Figure 2: European government bond yields**

![Yields of selected Euro area government bonds (10 years, in %)](source: Datastream)

Source: Datastream

After their substantial fall between autumn 2008 and the first quarter of 2009, equity markets have experienced a long-lasting rebound during the remainder of 2009 and 2010 – albeit from a low level. During this period, the MSCI world index gained over 50 percent from its lowest level. The recent sovereign debt turmoil has, however, reversed this trend for now and resulted in an underperformance of European stocks as compared to the MSCI World since the beginning of 2010. Still, stock prices remain significantly above the levels seen in March 2009. Pension funds and insurance companies have benefitted from the increase in stock prices through asset price revaluations. However, stock prices in most parts of the world are still well below the levels seen in 2007.

Since mid-2007, share price indices of life and non-life insurers fell behind the European wide share index (see Figure 3). Life insurers recorded the worst equity performance in the first quarter of 2009, falling well below the DJ Euro Stoxx index. Since mid 2007 until end March 2009, European life insurers have lost more than 70 percent of their market value. This large loss is, by virtue of their business model, related to life insurers’ above average sensitivity to stock market developments, as a result of their sizeable equity investment portfolios in many Member States. A further rationale behind it is that the life insurance business is more cyclical in nature compared to for example the reinsurance sector. While European reinsurers have also taken a hit, their stock prices have generally outperformed broad indices like the DJ Euro Stoxx index. This is partly due to a risk-averse investment strategy favouring secure government bonds over equity investments (for more details see Section 4). With the rebound
of stock prices over the last year, European insurers have regained a
sizeable part of their original market capitalisation at the beginning of
2007, even though the recent turmoil has dented their share prices again.

**Figure 3: EU stock market indices**

<table>
<thead>
<tr>
<th>Year-end</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>100</td>
</tr>
<tr>
<td>2007</td>
<td>80</td>
</tr>
<tr>
<td>2008</td>
<td>50</td>
</tr>
<tr>
<td>2009</td>
<td>40</td>
</tr>
<tr>
<td>2010</td>
<td>60</td>
</tr>
</tbody>
</table>

Source: Datastream

The financial strength ratings of European insurers have been subject to
more downgrades than upgrades in 2008 and 2009 (see Figure 4). Also the
number of insurers with a negative rating outlook has increased since
2008, while the number of firms with a stable outlook has decreased (see
Figure 5). For the moment a stabilisation can be observed. However, the
skewed distribution of rating outlooks for European insurers suggests that
financial industry analysts still forecast a challenging operating
environment in the coming period.

**Figure 4: Development of leading European insurance groups’ financial
strength: Credit ratings distribution (Year-end 2007, 2008, 2009 and current)**

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Leading European Insurance Groups: Counterparty Credit Ratings Distribution</th>
</tr>
</thead>
</table>

Source: S&P
The sharp widening of Credit Default Swaps spreads for European insurance groups towards the end of February 2009 reflected concerns about the sustainability of the global financial system. From March 2009 onwards credit spreads have come down substantially in light of the more favourable developments for the sample of large European insurance groups in recent months (see Figures 6a and 6b), but recently an uptick in spreads is visible.  

CDS spreads are averages of price quotes from leading CDS market makers. As with all OTC derivatives, these spreads can be driven by illiquidity.  

CDS spreads are from Credit Market Analysis, obtained through Thomson Financial Datastream.
That being so, Figure 6c below illustrates that insurers and pension funds have been likely to suffer valuation and default losses in 2009 on their fixed income investments due to materialising corporate defaults as forecasted and higher bond spreads compared to the periods 2004-2007. However, since the first quarter of 2009 bond spreads have decreased significantly and corporate default forecasts for the remainder of 2010 indicate a clear improvement, compared to 2009. However fluctuations in the financial markets could give rise to higher default rates again as well.

**Figure 6c: Default rates, default rate forecasts and bond spreads of European speculative-grade-rated corporations.**

Source: Moody’s and JPMorgan Chase & Co.

Note: The bond spread is the spread between the yield to maturity of the euro area high-yield index (BB+ rating or below, average maturity 5.9 years) and the euro area five-year government bond yield.
3. Developments in the European insurance sector

Data sources

The following analysis of developments in the European insurance sector is based on end 2008 data for each Member State and end 2009 data for a sample of large and important insurance groups. In addition, qualitative reports on developments in national markets have been provided by CEIOPS Members in spring 2010.

- Developments in 2009 and outlook

Financial risks in general, equity risk and interest rate risk in particular, materialised during the first half of 2009 and insurance undertakings’ asset returns and solvency positions deteriorated. The second half of 2009 was more profitable in terms of assets returns, consequently solvency positions of insurers have significantly improved again.

According to the qualitative reports received from Member States, developments in the insurance sector differed amongst Member States and business lines in 2009. In some countries and some lines of business recovery from the economic crisis seems to be well on the way. At the same time, in some other countries the impact of the crisis is still eminent. However, a deep recession of the real economy - GDP growth was negative in 2009 in the EU-area - remains a major challenge affecting all business opportunities and environments. As an extreme example, in LV the rate of decline in the insurance market (-34 percent in 2009) was more severe than the drop in GDP (-18 percent). The downturn in the real economy has affected also some specific lines of business as motor (motor damage and third party liability), property-related, commercial insurance and in some Member States credit insurance more than others.

Non-life sector

The development in premiums in the non-life business has been mostly flat and several countries even reported a considerable decrease in premiums. The biggest falls reported were in LT and LU. The reason for this is the economic downturn and increasing competition in some lines of business, like in motor insurance (Damage and Motor Third Party Liability).

At the same time several countries, like BG, CZ, FR, LT and PL, reported increases in claims. At least to some extent this was due to extreme weather conditions and winter storm Klaus. Some Member States reported on the risk of claim inflation in certain lines of business (see also Supervisory Risk Assessment, page 16).

One Member State reported that Directors & Officers and Errors & Ommissions claims relating to the financial crisis have started to be reported. However, it may take some time before the full extent of the impact, which may be substantial, becomes clear. A likely fall in demand for products in the recessionary environment could increase the competitive pressure on insurers and affect underwriting discipline further. In challenging economic conditions it is therefore even more important for firms to maintain effective risk management, particularly in respect of their underwriting policy. Failure to carry out disciplined underwriting activity might help on the short term, but could lead to losses and deplete capital.
Many large and important European insurance groups reported a decline in both net claims incurred and net operating expenses. Since premiums earned also declined, the net combined ratio\(^3\) was unchanged (see Figure 7). The net combined ratio for the whole European market in 2008 was 99.7 percent.

**Figure 7: Non-life profitability 2008-2009**

![Non-life profitability chart]

Source: CEIOPS, based on worldwide consolidated financial information received from a sample of 26 large and important European insurance groups from AT, CH, DE, ES, FI, FR, IT, NL and UK.

**Life sector**

In the life sector the financial crisis pulled down demand significantly already in 2008. In 2009 there have been both high increases and great drops in the amount of premiums. Growth was biggest in FI (11 percent), FR (12 percent), IT (47 percent), and LU (48 percent unit-linked products/113 percent non unit-linked products). The increase occurred both in saving products and traditional life insurance. In FI much of the growth is explained by capital redemption contracts, which are expected to generate premiums three times the 2008 volume. In FR there is a sharp contrast between non unit-linked business and unit-linked business; premium volume for non unit-linked business has increased by 17 percent, whereas premiums for unit-linked business have fallen by 11 percent. In IT, there has been a noteworthy increase in the popularity of “traditional” life insurance products. The customers have considered these products to be safer in the current financial climate. Also in LU the traditional products with guaranteed returns have been more appealing to customers and the premiums increased by 113 percent. Unit-linked products registered a growth of 48 percent in premiums only.

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\(^3\) The combined ratio is defined as net claims and net operating expenses divided by premiums, net of reinsurance.
The largest drops in life insurance premiums were seen in BG, HU, LT, NL and PL, being most severe in unit-linked business except for PL. Several reasons for the negative development in life business can be identified:

- Equity market volatility has negatively affected the customer-appeal of unit-linked products.
- Life insurers face competition in the market, other service providers offering higher returns. In some countries, like FI, HU and NL, changes in legislation have granted also non insurance products an advantageous fiscal treatment.
- The deteriorating economic conditions and high unemployment rates and current uncertainty in the housing market have affected new business in a negative way also from the demand side.

In terms of claims the trend is also twofold: For example, in LV claims paid decreased due to a fall in inflation rate and due to a decrease in the insurance portfolio. Also DE, IS and SK reported decreases in some lines of business. Whereas in PL, the amount of gross claims paid increased significantly, especially as regards traditional life insurance. Lapses and redemptions seem to have affected Member States in different points of time.

The life insurance business seems to be more volatile and reacting to movements in financial markets more strongly. However differences amongst Member States appear, as in some countries, like in IT and LU, traditional life insurance seems to offer a "safe haven" in times of trouble, whereas in other countries competing products, like banking products seem to be more appealing to the customer.

Most of the Member States reported positive developments or no material change in the solvency situation in both life and non-life. It seems that most insurance undertakings’ solvency margins still include shock absorption capacity helping them to weather the recession period. For the large and important European insurance groups, recovery in financial markets in 2009 was reflected in higher solvency ratios compared to end 2008 (see Figure 8). On average the solvency position in 2008 for the overall European insurance sector was 253 percent in life, 298 percent in non-life and 195 percent for composites.

The average return on equity (defined as profit or loss divided by total of capital and reserves) in 2008 in the life sector was -15 percent (14.4 percent in 2007). The corresponding figure in the non-life sector was 4.2 percent (16.6 percent in 2007) and for composite undertakings 3.4 percent (26.0 percent in 2007). The large and important groups reported a return of equity of + 10.9 percent in 2008 and a higher return of + 13.3 percent in 2009 (based on their life and non-life business).

Negative developments in stock markets, high volatility in interest rates and widening credit spreads meant a substantial decline in investment income for insurance undertakings. Especially the results of the life insurance business are highly dependent on the yield of the investment portfolio. As a consequence the return on assets (defined as profit or loss divided by total assets) dropped substantially in 2008. As a result many (life) insurance undertakings reported losses for the first time in a number of years. The average return on assets in the life sector was – 1.51 percent.
in 2008. In the non-life business returns on assets were slightly more positive, with an average of + 0.85 percent. The large and important groups reported a return of assets of + 0.9 percent in 2008 and a slightly higher return of + 1.1 percent in 2009 (based on their life and non-life business). Total profits of the large groups increased in 2009 by one third compared to 2008 (see Figure 9).

Figure 8: Solvency position insurance groups 2008-2009

Figure 9: Profits and Return on Assets insurance groups 2008-2009

Source: CEIOPS, based on worldwide consolidated financial information received from a sample of 26 large and important European insurance groups from AT, CH, DE, ES, FI, FR, IT, NL and UK.
When considering the national markets in 2009, the solvency ratios declined in some cases; in BG the solvency ratio for life insurance undertakings declined but remained still strong (707 percent), in MT the solvency ratio declined for all types of undertakings, though none were attributable to any cause for concern. In PL, mainly due to a drop in the solvency ratio of one undertaking, the solvency ratio for the total non-life sector declined but all non-life insurance companies fulfilled the statutory requirement with respect to the level of available solvency margin and the level of assets covering technical provisions.

Nine Member States (ES, GR, IE, IS, IT, NL, RO, SE, SI) reported cases of insolvency in 2009 and 2010, fourteen cases in total. In AT one insurance undertaking was taken over jointly by the government and another insurance undertaking. In ES one undertaking was placed in a winding-up procedure. In 2009, in GR the supervisor permanently revoked the operations license of five insurance companies part of the same insurance group and their assets were declared as ‘assets backing up insurance provisions’. In 2010, in GR, another insurance undertaking was placed in a winding-up procedure. In IE three undertakings failed to meet the required solvency requirements in 2009 and 2010; two were placed in administration and further capital was introduced in the other case to restore the solvency to the required level. During the year 2009 in IS one undertaking became insolvent and its insurance portfolio was transferred to a new company with a state injected capital. Another undertaking had solvency problems but has been bought by a foreign bank, which restored the solvency level. In IT, in 2010, there were two cases, in one case a (provisional) administrator has been appointed and in another case the winding-up procedure has recently started. In NL, in 2010, one insurance undertaking was placed in a winding-up procedure. Two administrators were appointed by the court to establish either a portfolio transfer or the winding-up of the company, or a combination of the two. In RO, in 2009 and 2010, two undertakings were placed in a winding-up procedure as well. The SE supervisor prohibited one undertaking, being part of the group as mentioned before in GR, to write new business in SE from November 2009. In SI one insurance undertaking had to be recapitalised by its shareholders.

Based on the information from the large and important insurance groups, the asset composition remained fairly unchanged from 2008 to 2009. However insurance undertakings seem to have not invested any further into real estate (see Figure 10).

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*Cases of insolvency and measures taken*

For details on the individual cases, please revert to the press releases or website of the respective supervisory authority or to the EC’s website under [http://ec.europa.eu/internal_market/insurance/windingup_en.htm](http://ec.europa.eu/internal_market/insurance/windingup_en.htm).
Maximum guaranteed interest rates attributed to life insurance policies vary from one Member State to another. In some countries there is no maximum guaranteed interest rate set in relation to policyholders but there is a maximum interest rate set in relation to the discounting of technical provisions. In other countries there is a minimum interest rate set in relation to customers in legal provisions. But also their features might vary. Products with the highest guaranteed interest rates were mainly sold at least several years ago but they include long term commitments. Therefore the average interest rate over the total portfolio of guaranteed products is declining, however only gradually. Although maximum guaranteed interest rates are usually set with a high level of safety margins, they are often fixed throughout the lifetime of the contract in several Member States. For contracts that were initiated during a period where higher maximum interest rates were considered prudent, the interest rate used to discount the technical provision in the balance sheet may exceed the present low level of market interest rates. This puts additional strain on the solvency position of the insurance undertakings holding such contracts since the gap between the interest rate used to discount the technical provisions and the current risk free rate would need to be financed by investment yields in excess of the risk free rate or at the expense of other policyholders within the same undertaking. Some Member States have the possibility to require supplementary technical provisions.

In order to stop a potentially dangerous spiralling competition on servicing yields, the French supervisor has sanctioned three life insurers in July
2009, and published the decision on the penalties: The insurers were
sanctioned for offering served yields above the legally maximum yield, and
/ or guaranteeing these yields for an excessive time period. As a number of
life insurers used a material share of the available deferred bonuses to
increase the 2008 yield on contracts to levels above the yearly asset
performance, the supervisor was particularly attentive all along 2009 to
limit the temptation of such "marketing" risk taking, and a regulation is
currently in project to reinforce the legal framework to contain the yield on
contract to sustainable levels.

A recessionary period can have an impact on lapse/surrender rates in life
business as consumers in an urgent need to access funds may decide to
cancel the contract despite possible penalties or other disincentives.
Understandably, the volume of new demand for life products would at
the same time be low. Although a lapse or surrender in itself can be profitable
to the insurance undertaking, the combination of the above mentioned two
factors would increase undertakings' liquidity risk. Some Member States
have seen slight increases in lapse rates but the risk has not materialised
to a significant extent in any Member State so far.

Several Member States reported the implementation of the changes in EU-
Directives concerning reinsurance, the assessment of qualifying holdings in
insurance and reinsurance undertakings and the minimum levels of
guaranteed capital (the minimum guarantee fund). Several Member States
also reported that they have started to work on implementing the Solvency
II regulation.

In HU, FI and NL the fiscal legislation favouring life insurance has been
changed and the tax allowances have been withdrawn or equal treatment
has been given also to other than insurance products. There is reason to
believe that this will have a significant impact. For example in FI the sales
of new individual pension insurance contracts have come to a halt.

On the contrary, in FR by a transfer of pension business formerly held by
non-insurance undertakings that are no longer allowed to operate, about
EUR 3 bn. of existing technical provisions are thus added to the perimeter
of the long-term life insurance sector.

In two Member States (IE, FR) the insurance supervision was reorganised
in 2009. The IE Government announced that it intends to bring forward
legislation to establish a single fully integrated regulatory institution within
the Central Bank of Ireland, responsible for both the supervision of
individual undertakings and the stability of the financial system in general.
In FR, the new authority, "Autorité de Contrôle Prudentiel" (ACP), within
Banque de France, groups the activities of both banking supervision and
insurance supervision.

The legislation concerning supervision has been enhanced in several
Member States as well, for example in DE (concerning holding companies
and generally strengthened supervisory powers) and in PL (on-site
inspections of insurance undertakings). LU has introduced a new law on
the supervision of insurance undertakings at the end of 2009. Supervisors
have also introduced regular stress testing procedures for insurance
undertakings. Some Member States have improved regulation and
guidelines concerning transparent, sound and prudent management.
• **Supervisory Risk Assessment for the insurance sector**

In March/April 2010, CEIOPS Members and Observers have been asked to classify up to ten risks and challenges, out of a list of 39 items, which are currently considered as “moderate” or “significant” in the respective insurance markets. Based on the responses from 26 Member States\(^5\), the following risks and challenges are classified as the most imminent, considering their probability and potential impact. Included are only those risks and challenges which have been reported by at least one fifth of the authorities (see Table 1a).

When looking at the number of affected Member States, interest rate risk, lapse risk and the economic cycle are the most wide-spread risks. Further, premium risk, equity and credit risk are reported by a majority of countries.

### Table 1a: Classification of most imminent risks for the insurance sector

<table>
<thead>
<tr>
<th>Most relevant risks - INSURANCE</th>
<th>Reported by X% of supervisors</th>
<th>Average risk score</th>
<th>Development over the last 12 months</th>
<th>Expected development over the next 12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate risk</td>
<td>73%</td>
<td>1.9</td>
<td>0.4</td>
<td>-0.2</td>
</tr>
<tr>
<td>Lapse risk</td>
<td>77%</td>
<td>1.7</td>
<td>0.5</td>
<td>-0.3</td>
</tr>
<tr>
<td>Economic cycle</td>
<td>62%</td>
<td>1.6</td>
<td>0.7</td>
<td>0.1</td>
</tr>
<tr>
<td>Premium risk</td>
<td>62%</td>
<td>1.3</td>
<td>0.4</td>
<td>0.2</td>
</tr>
<tr>
<td>Equity risk</td>
<td>54%</td>
<td>1.1</td>
<td>-0.2</td>
<td>-0.4</td>
</tr>
<tr>
<td>Credit risk</td>
<td>50%</td>
<td>1.1</td>
<td>0.4</td>
<td>0.2</td>
</tr>
<tr>
<td>Regulatory &amp; reporting changes</td>
<td>46%</td>
<td>1.1</td>
<td>0.5</td>
<td>1.3</td>
</tr>
<tr>
<td>Property risk</td>
<td>42%</td>
<td>1.0</td>
<td>0.5</td>
<td>0.0</td>
</tr>
<tr>
<td>Consumer confidence</td>
<td>35%</td>
<td>0.8</td>
<td>0.6</td>
<td>-0.1</td>
</tr>
<tr>
<td>Competition</td>
<td>31%</td>
<td>0.7</td>
<td>0.6</td>
<td>0.3</td>
</tr>
<tr>
<td>Reserve risk</td>
<td>31%</td>
<td>0.7</td>
<td>0.4</td>
<td>0.6</td>
</tr>
<tr>
<td>Tax and pension reforms</td>
<td>27%</td>
<td>0.6</td>
<td>0.6</td>
<td>0.9</td>
</tr>
<tr>
<td>Natural catastrophes</td>
<td>27%</td>
<td>0.5</td>
<td>0.6</td>
<td>0.1</td>
</tr>
<tr>
<td>Claims inflation</td>
<td>23%</td>
<td>0.5</td>
<td>0.3</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Source: CEIOPS

**Interest rate risk** is present in the current low yield environment. With durations of assets being lower than durations of liabilities it is potentially difficult for insurance undertakings to service guaranteed life insurance policies.

**Lapse risk** related to life insurance policies increased in times of rising unemployment rates and declining wealth of private households. However, in most jurisdictions no liquidity pressure on insurance undertakings was observed.

**The economic cycle** covers various challenges such as the decline in written business, asset-side risks and the potential rise of fraudulent claims. It also covers general issues related to sovereign risk.

**Premium risk** is due to heightened competition in some countries and lower demand for mass insurance policies (e.g. motor insurance).

**Equity risk** is considered to be of less importance than one year ago; stock markets have recovered and hidden reserves have increased. However the

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\(^5\) AT, BE, BG, CZ, DE, DK, EE, ES, FI, FR, HU, IE, IS, IT, LI, LT, LU, LV, MT, NL, NO, PL, PT, SI, SK, UK.
risk of another overheating of markets in combination suddenly stopped by a potential double-dip of the real economy remains.

Credit risk is associated with considerably risen default rates of corporates. In this context sovereign risk was explicitly mentioned as an additional risk by some supervisors.

Over the last twelve months (see Table 1b) virtually all the six risks mentioned above have increased. The highest increases are reported with regard to economic cycle; but also natural catastrophes, competition, tax and pension reforms as well as declining consumer confidence have increased significantly as being concerns for insurance undertakings. On the contrary, the impact of equity risk is considered to be lower than 12 months ago, given the significant recovery of stock markets and the build-up of hidden reserves.

Table 1b: Development in risks for the insurance sector over the last 12 months

<table>
<thead>
<tr>
<th>Manifestation of risks - INSURANCE</th>
<th>Development over the last 12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic cycle</td>
<td>0,7</td>
</tr>
<tr>
<td>Natural catastrophes</td>
<td>0,6</td>
</tr>
<tr>
<td>Competition</td>
<td>0,6</td>
</tr>
<tr>
<td>Tax and pension reforms</td>
<td>0,6</td>
</tr>
<tr>
<td>Consumer confidence</td>
<td>0,6</td>
</tr>
<tr>
<td>Lapse risk</td>
<td>0,5</td>
</tr>
<tr>
<td>Property risk</td>
<td>0,5</td>
</tr>
<tr>
<td>Regulatory &amp; reporting changes</td>
<td>0,5</td>
</tr>
<tr>
<td>Interest rate risk</td>
<td>0,4</td>
</tr>
<tr>
<td>Premium risk</td>
<td>0,4</td>
</tr>
<tr>
<td>Reserve risk</td>
<td>0,4</td>
</tr>
<tr>
<td>Credit risk</td>
<td>0,4</td>
</tr>
<tr>
<td>Claims inflation</td>
<td>0,3</td>
</tr>
<tr>
<td>Equity risk</td>
<td>-0,2</td>
</tr>
</tbody>
</table>

Source: CEIOPS

For the next twelve months (see Table 1c), some risks are expected to increase, especially regulatory and reporting changes as well as tax and pension reforms, claims inflation and reserve risk. Regarding consumer confidence risk, interest rate risk and equity risk, some relaxations are expected.
### Table 1c: Expected risks for the insurance sector over the next 12 months

<table>
<thead>
<tr>
<th>Expected risks - INSURANCE</th>
<th>Expected development over the next 12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory &amp; reporting changes</td>
<td>-2 = cons. decrease</td>
</tr>
<tr>
<td>Tax and pension reforms</td>
<td>+2 = cons. increase</td>
</tr>
<tr>
<td>Claims inflation</td>
<td>0,7</td>
</tr>
<tr>
<td>Reserve risk</td>
<td>0,6</td>
</tr>
<tr>
<td>Competition</td>
<td>0,3</td>
</tr>
<tr>
<td>Credit risk</td>
<td>0,2</td>
</tr>
<tr>
<td>Premium risk</td>
<td>0,2</td>
</tr>
<tr>
<td>Natural catastrophes</td>
<td>0,1</td>
</tr>
<tr>
<td>Economic cycle</td>
<td>0,1</td>
</tr>
<tr>
<td>Property risk</td>
<td>0,0</td>
</tr>
<tr>
<td>Consumer confidence</td>
<td>-0,1</td>
</tr>
<tr>
<td>Interest rate risk</td>
<td>-0,2</td>
</tr>
<tr>
<td>Lapse risk</td>
<td>-0,3</td>
</tr>
<tr>
<td>Equity risk</td>
<td>-0,4</td>
</tr>
</tbody>
</table>

Source: CEIOPS

#### Market Trends and Structural Developments


The ratio of gross premiums to gross domestic product, an indicator of insurance penetration is of a very different size across Member States showing only gradual change over time in total. For example, in IE where the penetration ratio is one of the highest, about 32 percent in total, the share of life insurance has declined but non-life has been increasing compared to the GDP. In the non-life business penetration is highest in NL (due to the privatisation of health insurance in 2006). On average the total penetration rate at the year end 2008 was less than 10 percent. Due to the decline in GDP it is expected to have some increase in relative penetration rate, but no material increase in the volumes.

Although a large number of undertakings made notifications for entering foreign markets through freedom of services, the actual market share of these activities abroad is almost negligible. Most international business is conducted through subsidiaries and branches. Very few Member States have a significant number of branches of third countries. The share of these foreign branches measured in terms of gross premiums written is only in a few Member States more than 10 percent in 2008 (CY, LI, MT).
Figure 11: Geographical distribution of gross premiums written (in EUR mln., 2009)

Source: CEIOPS, based on worldwide consolidated financial information received from a sample of 26 large and important European insurance groups from AT, CH, DE, ES, FI, FR, IT, NL and UK.
4. Developments in the European reinsurance sector

The following analysis of developments in the European reinsurance sector in 2008 and 2009 is based on publicly available market research as well as the reporting of key financial figures for the largest European reinsurers provided by CEIOPS Members. In 2009, natural catastrophe losses were considerably lower than in 2008 due to the absence of single extreme insured loss events and a very moderate hurricane season.\(^6\)

Figure 12 Insured catastrophe losses\(^7\)

At the important renewal date of 1st January 2010 prices appear to be flat to down 10 percent across most coverage classes.\(^8\) In the US, catastrophe reinsurance rates have declined by 5 percent – 15 percent. Meanwhile in Europe rates were generally flat to down 5 percent for most business lines.

- **Market trends**

  The European “Big Four” - Munich Re, Swiss Re, Hannover Re and SCOR - are still dominating the global reinsurance market. Those reinsurance companies are present among the top five global reinsurance groups in 2009.\(^9\) As regards the regional distribution within the European Union major reinsurers have their headquarters domiciled in DE, CH, FR and the UK (Lloyds).

  The continuous opening of local European subsidiaries by Bermudian reinsurers – as a result of the European Reinsurance Directive 2005/68/EC – indicates that their involvement in the region is expected to grow in the

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8 See www.globalreinsurance.com, 18 January 2010.
future. In recent years, Bermudian reinsurers have launched subsidiaries or opened offices in Europe, particularly in IE and CH.\textsuperscript{10} Merger and acquisitions activities have been modest in scale and have not changed the reinsurer sector’s competitive landscape significantly.\textsuperscript{11} There were only three major acquisitions. Hannover Re acquired a USD 1.3bn block of reserves from Scottish Re at the beginning of 2009. In December 2009, Bermuda-based Partner Re purchased Paris Re. Thirdly, IPC Holding was bought by Bermuda-based Validus Holdings, in July 2009.

The Reinsurance Directive has also made it easier to move reinsurance business portfolios within the European Union. This option is occasionally used for portfolios which are intended to be put into run-off. Increased activities in the run-off sector might be observed in the upcoming years, as companies might seek to unlock capital in anticipation of Solvency II.

- **Developments in 2009**

Reinsurance rates stay at a low level due to the lack of major catastrophe events and therefore no significant reduction of reinsurance capacities. Only at the beginning of 2009 until the July 2009 renewals there was an increase of reinsurance rates of 10 percent – 15 percent for US catastrophe risks. The upward movements were lower in Europe and Asia with a rise of 6 percent and 2 percent respectively.

In January 2010 the decreases taken on January 2010 renewals were very much alike to the rate increases observed in the first half of 2009\textsuperscript{12}.

The soft reinsurance pricing results from both increased capacity and reduced demand. On the reinsurer side the recovery of financial markets during the second half of 2009 boosted reinsurers’ capital. The reinsurers’ capital fully recovered from the 17 percent capital decrease seen in 2008 by the end of 2009. In fact the equity capital position of the reinsurance industry began 2010 at near peak historical levels\textsuperscript{13}. Reinsurance capacity has been restored and is significantly higher than the levels throughout the January 2009 renewals. In the competitive reinsurance market capacity growth outpaced demand growth\textsuperscript{14}. On the demand side reduced economic activity and higher retentions have had an adverse impact on reinsurance purchase.

While investment income drops due to low investment yields, the softening reinsurance cycle could in addition put pressure on reinsurance earnings in 2010.

The market for catastrophe bonds rebounded in 2009. With no new bonds being issued at the end of 2008 due to the impact of the financial crisis, the market rallied again. The volume of new bonds issued or bonds replaced came to about USD 3.5bn.\textsuperscript{15} For 2010, the volume of new issues is expected to be in the region of USD 5bn.

In 2009, the insured losses were significantly lower than in the previous years. Especially the hurricane activity was smooth. According to meteorologists the El Nino-phenomenon had a restraining effect on the

\begin{enumerate}
\item See Fitch Ratings 2009 - 2010 Global Reinsurance Review and Outlook, page 7.
\item See Global Reinsurance Reinsurer profit outlook pressed by soft renewals 18 January 2010.
\item See Munich Re press release 7 January 2010.
\end{enumerate}
development of hurricanes.\textsuperscript{16} However, despite the lack of severe hurricanes and other mega catastrophes, there was a large number of extreme losses. What is noticeable is the high level of individual severe-weather losses in the USA. There were three events each causing insured losses of over USD 1bn.

However, 2010 started with two major catastrophes both probably causing losses higher than the highest loss in 2009.

\textit{Table 2 Largest natural catastrophes}\textsuperscript{17}

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Region</th>
<th>Economic Loss US$ bn</th>
<th>Insured Loss US$ bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>27.02.2010</td>
<td>Earthquake Chile</td>
<td>Latin America</td>
<td>n.a.</td>
<td>4.0 - 8.0</td>
</tr>
<tr>
<td>27.-28.02.2010</td>
<td>Winter Storm Xynthia</td>
<td>Europe</td>
<td>n.a.</td>
<td>2.0 - 4.0</td>
</tr>
<tr>
<td>23.-25.1.2009</td>
<td>Winter Storm Klaus</td>
<td>Europe</td>
<td>5.1</td>
<td>3.0</td>
</tr>
<tr>
<td>7.-10.08.2009</td>
<td>Typhoon</td>
<td>Asia</td>
<td>4.6</td>
<td>0.1</td>
</tr>
<tr>
<td>10.-13.02.2009</td>
<td>Severe Storms</td>
<td>USA</td>
<td>2.5</td>
<td>1.4</td>
</tr>
<tr>
<td>06.04.2009</td>
<td>Earthquake Italy</td>
<td>Europe</td>
<td>2.5</td>
<td>0.3</td>
</tr>
<tr>
<td>01.10.2009</td>
<td>Earthquake Indonesia</td>
<td>Asia</td>
<td>2.2</td>
<td>0.1</td>
</tr>
<tr>
<td>10.-18.06.2009</td>
<td>Severe Storms</td>
<td>USA</td>
<td>2.0</td>
<td>1.1</td>
</tr>
<tr>
<td>23.-24.07.2009</td>
<td>Hailstorm</td>
<td>Europe</td>
<td>1.8</td>
<td>1.2</td>
</tr>
<tr>
<td>9.-11.04.2009</td>
<td>Severe Storms</td>
<td>USA</td>
<td>1.7</td>
<td>1.2</td>
</tr>
<tr>
<td>25.-26.03.2009</td>
<td>Severe Storms</td>
<td>USA</td>
<td>1.5</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Overall 850 natural hazard events were recorded in 2009, which were above the average of approximately 770 over the past ten years.\textsuperscript{18} The economic losses resulting came to around USD 115bn and insured losses to about USD 36bn. In the previous year the economic losses amounted to USD 200bn, which resulted in insured losses of about USD 50bn. The gap between the economic losses and the insured losses suggests the lack of insurance cover in less developed countries, especially Asia. Low insurance concentration in poorer sections of the world tends to lead to large economic loss events but relatively low insured losses.\textsuperscript{19} Besides the losses, the death toll claimed by natural catastrophes – on average 75,000 deaths per year – was well below average in 2009 and reached about 10,000 – 15,000 lives.\textsuperscript{20}

\begin{scriptsize}
\begin{itemize}
\item 16 See Versicherungswirtschaft Heft 2, 15 January 2010, page 101.
\item 18 See Zeitschrift für Versicherungswesen 2/2010, page 44.
\item 19 See AON Benfield Annual Global Climate and Catastrophe Report 2009, page 6.
\item 20 See Swiss Re Sigma 1/2010, page 1.
\end{itemize}
\end{scriptsize}
### Table 3 Number of fatalities\(^{21}\)

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Region</th>
<th>Fatalities</th>
<th>Economic Loss US$ bn</th>
<th>Insured Loss US$ bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>13.01.2010</td>
<td>Earthquake Haiti</td>
<td>Caribbean</td>
<td>220,000</td>
<td>8</td>
<td>0.04</td>
</tr>
<tr>
<td>01.10.2009</td>
<td>Earthquake Indonesia</td>
<td>Asia</td>
<td>1,195</td>
<td>2.2</td>
<td>0.1</td>
</tr>
<tr>
<td>26.-</td>
<td>Typhoon</td>
<td>Asia</td>
<td>690</td>
<td>1.3</td>
<td>0.3</td>
</tr>
<tr>
<td>7.-10.08.2009</td>
<td>Typhoon</td>
<td>Asia</td>
<td>610</td>
<td>4.6</td>
<td>0.1</td>
</tr>
<tr>
<td>Winter 09/10</td>
<td>Cold Wave India</td>
<td>Asia</td>
<td>500</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>3.-14.10.2009</td>
<td>Typhoon</td>
<td>Asia</td>
<td>470</td>
<td>0.6</td>
<td>n.a.</td>
</tr>
<tr>
<td>06.04.2009</td>
<td>Earthquake Italy</td>
<td>Europe</td>
<td>295</td>
<td>2.5</td>
<td>0.3</td>
</tr>
</tbody>
</table>

- **Outlook 2010**

During the first months of 2010 some severe catastrophes occurred. On 13th January 2010 Haiti was devastated by a massive earthquake, causing economic losses of approximately USD 8 bn according to Hannover Re, but insurance coverage for losses is minimal leaving Haiti with an expected payout of only USD 40m.\(^{22}\) Also Chile was hit by an earthquake in February; here the insured losses were much higher and reached up to USD 8bn.

Like in the previous year Europe was the target of a heavy winter storm again. “Xynthia”, one of the strongest storms in the last 20 years, will cost the (re-)insurance industry a total of estimated EUR 3bn.\(^{23}\)

However, the reinsurance industry got off lightly with the eruption of the volcano in Iceland because losses due to force majeure are not covered by most policies.\(^{24}\)

Besides the Deepwater Horizon oil rig explosion still causes a massive oil spill across the north-central Gulf of Mexico. The oil spill is expected to cause the largest environmental damage since the Exxon Valdez catastrophe in the United States. Experts have estimated insured losses from the oil rig explosion up to USD 1.5bn.\(^{25}\) The economic losses will reach billions of USD.

Anyhow, those events could serve as a precursor to a more active year for catastrophes\(^{26}\). Generally during an El Nino event like 2009 the tropical hurricane activity is reduced in the Atlantic basin. As mentioned, the activity in the Atlantic was below average. But it is suggested, that the El Nino event will have dissipated by the time the hurricane season starts in


\(^{24}\) See Financial Times Deutschland 16 April 2010.


\(^{26}\) See Guy Carpenter, Reinsurance Market Review 2010.
July. As a result much higher losses from storm activities are expected in 2010.\textsuperscript{27}

This could put the reinsurance market under pressure in 2010. Revenues are being squeezed by supply-driven short term price reductions, increased retentions and continuing recessionary effects. Also profits will probably be decreased by weak investment yields. Those effects could lead to further consolidation in order to reduce capacity and increase profit.

There was already one merger in March 2010. Max Capital, a reinsurer based in Bermuda, took over another Bermudian reinsurer, Harbor Point. With that transaction Max Capital moved up into the top 20 reinsurer.

- \textbf{Company specific information}\textsuperscript{28}

\textbf{Munich Re}

Due to a satisfying investment result of EUR 3.9bn. Munich Re recorded an operating result of EUR 4.2bn before taxes for 2009, an increase of 8.9 percent with EUR 1.2bn coming from the 4th quarter.\textsuperscript{29} Two trends marked the reinsurance business: claims costs in lines of business affected by the recession and a random below-average burden from natural catastrophes. The combined ratio reached 95.3 percent, with natural catastrophes accounting for only 1.4 percentage points. Gross premiums written were up 13.5 percent compared with the previous year, rising to EUR 24.8bn. For 2010 Munich Re is aiming at another profit of over EUR 2bn.

\textbf{Swiss Re}

For the full year 2009 Swiss Re reported a net income of CHF 506mn.\textsuperscript{30} Especially the fourth quarter contributed a profit of CHF 403mn to the overall result. Even at the peak of the financial crisis, the core business of Swiss Re still performed well. In the Property & Casualty business the combined ratio improved to 88.3 percent from 97.9 percent in the previous year. Also the Life & Health operating showed a better combined ratio of 82.4 percent (compared to 85.5 percent in 2008). The net income was impacted by impairments of CHF 2bn for the securitised products portfolio and mark-to-market losses of CHF 1.9bn on corporate bond hedges.

\textbf{Hannover Re}

Hannover Re’s gross written premiums rose by 26.5 percent to EUR 10.3bn. In 2009, there was a slightly higher combined ratio of 96.6 percent compared to the previous year with 95.4 percent. The operating profit increased exceptionally strongly to EUR 1.1bn, having been overshadowed by the effects of the financial crisis in the previous year.\textsuperscript{31} Due to the effects associated with the acquired ING life reinsurance portfolio as well as the performance of some funds withheld by ceding companies the group’s net income climbed by EUR 858m to a record of EUR 731mn. Investment income bounced back to the level before the financial crisis to EUR 1.1bn.

\textbf{SCOR}

SCOR managed to generate a net income of EUR 370mn in 2009, up by 17.6 percent compared to the figures in the previous year.\textsuperscript{32} The total

\textsuperscript{28} The figures are based on the S&P Global Reinsurance Highlights 2009 Edition report.
\textsuperscript{29} See Munich Re press release (10 March 2010) Munich Re increases profit by almost two-thirds in 2009.
\textsuperscript{30} See Swiss Re News release 18 February 2010.
\textsuperscript{31} See Hannover Re press release 11 March 2010.
\textsuperscript{32} See SCOR Press release 3 March 2010.
gross written premiums reached EUR 7.4bn, representing an increase of 9.8 percent. SCOR realised a combined ratio of 96.8 percent in 2009, with natural catastrophe claims below average. As a consequence of the good loss record SCOR shareholders’ equity grew from EUR 3.4bn to EUR 3.9bn.
5. Developments in the European pension funds market

This section highlights the main developments that occurred in the European occupational pension fund sector, based on feedback provided by CEIOPS Members. Not all EU countries are covered, in some of them IORPs (i.e. occupational pension funds falling under the scope of the EU IORP Directive) are (still) non-existent or are just starting to be established (CZ, HU, MT). In DK, FI, FR and SE the main part of occupational retirement provision is treated as a line of insurance business, and is therefore not covered in all parts of this section.

In addition to the usual data, reporting and analysis timelines for pensions, which for this year’s report looks at 2008, CEIOPS has supplemented this information with additional data for 2009. This data was collected where possible on a best effort basis from supervisors for a preliminary view of 2009 taking into account that full figures are not yet available. Data collected for 2009 has provided CEIOPS with an approximate view of the financial position of occupational pension funds at the end of 2009. It should not therefore be read as a definitive summary of the current conditions but more as an indicator of the situation.

- **Recent developments – Major policy reforms**

Some countries have seen structural changes and developments in 2008 and 2009 relating to the laws governing occupational pension funds. While changes are specific to individual countries there are common trends and aims within the policy developments.

Developments aimed at **increasing membership** are reported in six countries. BG has seen the establishment of its first IORP in 2008 with eight occupational pension schemes now already in place, while in BE industry-wide schemes have grown further. In FI a new legislation has been set up for allowing defined contribution (DC) pension schemes. The UK has plans to introduce a requirement for auto-enrolment for all employees into schemes meeting a certain criteria from 2012 aimed at tackling low provision and take up in membership. In IE a similar reform has been recently announced by the Government. DE reported a change in pension rights in case of divorce, allowing divorced persons to be eligible for becoming new members of IORPs.

Changes in the field of **supervisory** reporting systems has been seen in ES and with NO implementing a new electronic system for reporting. In BE the risk-based approach has been reinforced while in PT major attention has been devoted to the risk management and internal control systems of IORPs.

New **accounting rules** have been introduced in BE. For DE accounting changes will come into effect in 2011.

The **flexibilities** built into the funding approach for IORPs has been reported as important in NL, PT and the UK allowing IORPs to set appropriate recovery plans to repair deficits in defined benefit (DB)
schemes. ES has allowed members in a situation of long-term unemployement to recover their vested rights.

There have also been developments in disclosure with SK reporting measures aimed at increasing financial awareness and HU changing its approach of communication to members. IT has reinforced information requirements, introducing the obligation to provide estimates of the pension annuities that can be reasonably expected.

A country-per-country summary of structural changes and developments in 2008 and 2009 follows:

In BE, following the regulatory change that introduced in 2007 a new principle-based prudential framework, from 2008 new accounting rules are applicable for the calculation of technical provisions which have to be prudent and take into account the risk profile of the pension plan. This leads, in general, to higher levels of technical provisions. Specific accounting rules have also been introduced to report ring-fencing cases and off-balance derivatives. As part of the governance framework, IORPs had to create internal audit and compliance functions to improve risk management. During 2008 the supervisory risk-scoring model has been reviewed to introduce an even more ALM sophisticated approach.

From the middle of 2008 the first IORP has started to operate in BG; as of end September 2009 there are eight occupational schemes managed under that IORP. The introduction of a multifund system and the improvement of the payout phase in the Bulgarian supplementary pension system have been under discussion in 2009.

DE has reformed the pension right adjustment on divorce. According to this reform almost all pension rights acquired during the marriage must be adjusted in the existing system. This means that all IORPs must accept divorced persons as new members. For the financial year 2010 (reports in 2011), new accounting rules will come into effect.

ES has changed the regulation allowing people in a situation of long-term unemployement to recover their vested rights removing the obligation of being at least one year in that situation. During 2009 the supervisor approved new statistical and accounting models where the portfolio information has been developed, so that supervisors get information about every asset that belongs to pension plan portfolio. Besides, the periodicity of surveys has been increased.

FI has introduced new legislation allowing the establishment of DC pension schemes which is now fully in force but no pension funds providing DC pensions have yet been created.

In IE, the government introduced the option for DC members retiring between December 2008 and December 2010 to defer the purchase of a retirement annuity. The Government has recently announced a reform of whole pension system to increase the coverage of the private pensions and to strenghten the sustainability of public pensions. The reform will require the auto-enrolment of all employee aged 22 or over from 2014, along with matching contributions from the employer, the introduction of a new single
pension scheme for all employees and the increase of the state retirement age to 68 by 2028.

In **IT**, as further step of the reform implemented in 2007, standards of communication are under revision to reinforce the transparency and the comparability of information given to members. In this perspective, the supervisory authority is currently reviewing the statement of the personal balance to be annually sent to members. Furthermore, pension funds are required, from March 2010, to provide individual projections on the benefits that participants may expect to receive at retirement. The projections have to be calculated using a standardized methodology according to which expected future returns are set as a function of the “strategic” asset allocation of the plan chosen by the participant (a risk premium for equities is set prudentially at 2 per cent). Ways to communicate long-term risk are currently being explored.

As a consequence of the financial crisis, in **NL**, the supervisor (in consultation with the competent Ministry) has decided to grant additional flexibility, extending the statutory deadline for submitting recovery plans. The entire regulatory framework for pension funds is currently under revision from both political and technical level.

In **NO** the new Insurance Act, which came into force in July 2006, became effective from 2008. Pension funds are subject to a new price and earnings structure, requirements for a division of assets between owners and customers, and new rules on profit distribution. The new rules are designed to promote effective operation and a clearer distribution of risk and return between customers and owners. A new electronic reporting regime for pension funds was established in 2008.

At the beginning of 2008, in **PT**, the Government created a new voluntary 3rd pillar capitalized pension vehicle, run by the Social Security investment body, as a measure to improve pension savings. In 2009, a new regulation regarding new requirements on the risk management and internal controls systems for IORPs was put in force, which is going to be in full effect at the end of 2010.

In **RO** stricter investment limits on risky assets have been set out in primary legislation as well as in secondary legislation issued by the regulator. These changes are aimed at ensuring diversification or restricted investments in illiquid and high risk financial instruments.

In **SI** started preparations for the modernization of the existing pension system. With the adoption of new legislation (to be implemented in early 2015) the State intends to respond to demographic changes in Slovenia and to overcome some drawbacks of existing legislation. The overall objectives of modernizing the pension system are to increase the working population by raising the age of retirement, to maintain the solidarity of the pension system, to increase awareness of the expected pension benefit and establishing the principle of dependence between the funds paid in the scheme and pension payments from the scheme.
SK has introduced a new legislation that requires Pension Fund Management Companies to provide, starting from 2009, more detailed information to members about fund management and performance.

In response to the crisis and fall in the markets in 2008 and early 2009 the Pensions Regulator in the UK focussed on helping trustees of DB schemes to understand the impacts on their schemes and sponsors and to ensure that appropriate plans are in place to repair any deficits. A series of free workshops were held enabling trustees and advisors to engage directly with the regulator. The regulator through these workshops and a public statement issued in June 2009, reaffirmed its approach to how trustees are expected to set prudent technical provisions and appropriate recovery plans to eliminate deficits as quickly as the sponsor can reasonably afford taking full account of the strength of the underlying covenant. While technical provisions must remain prudent there is flexibility in setting a recovery plan to repair a deficit to meet the funding objective however any risk margin contained in the assumptions used must take account of the extent to which the employer can support them.

Towards the end of the year the regulator also launched a campaign aimed at encouraging good governance and administration and better management of pension scheme risks. A statement published alongside results of the 2009 pension scheme governance survey outlines the regulator's key focus areas. Included within this campaign and aimed at focusing greater attention on risks facing pension scheme members, the Pensions Regulator also published revised internal controls guidance for consultation.

- **Structural developments - assets and contributions**

**Accumulated assets**

The total size of assets as a percent of GDP gives a good indication of the relative wealth accumulated by the pension fund sector (see Figure 22). The size of pension funds is to a large extent related to their time of enactment and labour market coverage. Countries such as the UK and NL with a relatively long history of occupational pension provision see total assets representing a high asset to GDP ratio. These two countries together make up the vast majority of the overall assets invested in occupational pension funds across Europe.

Where traditional public sector pensions, other similar national arrangements and group life insurance contracts play a dominant role in the retirement system, the size of the occupational pension fund sector is relatively small. This is especially the case for continental European countries. However, we see some of these countries are putting in place reforms to increase occupational pension provision resulting in increased membership and coverage of IORPs which is especially important with the growing pressures on pay as you go public systems.
Figure 13 Penetration rate of occupational pension funds (Total assets as % of GDP)*

![Total assets in % of GDP](image)

* Data for the UK relates to DB schemes only. For LU, LV, RO and BG the assets to GDP is less than 1 percent.

Source: CEIOPS

**Contributions received**

The main source of funding for pension schemes result from the contributions payable by both sponsors and members. Figure 14 shows the total estimated contributions for 2006 to 2008 with the main concentration again being in DE, NL and the UK. However Figure 15 shows the difference in gross contributions payable between 2006-2007 and 2007-2008. As can be seen, for countries with more mature markets there is a smaller difference year-on-year (unless a significant reform or event has taken place) as both employers and members aim to spread the cost of retirement provision over a medium to long term period. However, younger and developing markets have seen a marked increase over the last few years as membership grows and the market matures. This is especially true in RO where a significant increase took place in 2008 as membership grew and members also chose to contribute more into their schemes. The significant increase seen in PT was a result of the fall in asset value due to the economic downturn which resulted in DB IORPs being required to increase contributions to keep funding ratios at adequate levels.
**Figure 14: Total gross contributions received**

*Gross contributions (Mio Euro)*

Source: CEIOPS

* For UK, data also depend on the variation in the exchange rate. Movements in DE are due to a one time effect shift from a few large industrial companies to IORP schemes.

**Figure 15: Growth in gross contributions received (% change – local currency)**

% change in total gross contributions receivable

Source: CEIOPS

* Movements in DE are due to shifts from a few large industrial companies to IORP schemes, that means due to a one time effect.

**Defined Benefit vs. Defined Contribution schemes**

There is a wide spectrum in the coverage of Defined Contribution (DC) or Defined Benefit (DB) provision. In DE only DB schemes are permitted. In some other countries (BE, FI, NO NL, PT, UK) DB is not mandatory but still makes up the majority of the contributions being paid by sponsors. However, in some of these countries there is a reported shift away from ‘traditional DB provision’ as sponsors are increasingly choosing to replace ‘traditional DB plans’ and share a number of the risks with members or to set up DC plans instead. In the Member States where occupational pensions are at an early stage of development or are even at the beginning of their life, DC is also the scheme design of choice.
This trend will help reducing the vulnerability of sponsors and the pension fund sector as a whole to the funding risks traditionally related to DB plans. On the other hand the shift to DC plans transfers a number of risks to individual members, often requiring them to make difficult decisions such as investment choices and making information to members and financial education crucial issues, especially if there is an absence of sensible default options. Overall, there is a residual risk that unless suitable DC plans are in place, this movement might result in smaller retirement income than that provided by DB plans.

Figure 16 shows that, considering aggregated data at EU level, a large proportion of contributions are being paid into DB schemes. Due to the increasing shift towards DC substantial increases in contributions into new DC plans can be expected in future years.

Figure 16: Allocation of gross contribution receivable (2008)

Source: CEIOPS

IORPs and Members

The number of IORPs in the EU is stable. However, in some countries a consolidation process is underway (ES, IE, IT, NL). In particular, the number of Dutch pension funds has been declining steadily since 1997 as many employers and employees have chosen to liquidate their pension fund and transfer the provision of the plan to another pension fund to save costs of provision.

Also in FI the number of pension funds is declining and the liabilities are transferred to insurance companies. Also the number of members is declining due to the fact that there is no new entry into the schemes.

In DE, as consequence of new accounting rules to be introduced in 2011, it is expected that new “Pensionsfonds” will be established. Some companies may choose to shift their book reserves schemes to “Pensionsfonds” because of lower administrative costs in managing these obligations. If this trend will manifest remains to be seen.

Membership rates have continued to grow slowly in 2008 and 2009. However, some countries expect that the increase in unemployment will also have an impact on the trend in membership. In AT at the end of 2009, a significant increase in membership rate has been seen when civil servants switched to the pension fund regime. In BE membership grew rapidly in 2007 and 2008 mainly as a result of the introduction of industry-
wide pension schemes: +54 percent in 2007 and a further 39 percent in 2008, mainly for the blue collar workers.

**Asset allocation**

Figures 17 and 18 show the aggregate asset allocations across countries for 2006, 2007 and 2008. The figures have been split into two graphs with Figure 17 showing the countries where DB is the main scheme design and Figure 18 for mainly DC countries.

In the majority of the countries offering DB schemes there is a significant part of the investment portfolio dedicated to equities which, while the value and return on equities has suffered during the downturn, remains a preferred choice of assets by most countries. This likely owes to the long term nature of the liabilities in respect of pension schemes and, based on long term empirical evidence, the ability for equities to demonstrate the potential to offer a higher return than bonds. Also the payment of dividends from equities held provides an ongoing source of income to the fund. In some countries equities are seen as a higher risk investment and IORPs have therefore limited exposure to these assets. This has helped in minimising the immediate effects of the downturn in the equity market.

In countries where the pension promise is linked to a guaranteed return on the contributions rather than a final or average salary, we see a greater investment in debt securities and guaranteed return investments with limited equity exposure. This is due to the underlying guarantee provided to the member and the need to reduce volatility in order to provide a greater degree of certainty over the asset returns year on year in order to meet this promise.

*Figure 17: Allocation of assets for mainly DB countries (2006-2008)*

Source: CEIOPS (where available/possible investments in UCITS are allocated according to the underlying assets).
Figure 18: Allocation of assets for mainly DC countries (2006-2008)

Source: CEIOPS (where available/possible investments in UCITS are allocated according to the underlying assets).

- **The impact and reactions to the financial crisis on pension funds – asset returns and funding levels**

The role played by IORPs in the recent financial crisis is different to that of other areas of financial services. IORPs do not have the same issues in respect to liquidity and the threat of a ‘run on the bank’ in the same way as that of the banking sector. The nature of an IORP, in that they are designed to provide retirement benefits in the future for members, make it a long term undertaking requiring decision making to focus on the long-term interests of scheme members. Focusing on a single year’s return can give a misleading picture of the ability of pension funds to deliver adequate pensions in old age. IORPs also have in many countries a number of security mechanisms available to them in the event of under-funding.

The impact on IORPs is therefore not comparable to the banking sector due to these differing business models, differing liability durations and differing exposures to customer behaviour. The turmoil has however hit IORPs primarily in their role as investors and for DC schemes members’ confidence.

Sharp drops in the equity markets seen in 2008 put their investment portfolios under severe strain. However, significant positive returns in 2009 have mitigated this to some extent. Only a few countries reported small positive or zero returns in 2008 due to the relatively high share of debt securities (FI, DE, RO, BG).

Figure 19 gives an estimate of the rate of return on assets for all schemes from 2006-2008 and Figures 20 and 21 show estimates for DB and DC schemes separately. Again, please note that 2009 data is preliminary and often based on partial samples of national pension markets while the 2006-2008 data is based on a more complete sample.
In 2008, the return of the assets declined, in comparison with 2006 and 2007. Some exceptions have been seen e.g. in countries where systems are at an early stage of development. However, calculation methodologies used for return on assets are not yet harmonized across countries. As a consequence, figures across countries are only partially comparable.

Several countries reported that IORPs reacted to the crisis by shifting the asset allocation towards debt securities, and in particular, towards government bonds either to reduce risky assets or as consequence of the variation of asset price. In 2009, the general exposure to equity markets has been higher with respect to the previous year. However, the trend in the asset allocation is not clear because the major exposure of IORPs to
equity investments could be due to the change in the value of assets, as consequence of the substantial recovery of related financial markets, or to the deliberate modification of the asset allocation. In some cases the increase of relative holdings in stocks has been less than the recovery of markets indices would suggest, implying that pension funds decided to not fully rebalance the allocation with respect to a benchmark/defined “strategic” asset allocation.

**Average funding levels**

As would be expected the financial turmoil reduced the funding levels for DB schemes in 2007 and 2008 across Europe.

In some countries funding dipped below 100 percent which is allowed for a limited time by the IORP Directive as long as a concrete and realisable recovery plan is in place. In practice, Member States use different methods and assumptions to determine their technical provisions. This results in significant variations in the size of technical provisions across countries for comparable defined benefit commitments. For example differences exist around establishment of assumptions (best estimates, levels of prudence) which can have a significant effect on the liabilities and so also on the funding level. Countries also differ markedly in their approaches to inflation protection which often needs to be taken into account in the calculations and can affect the size of the liabilities significantly.

There is also in some countries an interaction between the different elements that make up the pension frameworks across Member States. For example, emphasis on prudent valuation principles, which results in extra reserves, reduces the need for additional security mechanisms. This is also true vice versa where the existence of security mechanisms other than up front capital requirements to the IORP reduces the need for a higher funding level. Overall security or solvency cannot therefore be understood by viewing this figure in isolation without a full appreciation of all the elements involved including the security mechanisms available.

Data for 2009 is however very limited at this time, and the figures shown have been provided on a best effort basis or using estimates where available and should be taken to be an indicative view of the situation at the end of 2009.

2009 has seen an upturn in the markets which as a result has seen pension funds reporting significant positive returns. This in turn has had a positive effect on the funding positions of IORPs, although in most countries not yet back to the levels seen in 2007. Also, for countries where IORPs are not funded to the full level required by the national law, deficit contributions are being paid by sponsors aimed at bringing IORPs up to the required level in their national jurisdiction.

As a consequence, new recovery plans presented to supervisory authorities for a longer recovery period have been accepted. A lot of recovery plans consisted of amending the financing plan in general leading to a higher level of contributions to be paid in 2009 and sometimes changing the risk profile of the assets. In NO, as many pension funds chose to keep a high
exposure to equities, they needed to raise additional capital in 2008 and the beginning of 2009. In some cases the measures taken implied a reduction of benefits of few pension participants (AT, NL) or the removal of the indexation of benefits for some time (NL). However, as a result of the recent improvement in IORPs’ solvency conditions, the possibility exists that these measures do not need to be fully implemented. In the UK trustees were reminded that flexibility in the recovery plan process and make-up exists, including making use of contingent assets or agreements for contributions to increase in the future as sponsors recover and cash flow problems are eased.

**Figure 22: Funding levels for DB schemes (2006-2009)**

<table>
<thead>
<tr>
<th>Average cover ratio</th>
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<tbody>
<tr>
<td>160%</td>
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<tr>
<td>140%</td>
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<tr>
<td>120%</td>
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<tr>
<td>100%</td>
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<tr>
<td>80%</td>
</tr>
<tr>
<td>60%</td>
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<tr>
<td>40%</td>
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<tr>
<td>20%</td>
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<tr>
<td>0%</td>
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</tbody>
</table>

AT BE DE ES FI IE LU NL NO PT UK

Source: CEIOPS

- **The reaction of supervisors to the downturn and lessons learned**

In light of the downturn, the responses of supervisors have focused on the flexibility within their frameworks and the different security mechanism available. Due to the severity of the crisis, some countries introduced additional measures such as increasing the length of recovery plans (NL) or being more amenable in their structure given the economic environment (UK). In several countries, the measures introduced during the crisis have been in force throughout 2009 but the frequency of additional reporting declined noticeably.

In reaction to the turmoil, supervisors enhanced additional reporting requirements, either for all IORPs or using a sample. For example the requirements to submit reports (e.g. assets and actuarial reports, investments and technical provisions data), in addition to the usual reporting deadlines or with an increased frequency and/or detail. Increasing reporting requirements have been less in DC systems where the frequency and range of the information collected are generally already seen as sufficient.

Ad hoc surveys have been carried out to determine the exposure of IORPs investment portfolios to “toxic assets” and in all cases this has not been reported as material.
In case of DB schemes or DC schemes with guarantees (provided by IORPs), some supervisory authorities carried out additional stress tests according to different scenarios to assess the systemic robustness of the IORP sector or the solvency conditions of an individual IORP. As a consequence, in some countries, IORPs have been required to submit a reorganization/recovery plan, to increase the frequency of calculations, to change the asset allocation, to increase additional contributions to be paid by the employers (BE, NO), to eliminate the indexation of benefits for some time (NL) or to increase its risk-bearing capability (NO).

The supervisory authority (DE, BG) set up an internal task force to monitor the evolution of the crisis and to evaluate supervisory measures. A closer monitoring of riskier IORPs has been performed and individual contact and meetings with selected IORPs, especially with large defined benefit pension funds, have been organised, also on regular basis in several countries (BE, IE, IT, LU, NO, PT, ES, UK).

Improving the communication with the industry has been considered an essential tool to react to the crisis and to promote key message through the industry. Different initiatives have also been carried out to enhance the communication with IORPs to explain supervisory measures taken (BE), to encourage IORPs through public statements and workshops to monitor closely the impacts on individual schemes and use the flexibility available in the regulatory framework (UK) or to properly assess the exposure of their portfolios with respect to the different risk factors and to improve portfolio diversification (IT).

In the context of DC schemes, supervisors informed members (also through IORPs) that they may elect for a more active role in reviewing their pension fund in the light of their current circumstances to decide whether they need to make any changes to the fund in which they invest, their level of contributions or their target retirement date (UK) or they may defer the conversion of their individual accounts into benefits when they retire (IE, IT). Supervisory authorities strengthened their communication strategy emphasising the long-term perspective of pension performance mainly in case of weak returns.

During the crisis supervisors commenced or increased the exchange of information with other supervisory authorities responsible for financial stability or for direct or indirect regulation/supervision of IORPs.

Supervisory authorities were also asked to comment on what they saw as the main risks for 2009 that are deserving of attention in their jurisdictions.

Table 4: main risks

<table>
<thead>
<tr>
<th>Risk</th>
<th>Number of Member States</th>
<th>Member States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>5</td>
<td>AT, BE, DE, IT, UK</td>
</tr>
<tr>
<td>Interest rate/inflation</td>
<td>6</td>
<td>AT, DE, IT, NO, SI, PT, UK</td>
</tr>
</tbody>
</table>
### Main risks ...

<table>
<thead>
<tr>
<th>Risk</th>
<th>Rank</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Counterparty/credit risk</td>
<td>5</td>
<td>AT, BE, DE, UK</td>
</tr>
<tr>
<td>Longevity</td>
<td>4</td>
<td>DE, NO, SI, NL</td>
</tr>
<tr>
<td>Consumer Confidence</td>
<td>3</td>
<td>AT, IT, PT</td>
</tr>
<tr>
<td>Regulatory change</td>
<td>3</td>
<td>BE, NL, PT</td>
</tr>
<tr>
<td>Level of risk management</td>
<td>1</td>
<td>FI</td>
</tr>
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</table>

Source: CEIOPS

Equity volatility is expected to remain high and as such is highlighted as a significant risk for pension funds as investment in equities remains relatively substantial. However, IORPs have not been encouraged to move away from equities at a time when they are low valued, indeed some countries have seen an increase in investment in equities in 2009, to enable IORPs to benefit from the relatively high returns that equity could provide (with respect to debt securities investments) in the medium-long term perspective.

Low interest rates figures are also ranked high on the list of risks identified. A sustained period of low interest rates will put pressure on pension funds which offer a guarantee related to investment return as fixed interest assets are a key element in achieving this. There may also be an impact on the valuation of liabilities in some countries to the extent to which the returns on fixed interest assets are used to value liabilities. Credit risk is also of concern both in the asset holdings and to the extent that an IORP is reliant on a solvent sponsor for ongoing support.

The crisis did not have a systemic impact on the EU private pension system, however, it hit pension funds primarily in their role as institutional investors and had a significant impact on consumer confidence, still to be restored. The current regulatory and supervisory regime is seen by many as being flexible enough to face the effects of the crisis. Several supervisors are working in close contact with government and other authorities to monitor the impact of the crisis on pension funds and to evaluate whether possible changes in the legislation or regulation framework are needed in order to mitigate the procyclical effect of solvency requirements and to improve the risk management of pension funds. In DC systems, increasing attention is paid to financial education and to communication to members in order to strengthen the awareness of the risk involved in financial market investments and on the proper investment horizon of investment for retirement. Also, discussions are started around how to better share risks between IORPs/employers/members and to improve design of default options.

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...and challenges
# Annex 1: Country abbreviations

<table>
<thead>
<tr>
<th>Country Abbreviation</th>
<th>Country Name</th>
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<tbody>
<tr>
<td>AT</td>
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<td>NL</td>
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<td>SK</td>
<td>Slovakia</td>
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<td>UK</td>
<td>United Kingdom</td>
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<td>CH</td>
<td>Switzerland</td>
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Annex 2: Scope of CEIOPS’ pension fund data

The current scope of analysis on the financial conditions and financial stability of the pension fund sector is based on data provided by national competent authorities to EuroStat according to the data definitions prescribed in the Methodological Manual for Pension fund Statistics33. The business statistics on pension funds are developed in the frame of Council Regulation n° 58/97 concerning structural business statistics. This regulation is the main legal reference for the collection, compilation and transmission of EU structural business statistics in the various sectors, including the occupational pension fund sector.

The coverage of the business statistics on pension schemes is generally limited to Pillar II schemes that are linked to a professional occupation. Such schemes usually operate on a funded basis. Moreover, they frequently provide cover for biometric risks (mortality, invalidity and longevity). Occupational schemes are organised either as autonomous pension funds or trusts, non-autonomous pension funds (or book reserve mechanisms) or group life insurance contracts, depending on institutional and traditional differences between Member States.

Autonomous pension funds or trusts are established separately from any sponsoring undertaking or trade. They receive the contributions, invest them and pay retirement benefits. Non-autonomous pension funds mainly refer to the book reserve system. The employer undertakes to pay benefits to his employees and makes provision for commitments on the liabilities side of his balance sheet. In the case of group life insurance contract, the contributions are paid to a life insurance undertaking which invests the contributions and pays the benefits. These schemes are excluded from the pension business statistics as they are already covered by the insurance services statistics.

Likewise, Pillar I compulsory social security schemes and Pillar III individual retirement savings are excluded from the scope as these are not covered by the business statistics on pension schemes. It should be noted that not all Member States of the EEA operate occupational pension provisions. Data availability varies substantially among the various Member States, which hampers a thorough analysis and comparison of the pension market developments between Member States.

Austria:
Data includes all occupational pension contributions to Pension Undertakings covered by the Austrian “Pensionskassen Act”. The Pillar II provisions are not compulsory. Contributions cover about 11 percent of the working population.

Belgium:
Pension fund statistics relate to institutions for occupational retirement provisions, i.e. occupational pension funds and so called “pensioenkassen” for the self-employed.

Bulgaria:
Pension fund statistics relate to institutions for occupational retirement provisions.

Czech Republic:
The Czech private pension funds are not occupational based in nature. The beneficiaries can enter in a contract with the pension fund directly regardless of their occupational status.

Denmark:
The pensions fund sector in Denmark is very limited. This sector has the size of 1/50 or 2 pct. of the Pillar II sector (the entire occupationally pensions sector) in Denmark. The number of active (working) members in all pension funds in DK is about 7000 persons and the total amount of assets is approximated € 5 billion. Consequently Finanstilsyn in Denmark do not, for the pension fund sector, regularly report to CEIOPS.

Finland:
Statistics do not include Finnish statutory pension schemes operated by individual undertakings/foundations/funds. Statistics only relate to occupational pension funds by Directive 2003/41/EC.

Germany:
The pension funds statistics relate to institutions for occupational retirement provision that fall under the scope of the IORP Directive, i.e. Pensionskassen and Pensionsfonds. Beside these two types of implementing occupational pensions there exist three further types, namely Direktzusage (book reserves), Unterstützungkassen (support funds) and Direktversicherung (direct insurance) that do not fall under the scope of the IORP Directive and are therefore not considered.

Hungary
The data shown for 2008 for Hungary has been based on the mandatory DC private pension funds. These pension schemes are autonomous, DC and operate on a funded basis. Based on the World Bank’s classifications, mandatory pension funds belong to the 2nd pillar.

Italy:
Data covers autonomous pension funds instituted both as independent legal entities (contractual pension funds) and as pools of segregated assets (open pension funds) set and managed by financial intermediaries. The data does not include book reserve schemes and PIP (personal pension schemes implemented through insurance policies). Rate of returns refer to contractual pension funds.

Latvia
Pension fund statistics relate to private pension funds and cover both occupational and individual pensions.

Luxembourg:
There are 2 supervisory authorities in Luxembourg:
The CSSF (Commission de Surveillance du Secteur Financier) is the competent authority for pension funds governed by the law of 13 July 2005 relating to institutions for occupational retirement provision in the form of SEPCAVs and ASSEPs and the
Commissariat aux Assurances (CAA) is the competent authority for insurance products as well as pension funds governed by the Grand Ducal Regulation of 30 August 2000.

Pension fund statistics cover pension funds governed by the law of 13 July 2005 relating to institutions for occupational retirement provision in the form of pension savings undertakings with variable capital (SEPCAVs) and pension savings associations (ASSEPs).

Netherlands:
Pension fund statistics relate to all Pillar II institutions for occupational retirement provisions.

Norway:
Pension fund statistics relate to institutions for occupational pensions (so-called "pensjonskasser"), and cover both private and municipal pension funds.

Poland
Occupational pension schemes operated in Poland cover:
1. occupational pension fund
2. agreements with life insurance undertakings
3. agreements with investment fund undertakings
4. foreign management undertakings

All information included in the pension funds statistics relates only to occupational pension funds. The activity of the occupational pension funds in Poland is based on similar regulations as the open investment funds.

Portugal:
Data include all occupational pension schemes including substitutive funds from the banking and telecommunications sectors established through collective agreements. No figures regarding technical provisions are provided due to the distinctive legal framework under which Portuguese pension funds operate.

Romania:
The statistics refer to the voluntary pensions, regulated by the Law no. 204/2006 regarding the voluntary pensions, as amended and modified (according to the IORP Directive provisions).

Slovakia:
Recent pension system reforms have introduced mandatory funded occupational pensions as of January 2005.

Slovenia:
Data includes all contributions to pension undertakings, mutual pension funds and contributions collected by insurance undertakings from pension contracts.
Spain:
All the data relates only to occupational pension funds (by Directive 2003/41/EC) which account for about 40 percent of the total pension fund sector. In addition, there are also individual and associated pension funds operated in Spain.

Sweden:
The Swedish pension fund statistics refers to a special form of “friendly societies” and accounts for less than 10 percent of the overall non-state related occupational pensions. The remaining occupational pensions are almost entirely covered by life insurance undertakings.

UK
The entry for the UK relates schemes covered by the Institutions for Occupational Retirement Provision Directive and also public sector schemes in relation to data on contributions and return on assets. Figures for the aggregate cover ratios have been based on the funding position in relation to the benefits payable under the Pension Protection Fund.