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ECB WORK ON PENSION FUNDS STATISTICS

Joint meeting

To be held on 1-2 October 2013
OECD Conference Centre
Beginning at 2:00 p.m. on the first day

This document has been prepared by Rafael Quevedo and Carina Steindl (European Central Bank) and will be presented under item 3 of the draft agenda

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ECB WORK ON PENSION FUNDS STATISTICS¹

OECD joint meeting of the WPFS/WPNA

The current euro area Insurance Corporations (ICs) and Pension Funds (PFs) statistics are compiled quarterly by the European Central Bank (ECB) under a ‘short-term approach’². The ECB will soon adopt a regulation on Insurance Corporations statistics, in line with the current priority of the European Insurance and Occupational Pensions Authority (EIOPA) in the context of the implementation of Solvency II Directive and the work on related quantitative reporting templates, and will work at a late stage towards a more harmonised, ‘steady-state approach’ for PFs. This will give time for further close cooperation between the ECB and EIOPA also in the domain of PFs. In the near future, PFs statistics will be reported under an enhanced short-term approach, meaning with methodological improvements, however not requiring new data collection from reporting agents. The requirements addressed to National Central Banks (NCBs) in the euro area will be reflected in a legal act (an ECB Guideline) which, given the interest of the users in data on PFs, will also abide with the ESA 2010 (fully 2008 SNA compliant) framework. Non-euro area EU NCBs are encouraged to also report the data. In turn, a separation of the work streams for future ICs and PFs statistics is also in line with the separation of the two sectors in the ESA 2010. The paper summarises the new ESA 2010 requirements for PFs statistics and the incorporation of the current short-term approach into the ECB Guideline.

1. Introduction

1. Following the report of the ECB Statistics Committee (STC) Task Force on Insurance Corporations and Pension Funds³, the STC launched in June 2007 a project on gathering new statistics for ICs and PFs under a short-term approach. As a follow-up the STC/Working Group on Monetary and Financial Statistics (WG MFS) established the Implementation Task Force on Insurance corporations and Pension funds statistics (ITIP) in November 2007 in order to define a reporting scheme for the statistics from NCBs to the ECB. The ITIP final report and its recommendations were approved by the WG MFS in October 2008 and endorsed by the STC. Since October 2008, the WG MFS has worked on implementing the ITIP recommendations.

¹ By Rafael Quevedo (Rafael.quevedo@ecb.europa.eu) and Carina Steindl (Carina.Steindl@ecb.europa.eu).

² See “New ECB Statistics on Euro Area Insurance Corporations and Pension Funds”, OECD Newsletter issue No. 54, December 2011. Such a short term approach means that data available at national level, usually from supervisory reports, are reported on an aggregated basis, subject to some validation and consistency checks.

³ This Task Force followed a joint Eurostat/ECB Task Force which reported to the Committee on Monetary, Financial and Balance of Payments statistics (CMFB) in June 2006.

2. State-of-play

2. Euro area IC and PF balance sheet data, based on the data received from NCBs and in accordance with the ITIP final report, are compiled on a quarterly basis. The data are published since June 2011 on a quarterly basis⁴.
3. According to European Council Regulation EC No 2533/98 (as amended by Regulation 951/2009), ICs and PFs resident in the euro area are included in the reporting population on which the ECB could impose reporting obligations. The ECB Regulation, currently under preparation, will be addressed to euro area Insurance Corporations. The procedure for issuing such a Regulation entails a consultation on user requirements (merits) as well as a cost assessment exercise⁵.
4. In the case of PFs, harmonised reporting templates for supervisory purposes (institutions for occupational retirement provision (IORP) Directive, similar to Solvency II in the case of insurance) are expected to be developed in the future. Once the update of the IORP Directive by the European Commission, in liaison with EIOPA, is more advanced, including draft reporting templates for PFs, the convergence of supervisory and statistical reporting requirements will be made possible.
5. This note summarises the new ESA 2010 requirements for PFs statistics and the incorporation of the current ITIP short-term approach into the ECB Guideline.

3. ESCB Pension Funds statistics

6. The ESCB (and European Systemic Risk Board⁶) user requirements for statistical information on PFs were discussed in the context of ITIP. The final ITIP report includes a reporting scheme for PFs, which is currently used for the compilation of ICs and PFs statistics. In November 2012, the WG MFS agreed with the inclusion of PFs reporting in the foreseen update of the ECB Guideline, with a view to formalising the short-term approach data collection for these statistics.
7. The current reporting scheme, as detailed in the ITIP final report, will need to be updated prior to its inclusion in the ECB Guideline. In particular, (1) new requirements need to be introduced, due to the new ESA 2010 sectors / instruments and the euro area Financial Accounts requirements; and (2) as the ECB will issue a Regulation for IC statistics, reporting for the two sectors will need to be separately treated, from the entry into force on the forthcoming IC Regulation onwards. Accordingly, requirements concerning PFs will enter into force as of reporting quarter 2015 Q3.

Main issues in the update of the reporting scheme:

- (1) **New requirements and definitions from ESA 2010** : the main issues in the updated PFs reporting scheme due to ESA 2010 are the following: i) the new sectors and the split between ICs and PFs have been included; ii) regarding the new ESA 2010 instruments breakdown, the

⁴ See quarterly press release: <http://www.ecb.int/press/pr/stats/icpf/html/index.en.html>

⁵ The ECB “merits and costs exercise” enables to assess the expected benefits for users and the associated costs. The latter part reflects the setting up and regular costs incurred by the industry and by NCBs, or other national authorities, and will take place as a further step, after EIOPA's formal consultation. In the light of the potential costs incurred, the exercise concludes with a consolidation and matching of the requirements for the data by the users. For more information see <http://www.ecb.int/pub/pdf/other/ecbstatisticsqualityassuranceprocedure200804en.pdf>

⁶ The ESRB started its work in 2011, and the ECB is providing analytical and statistical support to it.

updated PFs reporting scheme follows the main conclusions from the ECB Working Group on Euro Area Accounts (WG EAA)⁷, in particular the following considerations were taking into account:

(i) Grouping of ESA 2010⁸ AF.63 Pension entitlements +AF.64 Claims of pensions on pension fund managers +AF.65 entitlements to non-pension benefits i.e.:

- *AF.63 Pension entitlements* together with
- *AF.64 Claims of pension funds on pension managers*: claim of underfunded pension funds on pension managers (the latter are employers who retained responsibility for funding deficits) and
- *F.65 Entitlements to non-pension benefits*: the excess of net contributions over benefits represents an increase in the liability of the insurance scheme towards the beneficiaries.

(ii) Regarding F.66 Provisions for calls under standardised guarantees which is not directly related to pensions/ life insurance has not been included in the reporting scheme for PFs.

(iii) User consultation on IC and PF statistics (as also highlighted at the ITIP final report): stressed the high analytical interest in the breakdown by risk sharing:

- *AF.62a Unit linked life insurance and annuity entitlements*
- *AF.63a Defined contribution pension entitlements*
- *AF.63b Defined benefit pension entitlements*

In the case of Pension Funds the instruments *AF.63a (Defined contribution pension entitlements)* and *AF.63b (Defined benefit pension entitlements)* were maintained in the reporting scheme (in addition with the instrument 'hybrid schemes') while the instrument *AF.62a Unit linked life insurance and annuity entitlements* was removed as no country reported any data for PFs under current ITIP data⁹.

(iv) Non-life insurance technical reserves (AF.61), which are not typical for PFs, are reported in current ITIP data by some countries¹⁰. Therefore, *non-life insurance technical reserves (AF.61)* will be maintained in the reporting scheme for PFs. The explanation is that pension funds, especially the smaller ones, reinsure (a part of) their pension liabilities. In most cases, this reinsurance takes place with life insurers who also have a licence for reinsurance.

(2) Reporting frequency and timeliness will be aligned with Monetary Union Financial Accounts (MUFA) requirements (e.g. quarterly reporting and the PFs statistics shall be reported to the

⁷ WG EAA, March 2011.

⁸ See also 'OECD Survey on the implementation of the 2008 SNA: results and main outcome', OECD, COM/STD/DAF(2012)23/ADD1, Working Party on Financial Statistics, 3 October 2012.

⁹ Apparently in some countries insurance corporations performed 'PF' type of business while no country has reported 'life insurance' type of business performed by pension funds.

¹⁰ This instrument is particularly relevant in NL.

ECB within a period that shall not exceed 82 calendar days after the end of the reference quarter);

- (3) **Revision policy and provision of explanatory notes** will be in place;
- (4) The updated reporting scheme is based on new ESA 2010 requirements and on the experience in the reporting of PFs data in order to avoid unnecessary or irrelevant reporting, for instance the following issues can be highlighted:
- **Securities issued by Pension Funds are not relevant for PFs due to legal restrictions in IORP¹¹**. Indeed, for *securities issued* most of the breakdowns by sector, maturity and geographical area have been removed, however, the totals have been maintained to cover exceptional cases;
 - **Other general issues** – due to the **lack of cross-border transactions** (especially on the liabilities side) some cells for cross border positions have been removed and the column for **‘not allocated’** has been removed;
 - Finally, in some cases although **some cells were only significant in a few countries** (e.g. one/two countries) the cells were maintained given the *significance of the data reported* (e.g. quoted shares on the liabilities side are mainly relevant for one country).
8. There are large differences concerning the importance of the pension fund sector amongst countries. Five euro area countries with the largest pension fund sector (namely NL, DE, ES, IE and IT) contribute to more than 90 % for most euro-area aggregates.

4. Conclusions

This note has summarised the ECB work on PFs statistics and reviewed the major issues relating to the updated reporting scheme for PFs in comparison with the existing ITIP reporting scheme. The conclusions are the following:

- The approach for PFs statistics would be the following: ***PFs statistics will be included in the ECB Guideline (including an updated reporting scheme)***. At a later stage (preferably linked to the adoption of IORP2 Directive) and, subject to a separate merits and costs exercise, a *steady-state approach* would be developed.
- The ***reporting scheme is being updated to include new ESA 2010 requirements***, namely the new sectors including the split between ICs and PFs and the new breakdown for pension liabilities. *In addition, to avoid unnecessary and irrelevant reporting, the updated reporting scheme will take into consideration also experience gained in the compilation and derivation of PFs statistics;*
- ***The new PFs requirements will enter into force as from the third quarter of 2015*** (at the same time as Insurance Corporations Regulation). *Up to then, the current reporting scheme (e.g. ITIP) will still be used for the compilation of PFs statistics.*

¹¹ The Article 18(2) of the IORP Directive 2003/41/EC on investment rules: “*The home Member State shall prohibit the institution from borrowing or acting as a guarantor on behalf of third parties. However, Member States may authorise institutions to carry out some borrowing only for liquidity purposes and on a temporary basis.*”

ANNEX: ECB PENSION FUNDS STATISTICS

- The ECB PFs statistics are compiled quarterly according to international statistical standards (System of National Accounts and European System of Accounts) and the institutional units and residency criteria laid down in the standards. Accordingly, the statistics cover PFs resident in the euro area, including those managed from outside the euro area. Conversely, the statistics do not cover PFs established outside the euro area. The enhanced PFs statistics cover autonomous pension funds, i.e. funds that have autonomy of decision and keep a complete set of accounts. Non-autonomous pension funds set up by, for example, credit institutions or non-financial corporations are not covered since they are not separate institutional units. Furthermore, social security schemes are not included in this definition.
- NCBs compile nationally aggregated statistics by exploiting all available national data sources and send country results to the ECB. This implies that the PFs statistics are not fully harmonised across countries, and estimates replace or complete statistical information that is missing or not available on a sufficiently timely basis. The ECB then produces euro area aggregates. The data published by the ECB consist of statistics on various categories of assets held and liabilities issued by PFs resident in the euro area, broken down by the counterpart and by maturity.
- Data cover key balance sheet variables at a quarterly frequency. In particular, the quarterly dataset contains mainly stock data; transactions are only available for insurance technical reserves of PFs, the most important liability of the PFs sector. Further data, such as more detailed quarterly transaction data, may become available in the future.
- Publication of ICs and PFs data short-term approach,
 - Quarterly ICPF press release: : <http://www.ecb.int/press/pr/stats/icpf/html/index.en.html>
 - ECB Monthly Bulletin (Table 2.11 in Euro area statistics):
<http://sdw.ecb.europa.eu/reports.do?node=1000002773>
 - Statistical Data Warehouse (SDW) / ECB Website (PF statistics):
<http://sdw.ecb.europa.eu/browse.do?node=9484327>
 - Joint dissemination framework for national data:
http://www.ecb.int/stats/money/icpf/html/pension_funds_2012.en.html
 - Data also used in “*Financial Stability Review*” (as from June 2010) and in “*Financial Integration in Europe*”, May 2011

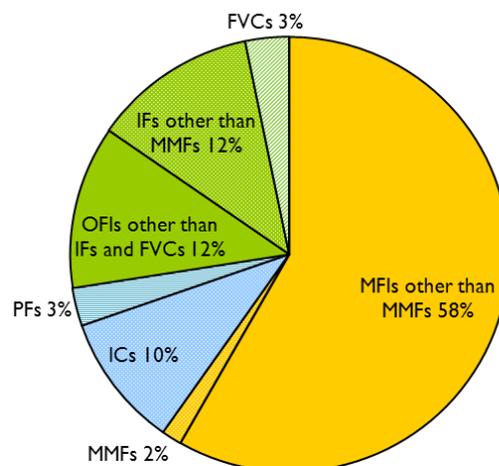
CHARTS AND TABLES

Table 1: Euro area financial corporations assets

ASSETS	(EUR trillion)
Monetary financial institutions (MFIs)	37.4
of which money market funds (MMFs)	0.9
Insurance corporations	6.2
Pension funds	1.8
Other financial intermediaries ¹	17.2
of which investment funds other than MMFs	7.6
of which financial vehicle corporations	2.0
Total assets	62.7

Figure 1: Euro area financial corporations assets (share of total assets)

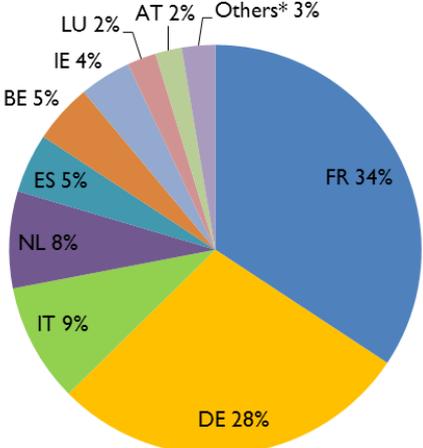
**Euro area financial corporations assets
2013 Q1**
(percentages of total assets)



Source: ECB

Figure 2: Country shares in euro area insurance corporations (ICs) - total assets

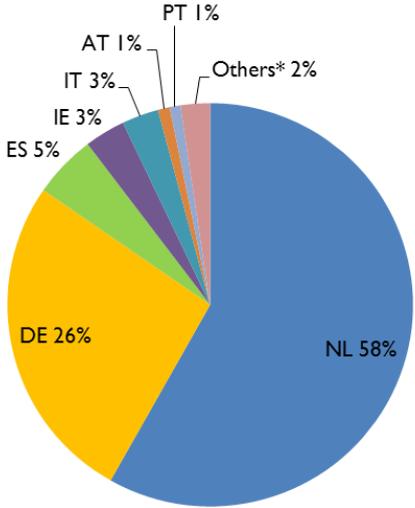
Country shares in euro area ICs - total assets
2013 Q1
(percentages of euro area totals)



Source: ECB
* Others include PT, FI, GR, MT, SK, SI, CY, EE

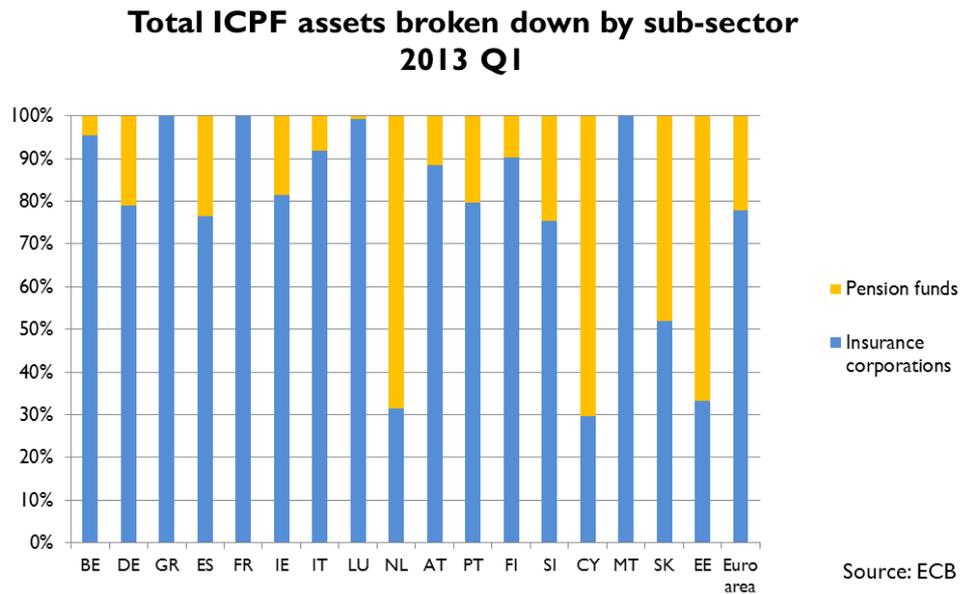
Figure 3: Country shares in euro area pension funds (PFs) - total assets

Country shares in euro area PFs - total assets
2013 Q1
(percentages of euro area totals)



Source: ECB
* Others include BE, CY, SK, FI, SI, EE, LU

Figure 4: Total insurance corporations and pension funds (ICPF) assets broken down by sub-sector

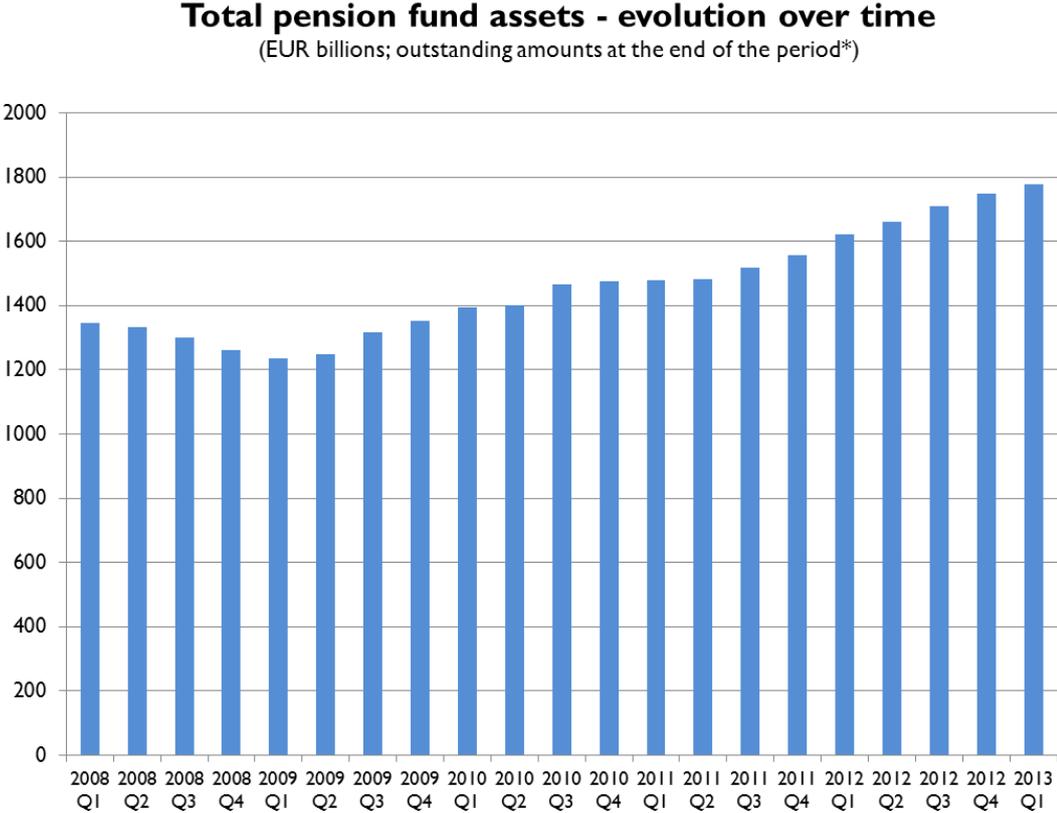


In some countries (FR, GR, MT), the sub-sector pension funds does not apply, since autonomous pension funds, as defined in ESA 95, do not exist.

Table 2: Assets and liabilities of euro area pension funds

	2013 Q1	2012 Q4	2012 Q3	2012 Q2	2012 Q1
Total financial assets	1739	1710	1673	1624	1585
Currency and deposits	199	199	194	196	196
Loans	63	65	60	57	60
Securities other than shares	413	407	400	383	370
Shares and other equity	185	183	177	171	168
Investment fund shares/units	748	713	704	674	667
Money market fund shares	8	8	7	6	7
Prepayments of insurance premiums and reserves for outstanding claims	30	30	29	29	29
Other accounts receivable/payable and financial derivatives	94	104	102	107	88
Non-financial assets	37	37	37	37	36
Total liabilities	1688	1700	1669	1688	1614
Loans	23	22	40	36	30
Securities other than shares	0	0	0	0	0
Shares and other equity	7	7	6	5	6
Net equity of households in life insurance reserves	0	0	0	0	0
Net equity of households in pension fund reserves	1596	1608	1578	1594	1537
Prepayments of insurance premiums and reserves for outstanding claims	2	2	2	2	2
Other accounts receivable/payable and financial derivatives	59	61	43	50	38
Net worth	89	47	41	-27	7

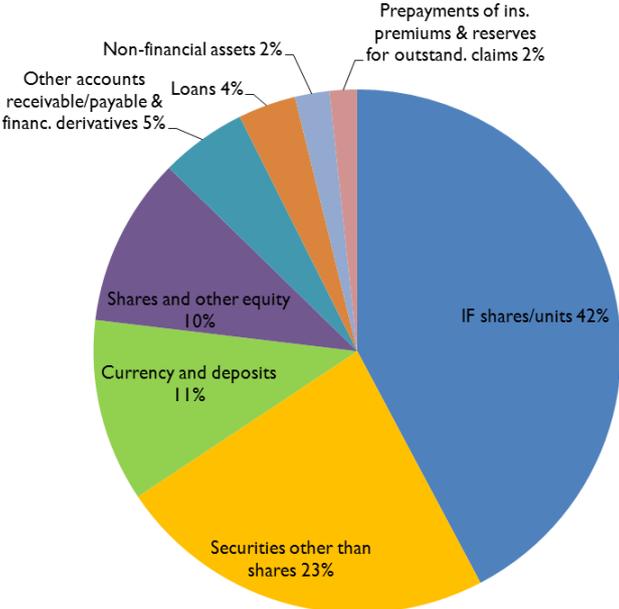
Figure 5: Total assets of euro area pension funds - evolution over time



Source: ECB
* neither seasonally adjusted nor adjusted for reclassifications or revaluations

Figure 6: Investments of euro area pension funds

Investments of euro area pension funds 2013 Q1
(percentages of total assets)

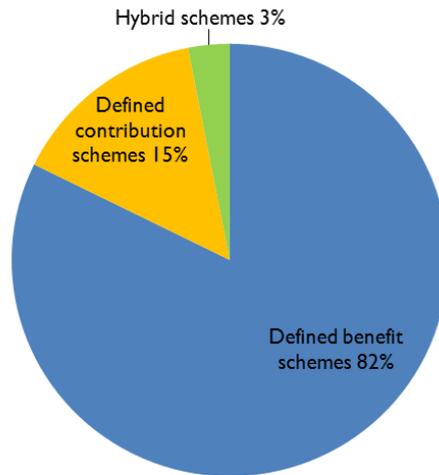


Source: ECB

Figure 7: Net equity of households in pension fund reserves: breakdown by type of plan

**Net equity of households in pension fund reserves:
breakdown by type of plan**

(percentages of total; end-December 2012)

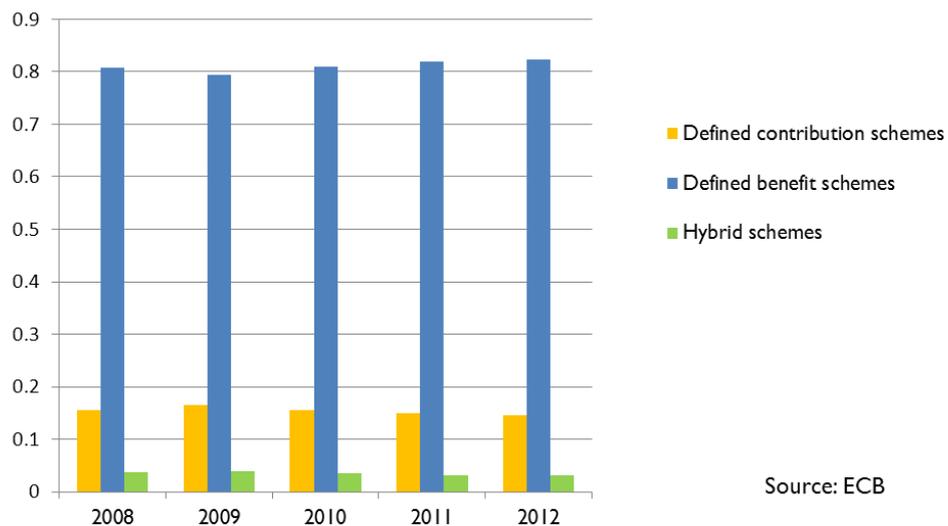


Source: ECB

Figure 8: Net equity of households in pension fund reserves - evolution over time

**Net equity of households in pension fund reserves -
evolution over time**

(percentages of totals)



Source: ECB

Liabilities Pension Funds

	Total	Total																				Rest of the world		
		Domestic											Non-residents											
		Total domestic	Non-MFIs										Total other MUMS	Non-MFIs										
			MFIs (S.121+S.122+S.123)	Total non-MFIs	General government (S.13)	Total	Other residents							Total	Non-MFIs investment funds (S.124)	Other residents								
Non-MMFs investment funds (S.124)	OFIs (S.125+S.126+S.127)	ICs (S.128)					PFs (S.129)	Non-fin. Corporations (S.11)	Households (S.14)	Non-MMFs investment funds (S.124)	OFIs (S.125+S.126+S.127)	ICs (S.128)	PFs (S.129)			Non-fin. Corporations (S.11)	Households (S.14)							
Total Liabilities																								
Securities other than shares excl. financial derivatives																								
Financial derivatives																								
Loans received																								
Up to 1 year																								
Over 1 and up to 5 years																								
Over 5 years																								
Shares and other equity																								
Listed shares																								
Unlisted shares and other equity																								
Insurance, pension and standardised guarantee schemes																								
Pension entitlements (AF.63), Claims of pension funds on pension managers (AF.64) and Entitlements to non-pension benefits (AF.65)																								
of which: Defined Contribution																								
of which: Defined Benefit																								
of which: Hybrid schemes																								
Non-life insurance technical reserves (AF.61)																								
Other accounts receivable/payable																								

Series to be reported