

# DANMARKS NATIONALBANK

3 JUNE 2021

INSURANCE AND PENSION, 1ST QUARTER 2021

## The pension sector adds to equity investments

The insurance and pension sector is increasingly buying equities. The sector's equity holdings rose from constituting 35 per cent of its total investments in January 2018 to 42 per cent in March 2021. In the same period, the share of bonds was reduced from 56 to 51 per cent, while foreign investment fund certificates etc. decreased from 9 to 7 per cent.

Equity holdings are increasing concurrently with increasing pension contributions and provisions to the sector's market rate products, where the pension saver's return depends on the underlying investments, and more risk lies with the individual saver. The trend is that market rate products replace the

traditional guaranteed products, where the pension saver's return depends on a deposit interest rate determined by the individual pension company.

### Increased purchase of equities

The insurance and pension sector has invested more in equities compared to other assets. Since January 2018, the sector has invested kr. 291 billion in equities, of which kr. 119 billion was invested in quoted equities, while kr. 172 billion was invested in unquoted equities. In comparison, the sector has purchased kr. 137 billion worth of bonds and sold kr. 129 billion worth of foreign investment certificates etc.

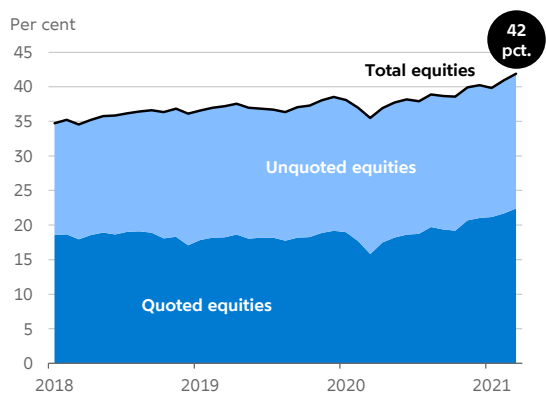
The shift towards equities relates to, inter alia, the low bond interest rates in recent years. The sector's equity investments yielded a return of 34 per cent, while bonds gave a lower return of 7 per cent.

### Strong interest in unquoted equities

A larger part of the sector's means have been invested in unquoted equities, which accounted for almost half of the total investments in March 2021.

On the one hand, unquoted equities are often less liquid than quoted equities, because they are more difficult to sell in the short run. On the other hand, unquoted investments are favourable for insurance and pension companies, because they make long-term investments and thus can gain a liquidity premium as compensation for the illiquidity. At the same time, some unquoted equities (e.g. real estate) provide stable and continuous cash flows to the insurance and pension companies.

**Equities constitute a larger part of the total investments in the insurance and pension sector**



Note: Equity holdings of the Danish insurance and pension companies since January 2018. Danish investment funds are being looked through, such that their asset allocations are visible.

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