

DANMARKS NATIONALBANK

3 JUNE 2022

INSURANCE AND PENSION, 1ST QUARTER 2022

Rising interest rates result in value losses

The value of the insurance and pension fund sector’s investments fell by kr. 273 billion in the first quarter of 2022. This is a larger loss than in the first quarter of 2020, which marked the start of the corona crisis. The losses in the first quarter of 2022 are primarily attributable to rising interest rates, while the market value loss during the corona crisis was largely driven by significant stock market declines.

Bonds and interest rate derivatives are affected, in particular, by rising interest rates. The value of the sector’s bonds fell by kr. 128 billion, while the value of interest rate derivatives fell by kr. 85 billion and the market value of shares fell by kr. 63 billion in the first quarter of 2022.

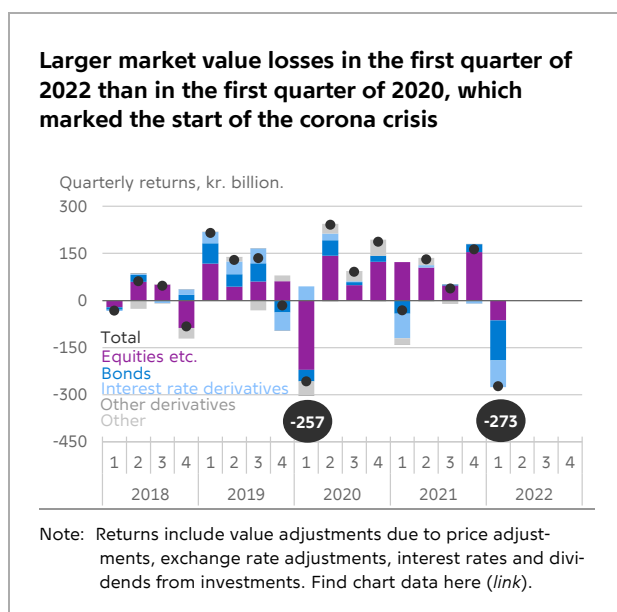
Many bonds in pension schemes with guarantees

The sector’s investments are positioned to reflect the pension schemes taken out by the companies’ customers. Thus, there is a close link between the companies’ pension schemes and their own investments.

Pension schemes are classified as either average rate or market rate products. For average rate products, a certain average return is guaranteed on the customer’s pension contributions, and thus the customer is guaranteed a minimum pension payment. For market rate products, there is no guaranteed minimum pension payment and the customer carries the risk of fluctuations in the value of the investments. The returns therefore depend directly on the investments in which the pension savings are placed.

For average rate products, a larger share of the portfolio is usually invested in fixed rate bonds and interest rate derivatives. This is because investments in bonds and interest rate derivatives secure the guaranteed liabilities against interest rate fluctuations. As interest rates rise, the market value of investments in bonds and interest rate derivatives falls. At the same time, the value of the guaranteed pension liabilities also falls because the rise in interest rates reduces the companies’ need to make provisions to meet their liabilities.

Around 57 per cent of the Danes’ pension savings are invested in average rate products, while the remaining are invested in market rate products.



[CLICK HERE FOR FURTHER INFORMATION](#)