

# DANMARKS NATIONALBANK

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## INSURANCE AND PENSION, 3RD QUARTER 2022

# Negative pension re- turns of kr. 741 billion

Overall, the insurance and pension sector has had a loss of kr. 741 billion on their investments in the first three quarters of 2022. In comparison, the return was kr. 1,027 billion combined in the three previous years 2019-2021, which, overall, were years of large share price increases. The negative return has been driven by falling prices on the financial markets on the basis of, among other things, increased inflation and rising interest rates. The pension assets were kr. 4,070 billion in September 2022.

### Losses due to interest rate increases

The rising interest rates in 2022 have led to losses on the sector's bonds and interest rate derivatives. The

prices of the sector's bonds have fallen due to the interest rate rises, and this has resulted in a negative return of kr. 362 billion, with kr. 179 billion coming from yield on government bonds and kr. 152 billion from the yield on mortgage bonds.

The sector has had a negative return of kr. 199 billion on their interest rate derivatives. The majority of the derivative contracts have been made to ensure that the sector can maintain a positive return when interest rates fall. When the interest rates rise, the contracts fall in value and result in a loss.

### Exchange rate gains mitigate the loss on shares

Although the total return has been negative, the sector's investments have resulted in positive exchange rate gains of kr. 71 billion.

About 29 per cent of the sector's investments are in USD, and the strengthened USD has helped to mitigate the loss on shares – both listed and unlisted. The sector's investments in unlisted shares are largely in USD, which has contributed to positive return. There have been exchange rate adjustments of kr. 3 billion and dividends of kr. 13 billion on unlisted shares, if exchange rates are disregarded.

On the other hand, the rising USD has resulted in a loss of kr. 108 billion on the sector's currency derivatives, because the derivative contracts are often made to protect the value of the investments against a fall in the USD. When the USD rises, the value of the contracts falls and causes losses.

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