

Box 11

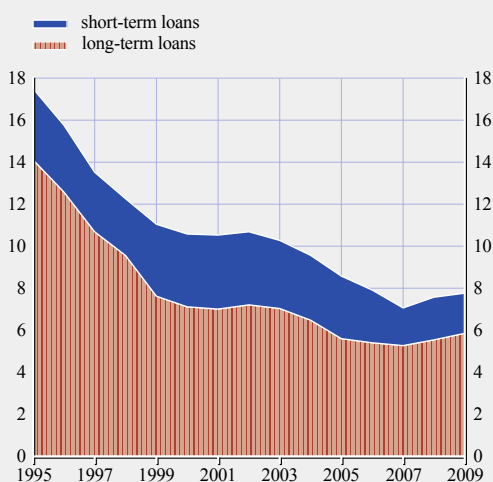
LENDING BY INSURERS

In recent months several euro area insurers have announced plans to increase their lending activities – in particular for commercial property investment – to fill the void left by banks that, in some cases, have scaled back their commercial property lending. This box presents some data on insurers’ lending activities and highlights some financial stability implications.

Insurers scaled back their lending activities during recent decades as competition from banks increased and insurers increased their investment in capital markets instead. In 2009 lending accounted for about 8% of insurers’ total financial assets (see Chart A). However, the average figures conceal large differences across countries, mainly owing to differences in regulations across countries, and lending by insurers has remained relatively high in some euro area countries (see Chart B).

Chart A Evolution of lending by euro area insurers

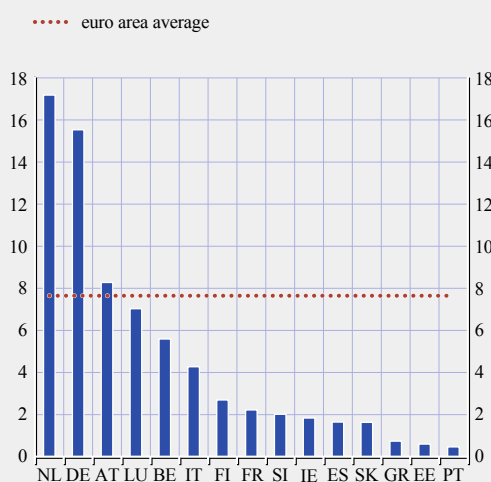
(1995 – 2009; percentage of total financial assets)



Source: OECD.
Notes: Based on data for 11 euro area countries. In some cases, lending represents transactions within financial groups and not with external counterparties.

Chart B Lending by euro area insurers by country

(2009; percentage of total financial assets)



Source: OECD.
Note: Data for Estonia are for 2007 and for Spain for 2008. In some cases, lending represents transactions within financial groups and not with external counterparties.

Insurers' and pension funds' lending has mainly been directed towards households – although such lending is concentrated in a few euro area countries where insurers and pension funds are allowed to lend directly to households – and towards governments, but also to other insurers and pension funds and to non-financial corporations (see Chart C).

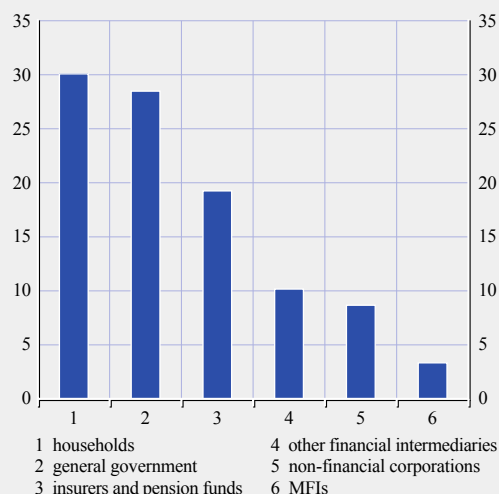
Looking ahead, several euro area insurers have announced plans to increase their direct lending activities or to establish property debt funds. For example, French insurer Axa will commit up to €1.5 billion to the provision of commercial property debt and the German insurer Allianz has announced plans to start to offer senior loans in Germany this year and may expand across the euro area thereafter.

The motivation behind this seems mainly to be due to the decline in competition from banks in some segments, especially commercial property lending, which has pushed commercial property lending rates higher. With highly rated government and corporate bond yields at historically low levels, insurers might see lending as a way to match their long-term liabilities and to capture more attractive returns than fixed income securities currently yield. When compared with the commercial property debt market in the United States, where insurance companies and other institutions account for almost 20% of the total market, there indeed seems to be potential for a greater involvement of insurers in commercial property debt markets also in the euro area. In addition, the Solvency II regulation that is due to come into force in 2013 is expected to lead to some insurers changing their investment strategies somewhat and some market participants have argued that some insurers could instead increase their lending as it could be treated rather favourably as a diversification strategy for some insurers under Solvency II.

Increased lending by euro area insurers can generally be seen as a positive development from a financial stability perspective. From an insurers' perspective, long-term lending can be a good way to match their long-term liabilities and to reduce the risk associated with the currently low levels of highly rated government bond yields. It can also be good for the economy as a whole as insurers could help in providing a stable source of credit to the economy, in particular during periods when banks are scaling back lending. That said, insurers must make sure that their risk management is capable of appropriately assessing the new credit risks they will be taking on.

Chart C Lending by euro area insurers and pension funds by sector

(Q4 2010; percentage of total lending)



Source: ECB.

Notes: Lending to other insurers and pension funds includes reinsurance guarantees as reinsurance deposits are classified as loans in the dataset. Lending to households is concentrated in a few euro area countries where insurers and pension funds are allowed to lend directly to households. In some cases, lending represents transactions within financial groups and not with external counterparties.