



French insurers' investments: adapting to the crisis and the latest challenges

Despite a context moulded by the health crisis, at the end of 2020, insurers' investments in France had risen by EUR 39 billion year-on-year to EUR 2,852 billion. French insurers continued to favour high-quality securities. The low interest rate environment further encouraged insurers to move into diversification assets with real estate and structured securities, for example, accounting for almost 15% of their investments. Lastly, green, socially responsible and solidarity-labelled instruments amounted to almost 5% of investments.

The trend seen during the final three quarters of 2020 continued during the first half of 2021, with both net investments and valuations on the rise.

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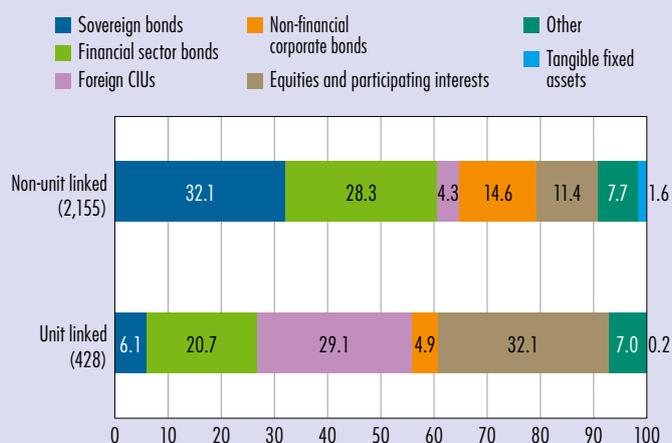
EUR **2,852** billion
the value of French insurers' investments at end-2020

EUR **19** billion
the amount of retirement savings-related securities transferred by insurers to supplementary occupational pension institutions upon their creation

4 months
the additional maturity of French insurers' investments between end-2019 and end-2020

EUR **133** billion
the value of French insurers' green, socially responsible and solidarity-labelled investments

Life and composite insurance undertakings' investments at end-2020 after applying the look-through approach to French CIUs (in %; amounts in brackets in EUR billions)



Sources: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority) – 2020 annual Solvency II reporting submissions; Banque de France – "Investment funds" data collection.

Note: Applying the look-through approach replaces collective investment undertaking (CIU) shares/units with the underlying assets held in the CIUs.



1 French insurers stood firm in the face of the crisis

At the end of 2020, the value of French insurers' investments had risen year-on-year by EUR 39 billion to EUR 2,852 billion, with the vast majority (91%) held by life and composite insurance undertakings. This accounts for a third (34%) of insurers' total investments in the euro area, making France the leading market within the monetary union.

The insurance sector stood firm in the face of the crisis. The increase in investment holdings – although less than that observed in 2019 – is due to both positive investment flows and positive valuation effects. Furthermore, the crisis does not appear to have affected the quality or the availability of assets in the insurance portfolio.

A decline in investments due to transfers to supplementary occupational pension institutions

In 2020, French insurers purchased EUR 15 billion of securities (net of sales and redemptions) compared with EUR 62 billion in 2019 (see Chart 1).

Two phenomena contributed to this decline. First, 2020 saw an increase in the creation of supplementary occupational pension institutions (ORPS – *organismes de*

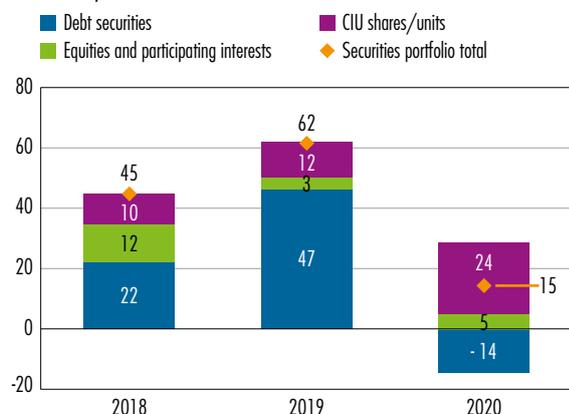
retraite professionnelle supplémentaire), as discussed in Box 1 below. Since the Sapin 2 Law of 2016, ORPSs have secured part of the retirement savings previously managed by the insurance sector, either through transfers of securities or through net sales carried out by insurance undertakings. In 2020, net sales following the creation of ORPSs amounted to EUR 19 billion, up from EUR 1 billion in 2019.

Second, even though the savings of French citizens increased substantially in 2020, insurance product inflows declined from EUR 20 billion in 2019 to a net outflow of EUR 7 billion in 2020. Nevertheless, unit-linked contracts recorded inflows of EUR 23 billion, while euro-denominated policies contracted by EUR 31 billion. Given the portfolio breakdown associated with these types of contracts, this resulted in net acquisitions of shares/units in collective investment undertakings (CIU – *organismes de placement collectif*) of EUR 24 billion and net sales of debt securities of EUR 14 billion.

Valuation effects that reflect market uncertainties

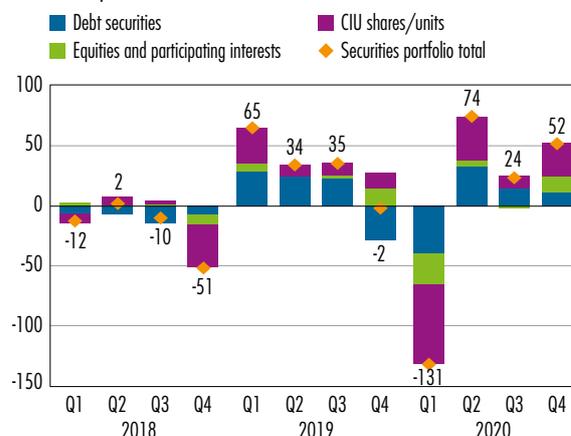
The increase in investment outstandings is also due to changes in securities portfolio valuations, which are influenced by developments in the stock markets and bond markets (see Chart A in Appendix 3) that were

C1 Annual net flows (excluding valuations) of the securities portfolio by type of instrument, before applying the look-through approach
(EUR billions)



Sources: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority) – annual and quarterly Solvency II reporting submissions; Banque de France. Notes: See “Method for calculating flows” in Appendix 2; CIU – collective investment undertaking.

C2 Quarterly valuation of the securities portfolio of French insurers by type of instrument, before applying the look-through approach
(EUR billions)



Sources: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority) – annual and quarterly Solvency II reporting submissions; Banque de France. Note: CIU – collective investment undertaking.



hit by the deep uncertainties created by the health crisis from the first quarter of 2020 onwards.

Overall, in 2020, the fall in interest rates increased the value of the insurers' portfolio, which mainly consists of long-term bonds (the French 10-year Treasury bond – OAT

– rate fell to an annual average of -0.15% during the year). However, sharp fluctuations were observed during 2020, with the value of the securities portfolio dropping sharply by EUR 131 billion during the first quarter, wiping out the gains made in 2019 (EUR 133 billion, see Chart 2 above).

BOX 1

The expanding supplementary occupational pension sector

The Sapin 2 Law of 2016 set down the status of supplementary occupational pension institutions (ORPS – *organismes de retraite professionnelle supplémentaire*), which transposes IORP II (the EU directive on the activities and supervision of IORPs¹) into French legal form. The ORPS legislation means that supplementary pension savings (in addition to statutory pension schemes) can benefit from a more flexible prudential regime than that offered by the Solvency II Directive, particularly in terms of capital requirements. ORPSs fall under the supervision of the *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority).

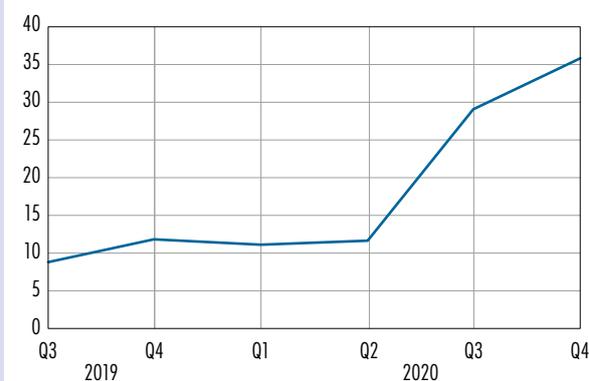
Since their creation, a proportion of insurers' assets relating to retirement savings has been transferred to ORPSs. At the end of 2020, there were eight ORPSs with total assets of EUR 36 billion (see chart) and over 1 million policyholders.

The transfer of assets from the insurance sector to the ORPS sector (which are often subsidiaries of insurers) reduces the holdings of the former while increasing those of the latter. In the case of transfers of assets to new structures authorised as ORPSs, this change is recorded in flows in the ORPS statistics. When the transfer is the result of an insurer transforming fully into an ORPS, it is recorded as a reclassification.

These contract transfers to ORPSs also fall within the framework of the retirement savings reform provided for by the "Pacte"² Law of 22 May 2019 on business growth and transformation, which aims to make long-term savings more attractive and to redirect those savings more towards corporate financing. As a gradual replacement for previous schemes such as Articles 82, 83, 39, Madelin contracts or PERPs (*plan d'épargne retraite populaire* – popular retirement savings plan), ORPSs can offer three new retirement savings products (*plan d'épargne retraite* – PER): an individual PER and two company PERs.

Total assets of supplementary occupational pension institutions (ORPS)

(EUR billions)



Source: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority) – quarterly ORPS reporting submissions under IORP II.

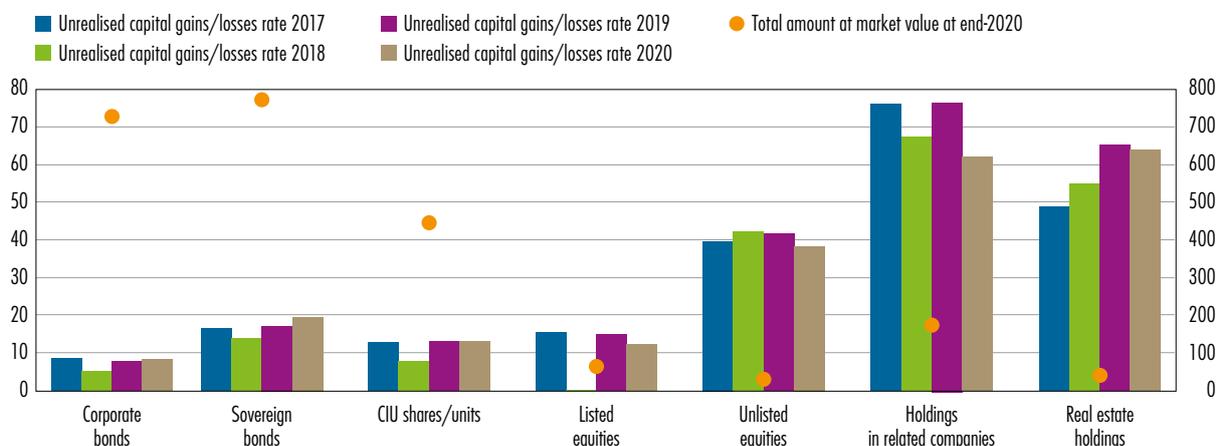
1 Institutions for occupational retirement provision.

2 *Plan d'action pour la croissance et la transformation des entreprises* (Action Plan for Business Growth and Transformation)



C3 Rate of unrealised capital gains or losses since 2017 and main investment amounts at end-2020, before applying the look-through approach to French CIUs

(left-hand scale: rate in %; right-hand scale: amounts in EUR billions)



Source: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority) – annual Solvency II reporting submissions; Banque de France.

Note: CIU – collective investment undertaking.

However, the value of the securities portfolio ended the year slightly up by EUR 19 billion, following gains of EUR 150 billion during the final three quarters that more than offset the first quarter decline of EUR 131 billion. The increase in valuation can be traced to debt securities (up EUR 20 billion during the year), linked to the fall in long-term rates (down 46 basis points on 10-year OATs) as well as to CIU shares/units (up EUR 9 billion) and particularly shares/units in equity investment funds (up EUR 6 billion) as the majority of listed equity held via CIUs was invested in foreign markets. By contrast, the valuation of directly held equities and participating interests dropped by EUR 11 billion in 2020 as they were mostly invested in French stock markets, which by the end of the year had not returned to their end-2019 levels. The CAC 40, for example, was down 7% over the year (see Chart A in Appendix 3).

Despite the crisis, the **unrealised capital gains rate**¹ rose year-on-year by two percentage points in 2020 to 19% for all investments. With sovereign bonds accounting for 34% of the portfolio (excluding unit-linked products and before applying the **look-through approach**), the unrealised capital gains rate on bonds continued to improve, to 14% on average in 2020 (see Chart 3).

Furthermore, the unrealised capital gains rate on listed equities declined by three points to 12% in 2020, which can be partly explained by changes in the CAC 40 (down 7% in 2020 after rising by 26% in 2019). Lastly, after several years of continued growth in the unrealised capital gains rate on tangible fixed assets, in 2020 it remained stable at the very high level of 64%.

The quality of investments has been maintained

French insurers prefer to invest in high-quality bonds with a rating of AA- or better, which accounted for more than half of directly-held rated bonds at the end of 2020 (55%, almost identical to the holding in 2019, see Chart 4 below). However, this proportion is lower, at 24%, for rated bonds held via CIUs.

The proportion of bonds with a rating of less than BBB- rose slightly but remained below 1% of the rated bonds directly held by insurers and increased from 7.0% to 8.5% for rated bonds held via CIUs.

Lastly, despite many bonds being downgraded, there was no mass sale of lower quality instruments. Securities rated AA- or above (levels 0 and 1 in Chart 5 below,

¹ Valuation effects that are not calculated between two quarters but instead are based on the acquisition price are referred to as “unrealised capital gains”.



BOX 2

First half of 2021: net purchases and valuations on the rise

Each year, the *Bulletin de la Banque de France* publishes a study of insurers' investments during the previous year. Quarterly changes in their investments¹ are analysed in *Stat Info* published on the Banque de France website.² *Stat Info* for the first and second quarters of 2021 have already been published, while analyses for the third and fourth quarters will be available on 10 January 2022 and 8 April 2022, respectively.

During the first two quarters of 2021, the securities portfolio recorded net purchases of EUR 12 billion (purchases of EUR 23 billion of CIU shares/units and EUR 3 billion of equity offset by sales of EUR 14 billion of debt securities). Over the same period, the securities portfolio valuation increased by EUR 11 billion, reflecting increases of EUR 35 billion for CIU shares/units and EUR 15 billion for equity (in line with the 17% rise in the CAC 40), and a decrease of EUR 39 billion for debt securities (due to the 48 base-point increase in the 10-year OAT rate).

¹ Differences exist between the methodologies employed in the *Bulletin* and in *Stat Info*. The scope of the *Bulletin* covers all insurers including reinsurers while the *Stat Info* scope excludes reinsurers. *Stat Info* also covers financial investments including derivatives, while the *Bulletin* studies both financial and non-financial investments but excludes derivatives.

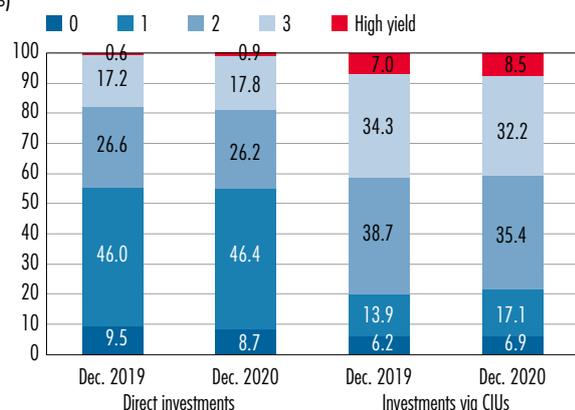
² See <https://www.banque-france.fr/en/statistics/savings-and-national-financial-accounts/other-types-savings-investment-funds-and-insurances/financial-assets-insurance-corporations-france>

see the cross-reference table) accounted for 31% of purchases and 37% of sales (compared with 55% of holdings), while those rated A+ to A- (level 2) accounted for 44% of purchases and 38% of sales (see Chart 5 below).

Furthermore, the net flows represented the equivalent of only 0.01% of investment holdings and therefore had no impact on the rating structure of investments.

C4 Breakdown of rated bond outstandings (directly and indirectly held) by rating, at end-2019 and end-2020

(%)



Level	Ratings	Category
0	AAA	Investment grade
1	AA+ , AA, AA-	
2	A+ , A, A-	
3	BBB+ , BBB, BBB-	High yield
4	BB+ , BB, BB-	
5	B+ , B, B-	
6	CCC+ , CCC, CCC-, CC, C, D	

Sources: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority) – quarterly Solvency II reporting submissions; Banque de France – “Investment funds” data collection.

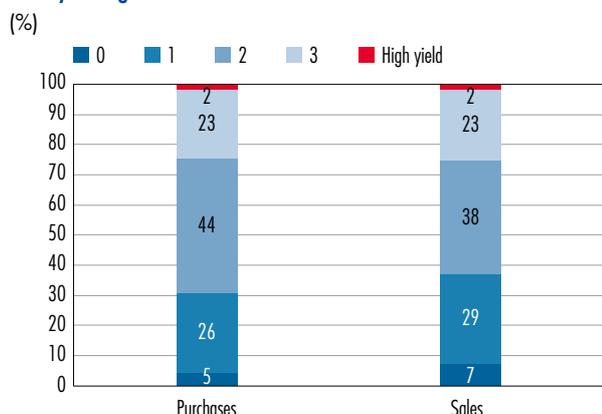
Key: Investment grade bonds, with a rating of between AAA and BBB-, are shown in blue (levels 0 – the most highly rated – to 3); high-yield bonds, with a high level of risk as they are rated less than BBB-, are shown in red.

Notes: Breakdown carried out on securities for which the rating of the securities or issuers could be identified; for direct investments, the coverage rate is 96% at end-2019 and 95% at end-2020; for indirect investments, via collective investment undertakings (CIUs), the coverage rate is identical at end-2019 and end-2020 at 85%.

The look-through approach has been applied to indirect investments (via CIUs), i.e. CIU shares/units have been replaced with the underlying assets held in the CIUs.



C5 Breakdown of purchases and sales of directly held rated bonds by rating in 2020



Sources: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority) – quarterly Solvency II reporting submissions; Banque de France. Key: Investment grade bonds, with a rating of between AAA and BBB-, are shown in blue (levels 0 – the most highly rated – to 3); high-yield bonds, with a high level of risk as they are rated less than BBB-, are shown in red (see Chart 4).

Low liquidity risk despite the crisis

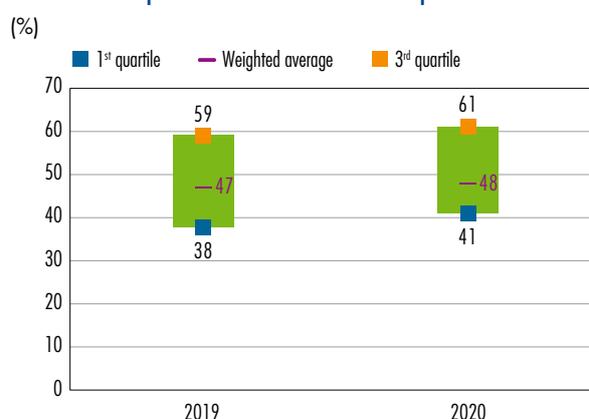
The crisis in 2020 did not affect insurers' liquidity. The share of high-quality liquid assets in total non-unit linked investments (calculated using the methodology used in banking supervision) remained stable between 2019 and 2020 at almost 50% (see Appendix 2).

The share of liquid assets in life insurance portfolios improved slightly between 2019 and 2020 (see Chart 6). On the liabilities side, although a large proportion of life insurance policies can be redeemed at any time, savers generally look to the long term and have not made any redemptions that had a negative impact on undertakings' liquidity.

In non-life insurance, we can assess insurers' liquidity risk by comparing claims over a given period to the amount of high-quality liquid investments held. Indeed, non-life insurance liquidity risks may materialise if claims rise at the same time as premiums fall. In 2020, French non-life insurers' high-quality liquid assets covered the

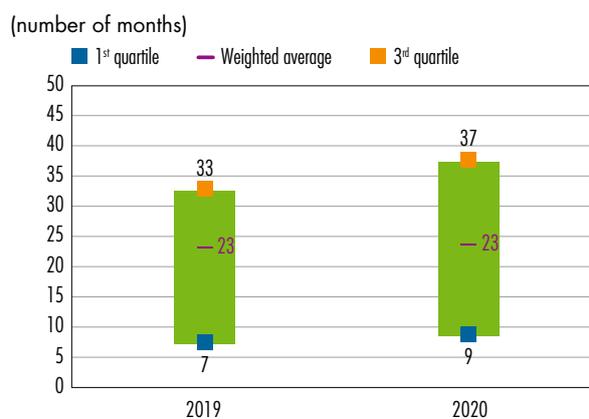
equivalent of approximately 23 months of claims, unchanged from 2019. A large range of claims were untouched by the pandemic, and occasionally, certain types of claims, such as for automobile insurance, actually declined during the crisis. In 2020, half of all non-life insurance undertakings were able to cover nine to 37 months of claims² with the liquidity they already had available (see Chart 7).

C6 Share of liquid assets in the life insurers' portfolio



Sources: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority) – annual Solvency II reporting submissions; Banque de France.

C7 Number of months of claims covered by high-quality liquid assets in non-life insurance



Sources: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority) – annual Solvency II reporting submissions; Banque de France.

2 The inter-quartile differences are due to the different types of risks covered by non-life insurers.



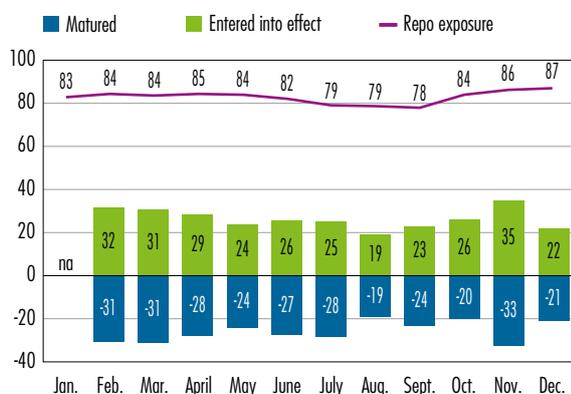
The crisis had no impact on repo and reverse repo transactions in 2020

The Covid-19 crisis raised concerns with regard to insurers' liquidity requirements. By entering into a repo agreement, the insurer lends some of its securities for a fixed period and receives cash in return, whereas in a reverse repo the insurer receives the securities and lends cash in return.

The outstanding exposures on repo transactions remained stable in 2020 at around 6% of the investments of undertakings that carry out this type of transaction (see Chart 8). At its lowest level in September 2020, this exposure fell to EUR 78 billion, before rising to EUR 87 billion at its highest point in December 2020. During the first half of 2020, it remained largely unchanged at around EUR 84 billion. The sharp decline in exposures in July 2020 and then the significant increase in October 2020 were due to extremely focused transactions carried out by certain undertakings, sometimes offset by reverse repos, and were not due to widespread trends in the market. Thus, insurers did not intensify their search for liquidity through repo transactions, and transactions within conglomerates, between bancassurance subsidiaries and their parent banks, were not intended to increase liquidity.

C8 Change in insurance undertakings' repo transaction exposures in 2020

(EUR billions)



Source: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority).
Note: "na" means data were not available.

During the crisis, there was no change in the practices of undertakings that carry out repo transactions. Therefore, between 25% and 41% of repo exposures (between EUR 19 billion and EUR 35 billion) were renewed each month and the amount of new transactions usually offset that of transactions reaching maturity. Some undertakings continued to carry out transactions with a maturity of less than one month and to roll over almost all of their exposure each month, while others continued to carry out transactions over longer periods and to roll over a smaller proportion of their exposure each month.

2 Prudent asset management

Insurers are, by nature, prudent in their asset management, in order to ensure that they can honour their commitments to policyholders. In 2020, these fundamental principles played a key role in the stability of insurers' financial management during the repeated waves of the pandemic.

Insurers diversify their investments by instrument type and sector

The nature of insurers' commitments, particularly related to euro-denominated life insurance contracts that offer a guaranteed return and available capital at all times, determines the type of investments. Insurers must hold sufficiently secure and liquid assets to have rapidly available funds and therefore their asset allocation remains very stable from year to year (see Chart 9 below).

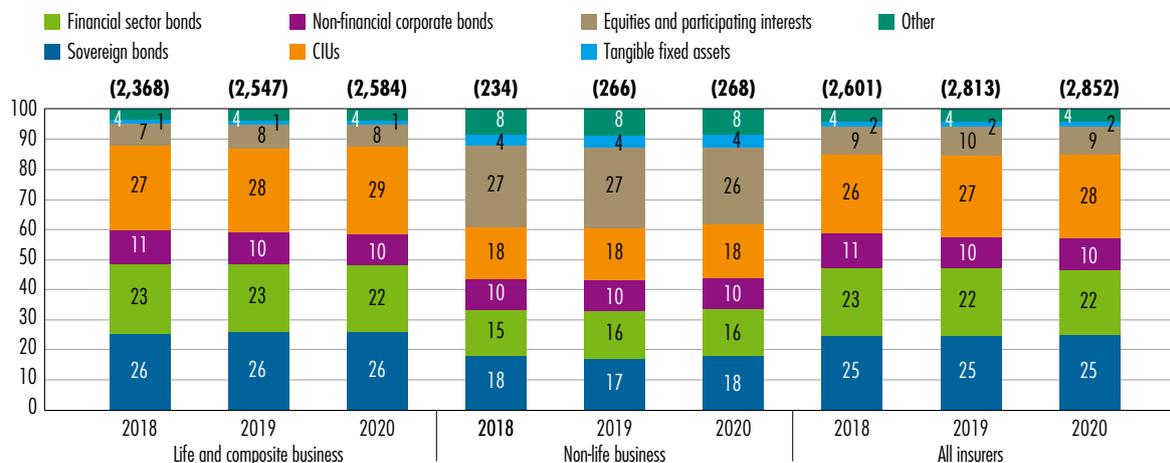
The bonds that form the bulk of insurers' assets (57%) are mainly securities with a maturity of more than one year (EUR 1,605 billion, compared with EUR 26 billion of securities with a maturity of less than one year). The majority are retained to maturity, which limits the impact of shocks such as the health crisis of 2020.

Insurers diversify their investments by instrument type and also by issuing sector in proportions that remain relatively stable (see Chart 10 below). In 2020, the financial sector was still the primary direct counterparty (i.e. when CIUs are not included) with 30% of investments at the end of 2020, compared with 31% at the end of 2019. This is due to the weight of insurers' intragroup



C9 Breakdown of insurers' investments by activity and type of security, at market value at end-2018, end-2019 and end-2020

(breakdown in %; annual amounts in brackets in EUR billions)



Sources: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority) – quarterly Solvency II reporting submissions; Banque de France.

Scope: Before applying the look-through approach to French collective investment undertakings (CIUs) (see Appendix 2).

Applying the look-through approach replaces CIU shares/units with the underlying assets held in the CIUs.

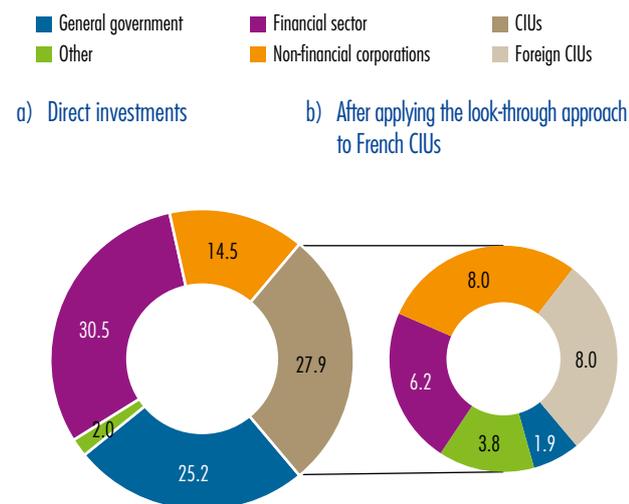
This process identifies the final beneficiaries of the investments made by CIUs.

Notes: The authorisations granted to insurers are used to break down the insurance undertakings into life/composite and non-life activities. Reinsurers are placed in the category of life and composite insurers.

C10 Breakdown of insurers' investments by issuing sector at end-2020

French CIUs, before and after applying the look-through approach

(%)



Sources: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority) – annual Solvency II reporting submissions; Banque de France – “Investment funds” data collection.

Note: CIU shares/units were isolated before applying the look-through approach. The approach was only applied to French CIUs, due to the lack of data on foreign CIU portfolios.

participating interests and the financial sector's prominent share of the bond issuance market (32% in France).

After applying the look-through approach, the predominance of the financial sector was further consolidated (at 37% at the end of 2020, after 38% at the end of 2019) and the relative share of non-financial corporations (23%, after 22% in the previous year) increased by 8 percentage points, in proportions similar to that for the financial sector (up 6 percentage points), showing that CIUs favour these sectors for their investments.

A stable CIU asset allocation (including money market CIUs)

The breakdown of CIU share/unit outstandings remained stable between the end of 2019 and the end of 2020, with proportions unchanged for money market CIUs (11%), bond CIUs (18%) and real estate CIUs (12%). More specifically, concerns that the crisis might heighten liquidity requirements did not result in the sale of money market CIU shares/units. Indeed, between the end of 2019 and the first quarter of 2020, even though CIU



share/unit outstandings declined from EUR 761 billion to EUR 712 billion, money market CIU shares/units increased from EUR 85 billion to EUR 96 billion (see Chart B in Appendix 3).

A stable and prudent geographical diversification of asset allocations

Although the counterparties to French insurers' technical provisions are overwhelmingly French residents (accounting for 99% of life insurance technical provisions at the end of 2020), the counterparties to the securities portfolio on the asset side are geographically diversified. This diversification was operated to a greater or lesser extent depending on the instrument but it remained stable (see Chart 11). At the end of 2020, French issuers accounted for 80% of insurers' investments in equities and participating interests and CIU shares/units, but only half (52%) of their debt securities. The remainder was mainly invested in the euro area outside of France: 29% of debt securities; 14% of equities and participating interests; and 19% of CIU shares/units. The only investments made outside the euro area to any significant degree were in debt securities (19%).

At the end of 2020, even though 80% of French insurers' CIU holdings were French, they were still a

means of geographical diversification because of the underlying securities in which they were invested (in particular listed equities and long-term debt securities). Thus, direct holdings leaned more towards France, while indirect holdings tended towards geographical locations abroad (see Charts C and D in Appendix 3)

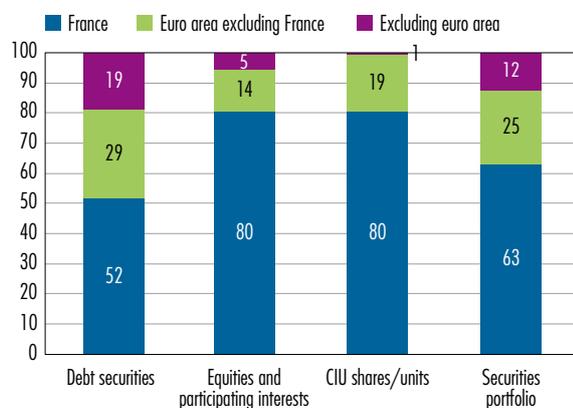
Life and composite insurers: an asset allocation based on contract types

Life and composite insurers' asset management policies are also prudent as they ring fence investments related to unit-linked policies. Isolating these investments from insurers' other investments, such as those linked to their own portfolio or to euro-denominated contracts, reduces their risk of loss. This ring fencing shifts the risk of loss on unit-linked contracts to the policyholder and, above all, means that life and composite insurers can adapt their investments to the different specificities of euro-denominated and unit-linked contracts, to adjust their degree of risk, for example.

At the end of 2020, life and composite insurers' holdings in investments related to non unit-linked contracts, mainly euro-denominated policies, amounted to EUR 2,155 billion (see Chart 12 below), which they match to investments with a regular revenue stream and fixed redemption values, mainly bonds: 68% and 75% of investments before and after applying the look-through approach, respectively. In 2020, the net outflow on euro-denominated contracts thus resulted in annual negative bond flows.

11 Breakdown of insurers' securities portfolio outstandings by type of instrument and issuing area, before applying the look-through approach, at end-2020

(%)



Sources: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority) – quarterly Solvency II reporting submissions; Banque de France.
Note: CIU – collective investment undertaking.

At the end of 2020, investments covering unit-linked contract commitments amounted to EUR 428 billion, which accounted for an increasing proportion of life and composite insurers' investments (16.6%, up from 15.8% at the end of 2019). Unit-linked contracts with no capital guarantee allow for more active management through CIUs and potentially higher returns. Before applying the look-through approach, CIU shares/units accounted for 82% of investment outstandings related to unit-linked products, unchanged from the end of 2019. After applying the look-through approach, equities accounted for 32% (again, unchanged year-on-year) with a further 16% in foreign equity fund shares/units.

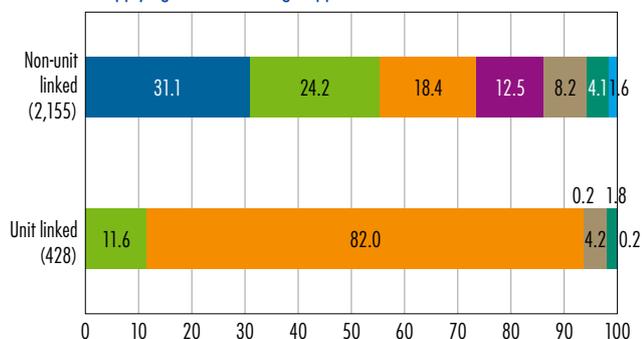


C12 Life and composite insurers' investments at end-2020

(in %; amounts in brackets in EUR billions)

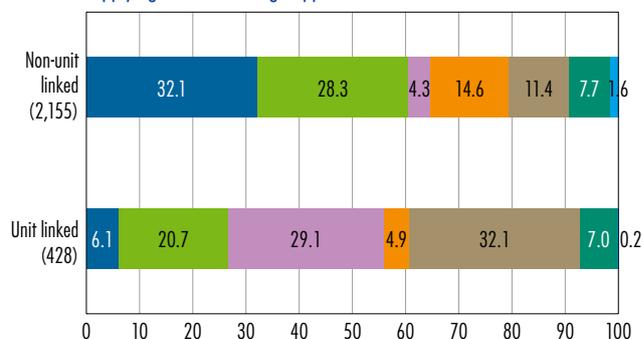
■ Sovereign bonds ■ Financial sector bonds ■ CIUs ■ Foreign CIUs

a) Before applying the look-through approach to French CIUs



■ Non-financial corporate bonds ■ Equities and participating interests ■ Other ■ Tangible fixed assets

b) After applying the look-through approach to French CIUs



Sources: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority) – 2020 annual Solvency II reporting submissions; Banque de France – “Investment funds” data collection.

Note: Applying the look-through approach replaces collective investment undertaking (CIU) shares/units with the underlying assets held in the CIUs.

3 Major structuring challenges

While French insurers may have proven their stability in weathering the crisis, notably thanks to their prudent management, they will also have to face up to structuring challenges in the future.

Persistently low interest rates

The persistently low interest rate environment continues to put pressure on insurance undertakings, which stand to benefit less and less from the high coupon rates on bonds they acquired several years ago. The yield on portfolios is eroded each year as maturing bonds are renewed and part of the premiums collected are invested in securities with a significantly lower or even negative return. From this point of view, the decline in inflows into euro-denominated funds recorded in 2020 could be interpreted as favourable as it limited the dilution of insurers' assets.

The average yield on the bond portfolio of insurers (average coupon rate weighted by outstandings) had decreased by 0.2% a year, on average, since 2016 to 2.5% in 2020. As a result of this downward trend in bond yields, insurers have tended to increase the residual maturity of their security holdings. This rose to 8.2 years in 2020, up from 7.9 years in 2019.

Only 36% of the fixed-coupon bonds held by insurers had a yield of more than 3%, down sharply from 41% at the end of 2019 and 48% at the end of 2018. Furthermore, nearly half of these bonds (17% of fixed-coupon bonds) mature in less than four years (see Chart 13 below).

Lastly, nearly 70% of the fixed-coupon bond portfolio with a residual maturity of more than four years has a yield of less than 3%, compared with 47% for the portfolio with a residual maturity of strictly less than four years.

Diversification of investment flows in a low interest rate environment

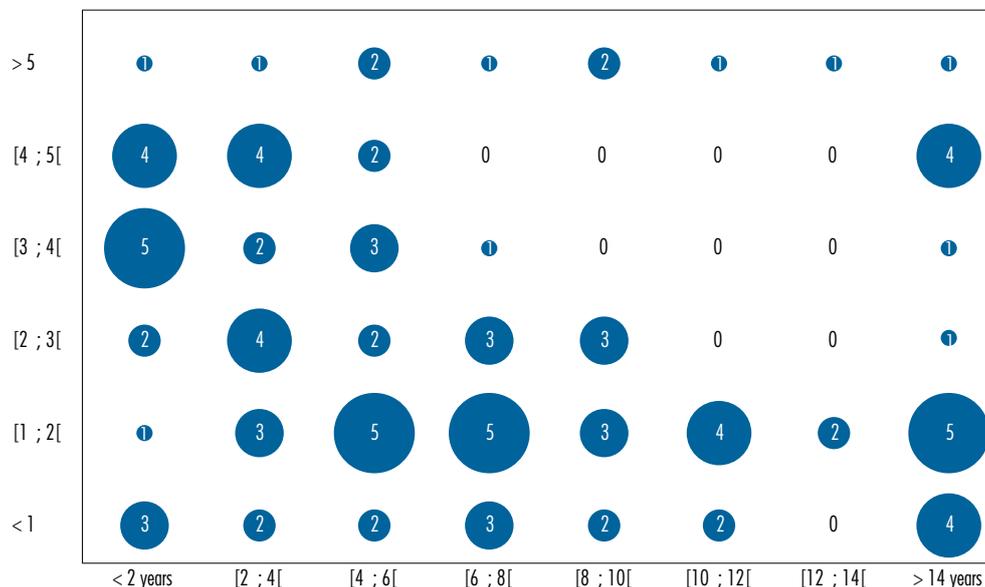
In a low interest rate environment, *diversification assets*, particularly real estate and structured securities, allow insurers to diversify their investments in terms of both instrument type and sector (see table below).

Investments in diversification assets rose particularly sharply by EUR 32 billion over one year (compared with an increase of EUR 39 billion for total investments) and EUR 73 billion over two years to EUR 420 billion at the end of 2020. These increases included net investments and valuation effects and corresponded to growth rates of 8% and 21% over one and two years, respectively.



C13 Share of fixed-coupon rates according to residual maturity for directly held bonds at end-2020

(x-axis: residual maturity in years; y-axis: coupon rate in %; discs: shares in outstandings in %)



Sources: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority) – 2020 annual Solvency II reporting submissions; Banque de France.

Key: Bonds with a coupon rate of between 4% and 5% and residual maturity of less than two years account for 4% of total bond holdings.

Annual change in diversification asset investments before applying the look-through approach

(EUR billions)

	December 2018	December 2019	December 2020
Total investments	2,601.5	2,812.9	2,852.0
Total diversification assets	347.2	387.7	419.8
Infrastructure	34.3	34.6	40.4
Structured finance	86.3	100.8	113.4
<i>Securitisation</i>	4.0	4.4	6.9
<i>Other structured securities</i>	82.3	96.4	106.4
Real estate	173.5	194.1	203.3
<i>Non-negotiable real estate</i>	97.4	107.3	114.4
<i>Negotiable real estate</i>	76.1	86.8	88.9
Other diversification assets	44.2	49.4	54.3
<i>Alternative funds and private equity funds</i>	32.1	33.9	35.6
<i>Convertible and hybrid bonds</i>	12.1	15.5	18.7
Loans to unrelated companies	9.0	8.9	8.5

Sources: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority) – 2020 annual Solvency II reporting submissions; Banque de France.

Diversification assets also accounted for a growing proportion of total investments, increasing from 13.3% at the end of 2018 and 13.8% at the end of 2019 to 14.7% at the end of 2020. In 2020, all types of diversification assets, with the exception of loans to unrelated companies (stable at 0.3%), increased their share in total investments: real estate was up from 6.9%

at the end of 2019 to 7.1% at the end of 2020; structured finance was at 4.0% after 3.6%; other diversification assets rose to 1.9% from 1.8%; and infrastructure increased from 1.2% to 1.4%. Of all the diversification assets, real estate recorded the largest increase in its share of total investments over the four years (7.1% at the end of 2020 after 5.3% at the end of 2016).



Participating in the financing of the economy

Since 2016, the amount of French insurers' investments in French non-financial corporations (NFC) has remained stable at around EUR 320 billion, despite a high of a little over EUR 330 billion in 2017 (see Chart 14), meaning that its share in French insurers' total investments declined slightly from 13% in 2016 to 11% in 2020.

In terms of asset classes, the amounts invested by French insurers in French NFC equity has increased since 2016 (up EUR 26 billion, representing growth of nearly 22%), to the detriment of investments in bonds (down EUR 21 billion or 11% since 2016).

Furthermore, the "Relance" label launched by the Ministry of the Economy in October 2020 enables the certification of investment funds that are committed to rapidly mobilising resources to support the equity and quasi-equity of French companies, particularly SMEs and mid-tier enterprises. It thus encourages the mobilisation of savings to help in the economic recovery (*relance*). At 1 March 2021, with nearly 150 funds certified, the outstandings of these funds, all holders combined, amounted to EUR 13 billion. The majority of these funds are accessible to savers via life insurance in particular.

C14 Change in investments in French non-financial corporations by asset class at market value

(EUR billions)



Sources: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority) – 2020 annual Solvency II reporting submissions; Banque de France.

At the end of the second quarter of 2021, insurers had invested EUR 3.3 billion in *Relance* funds, up 13% from the end of the first quarter (EUR 2.9 billion).

Responding to the challenges of sustainable development: green and socially responsible investments

Since 2015,³ French insurers have been subject to transparency obligations with regard to how their investment policies comply with environmental, social and governance (ESG) criteria. They have to publish non-financial reporting on their efforts to take into account climate-related risk and on the measures taken to contribute to the energy and ecological transition. Insurers are encouraged to steer their investments towards socially responsible products, especially as their long-term perspective fits well with insurers' long-term investment horizon, and savers are increasingly interested in them.

In order to help identify these products, the public authorities created two labels at the end of 2015: an SRI label for socially responsible investment funds and the Greenfin label dedicated to the energy and ecological transition. The Pacte Law of 2018 promotes these labels by requiring insurers, from 2020, to offer at least one SRI, Greenfin or solidarity-labelled product in their unit-linked life insurance offering. From 2022, life insurers will have to reference the three categories in their unit-linked contracts and will have a duty to inform savers, prior to subscription, of the number of certified unit-linked products. For euro-denominated funds, annual reporting disclosing the share of certified funds will also be required.

The French label, *Finansol*, was created in 1997 to help investors identify so-called solidarity products, as it is awarded to solidarity funds involved in social finance or donation activities. Lastly, the identification of green investments is rounded out with Bloomberg's list of **green bonds**, which explicitly state in their issue prospectus that their principal purpose is a green activity. The amounts held in the green bonds and three types of labelled funds noted above only give a minimum value, as more amounts may be invested responsibly in compliance with other, particularly foreign, standards.

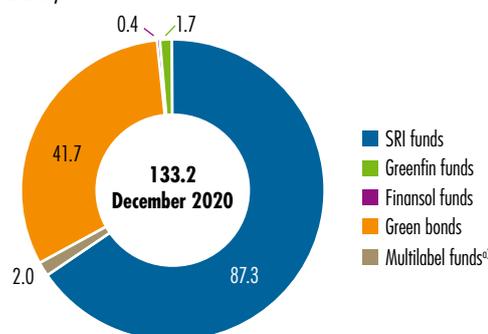
³ Article 173-VI of the French law of 17 August 2015 on Energy Transition for Green Growth.



At the end of 2020, insurers' green, socially responsible and solidarity-labelled investments amounted to EUR 133 billion, up EUR 52 billion compared with the end of June 2020.⁴ Their share in total investments rose to 4.7% at the end of 2020 from 3.1% at the end of June of the same year (see Chart 15). At the end of 2020, two-thirds (66%) of green, SRI or solidarity-labelled assets were SRI certified and almost one-third (31%) were green bonds. Finansol, Greenfin and multilabel funds accounted for 3%. Over two quarters, assets held in funds with at least an SRI certification rose by EUR 44 billion (up 96%). More than two-thirds of this increase was due to new additions to the list of SRI-labelled funds, given the favourable environment created by the Pacte Law. Green bonds held by insurers increased by EUR 7 billion (up 20%).

C15 Breakdown of green bond holdings and Finansol, Greenfin and SRI-labelled fund shares/units before applying the look-through approach

(EUR billions)



a) of which, SRI-Finansol: EUR 0.8 billion; and SRI-Greenfin: EUR 1.2 billion.

Sources: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority) – 2020 annual Solvency II reporting submissions; Banque de France.
Note: SRI – Socially Responsible Investment.

⁴ Outstandings at end-2020 are that of the entire population including annual submissions, while outstandings at end-June 2020 are for quarterly submissions only. In the fourth quarter of 2020, outstandings from quarterly submissions alone amounted to 96.0% of the outstandings of the entire population. The former is therefore a good approximation of the latter.



Appendix 1 Definitions

Diversification assets

Diversification assets include:

- infrastructure investments (including infrastructure funds);
- structured securities, i.e. hybrid securities combining a bond component and a derivative component (hedging mechanisms such as credit default swaps [CDS], credit maturity swaps [CMS] and credit default options [CDO]), as well as securitisation;
- real estate, with a distinction made between negotiable (listed equities of real estate companies and shares/units of real estate funds) and non-negotiable (unlisted equities of real estate companies, shares/units of property investment companies – *sociétés civiles immobilières* – and buildings);
- other diversification assets (shares in alternative funds and private equity funds as well as convertible and hybrid bonds);
- loans to unrelated companies (not belonging to the insurance group).

Green bonds

There is no single internationally accepted definition of green bonds. In order to justify this label, an issuer can refer to the principles laid down by the International Capital Market Association (ICMA) and request validation by an international private body such as the Climate Bond Initiative. The list of green bonds used here corresponds to debt securities for which the main purpose of the funds raised is explicitly mentioned in the issue prospectus as a green activity. A European taxonomy on green activities and a European standard for green financial products are currently being developed.

Unrealised capital gains rate

This represents the difference in percentage between the market value and the net book value of the securities held.



Appendix 2 Methodology

Legal forms of insurers

Insurers take several legal forms:

- insurance companies and mutual insurance companies governed by the French Insurance Code (*Code des assurances*);
- mutual societies governed by Book II of the French Mutual Insurance Code (*Code de la mutualité*), which mainly insure health risks;
- provident institutions governed by the French Social Security Code (*Code de la sécurité sociale*). Historically, provident institutions, which are joint governance structures, have specialised in health and provident risk group insurance (companies or professional branches).

Mutual insurance companies, mutual societies and provident institutions are non-profit structures. Mutual societies and provident institutions essentially insure individuals

Study population

The sample used in the 2020 study includes the 447 active insurers subject to the Solvency II Directive and its implementing legislation (mainly due to the criterion of balance sheet size). They held EUR 2,852 billion in investments at market value at 31 December 2020.

These insurers fall into two categories.

- Life and composite insurers, which manage the bulk of euro-denominated contracts and all unit-linked contracts. Their liabilities are essentially long-term.
- Non-life (or property and casualty) insurers, which cover property damage, personal injury and civil liability. Their liabilities are essentially short term as

generally, with a few exceptions such as civil liability, surety and construction insurance, they settle claims in less than two years.

Study data

The reference closing date is 31 December 2020 and, unless otherwise stated, the investment data used are those taken from annual reporting template S.06.02 ("list of assets"). Investment values are disclosed applying the valuation approach required by the Directive, i.e. mainly market value. Quarterly reporting is also used.

Look-through approach for CIUs

The look-through approach is applied to insurers' shares/units in CIUs using Banque de France databases (mainly investment fund reporting), to identify the final beneficiaries of investments: the CIU shares/units in insurers' portfolios are replaced by the underlying products in which the CIUs invest.

After applying the look-through approach, it was possible to allocate 71% of insurers' investments in CIU shares/units to the various categories of underlying financial instruments. The remaining 29% were invested in non-resident CIUs.

Method for calculating flows

The flows, revaluations and reclassifications are calculated on the basis of data reported by insurers in the detailed asset reporting templates (S.06.02), supplemented by data collected from CIUs and other available reference frameworks (CSDB,¹ etc.). The change in outstandings is broken down into flows (economic transactions), valuation effects (price effects) and reclassifications according to the following formula:

$$\text{Outstandings}_t - \text{Outstandings}_{t-1} = \text{Flows}_t + \text{Valuations}_t + \text{Reclassifications}_t$$

¹ The Eurosystem's Centralised Securities DataBase.



Flows, reclassifications and valuations are calculated on a security-by-security basis and then aggregated. Outliers (in terms of valuation and/or flows) resulting from the calculation are removed.

Flows and reclassifications are calculated initially and valuations are then calculated as the change in outstanding amounts minus flows and reclassifications.

For euro-denominated equities, the formula for calculating flows is as follows:

$$Flows_t = (Quantity_t - Quantity_{t-1}) \times (Price_{t-1} + Price_t) / 2$$

Where $Quantity_t$ is the amount of securities held at time t and $Price_t$ is the security's unit price at market value. For debt securities, flows are calculated as the change in the quantity of securities at an average price net of accrued interest ("clean price") plus interest income for all securities held at the end of the period under review. A negative flow may correspond either to the sale of a security or to the non-renewal of a security that has reached maturity.

When a characteristic of a security changes (e.g. its issuing sector), and in the absence of corrective submissions on previous outstanding amounts, the break in series is managed through a reclassification.

Method for calculating the share of liquid assets

The calculation is based on the standards developed by the Basel Committee on Banking Supervision, within the framework of Basel III, which introduced a liquidity coverage ratio (LCR) to strengthen bank's short-term resilience to liquidity risk. This calculation, used in particular by the European Insurance and Occupational Pensions Authority (EIOPA), is the ratio of unencumbered high-quality liquid assets (HQLA), easily and immediately convertible into liquidity on the private markets in the event of a liquidity crisis lasting three calendar days, to total investments.

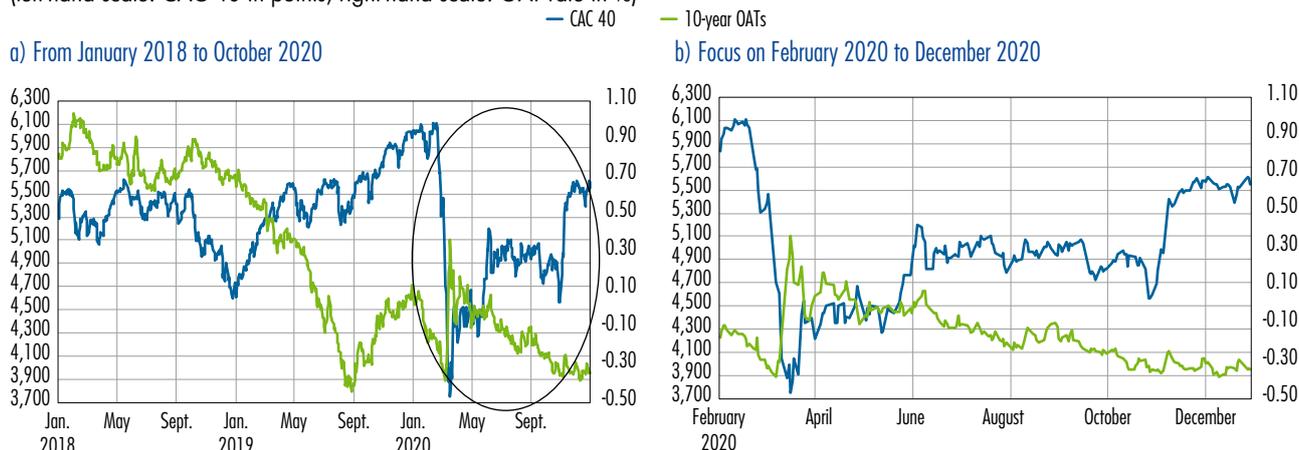


Appendix 3 Additional charts

Valuation effects that reflect market uncertainties

CA Trends in the CAC 40 and 10-year OATs from 31 December 2017 to 31 December 2020

(left-hand scale: CAC 40 in points; right-hand scale: OAT rate in %)



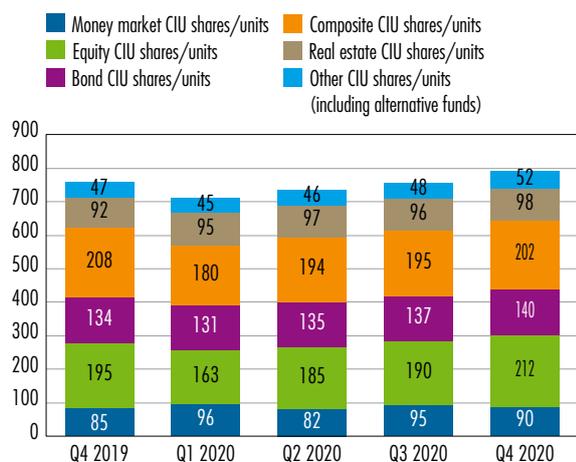
Sources: Bloomberg, Banque de France.

Note: OAT – *Obligation assimilable du Trésor* (French Treasury bonds).

A stable CIU outstandings allocation (including money market CIUs)

CB CIU outstandings by CIU category

(EUR billions)



Sources: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority) – 2020 annual Solvency II reporting submissions; Banque de France.

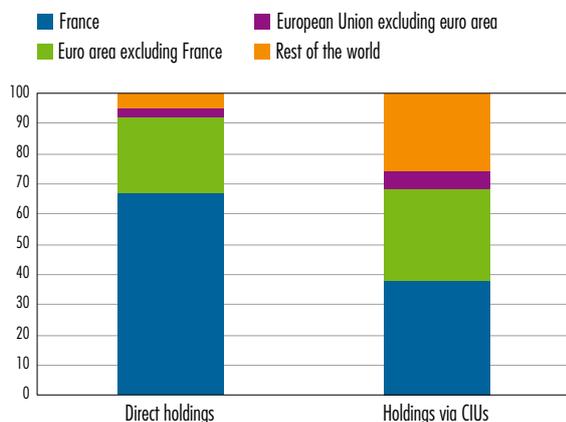
Note: CIU – collective investment undertaking.



A stable and prudent geographical diversification of asset allocations

CC Breakdown by issuing area of listed equities held directly and indirectly via CIUs at end-2020

(%)

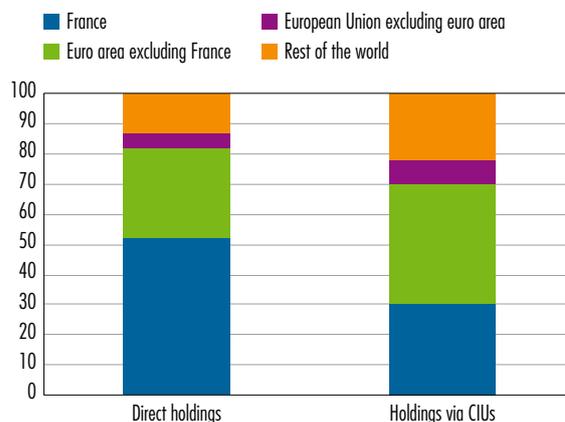


Sources: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority) – 2020 annual Solvency II reporting submissions; Banque de France – “Investment funds” data collection.

Note: After applying the look-through approach, one-third of listed equities are held directly (32%) and two-thirds are held via CIUs (68%).

CD Breakdown by issuing area of long-term debt securities held directly and indirectly via CIUs at end-2020

(%)



Sources: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority) – 2020 annual Solvency II reporting submissions; Banque de France – “Investment funds” data collection.

Note: After applying the look-through approach, 91% of long-term debt securities are held directly and 9% are held via CIUs.

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