

Insurance Europe views on the prudential treatment of mortgage loans under Solvency II

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Executive summary

Insurance Europe supports the existing treatment of mortgage loans under Solvency II. The current treatment is fully justified because:

- It meets the risk-based nature of Solvency II, as it is calibrated on a one-year 99.5% value at risk (VaR), as required by Solvency II Directive.
- Mortgage loans are not traded securities and do not expose the insurer to spread risk.
- It rewards the right risk management motives used by the insurance sector (ie matching principle) and incentivizes insurers to invest in mortgage loans to match their long-term liabilities.
- No evidence has been provided that Solvency II gives insurers an unfair advantage compared to the banking sector.
- The mortgage market operates well and provides consumers with a wide range of mortgage options.

The EC's stated intention to "align" the capital requirements is not justified and should not be taken forward by the co-legislators.

- There are significant differences between the business and funding models of (re)insurers and banks, as well as how their solvency regimes work – in terms of how own funds are determined, the risks covered and how the capital requirements for these risks are determined. An alignment of the prudential treatment of mortgages would fail to capture these differences.
- Under Solvency II, assets and liabilities are valued at their economic value and not at amortised cost as per the banking regime. An alignment on the prudential treatment of mortgage would therefore not be in line with the Solvency II principles.
- The amendment on the treatment of mortgage loans under Solvency II was not included in EIOPA's published opinion on the 2020 review of Solvency II. Therefore, there has been no thorough impact assessment that would support that change.
- Changes based on concerns about arbitrage would only be justified if there is evidence that the current Solvency II approach leads to capital requirements which are too low in relation to the real economic risks and that the actual capital requirements for banks (ie based on internal models as these are most prevalent) are significantly lower than that applied in practice by insurers. We are not aware of evidence of either.
- The mortgage market within Europe is very diverse and further analysis would be needed if amendments are taken forward.



The different business and funding models and prudential regimes of the insurance and banking sectors, the diverse market of mortgages across Europe, as well as the sound current treatment under Solvency II provide no evidence that an amendment is needed.

It is therefore unclear why the EC is now pursuing some form of regulatory alignment of solely mortgage loans, especially considering that the current calibration of mortgage loans is justified by the economics and the risks faced by insurers investing in such loans. The Solvency II mortgage treatment does not provide insurers with any unfair advantage over banks, and it serves its purpose of ensuring a financial security tailored at the insurers' business model.

Introduction

The EC recently communicated its intention to amend the delegated acts on the treatment of mortgage loans with the aim of aligning the calibration of the standard formula counterparty default risk with the credit risk framework of the banking sector. The EC's stated aim is "to avoid any risk of cross-sector regulatory arbitrage". It should be noted that the EC's ambition is in contrast to its initial position¹ stating that a strict alignment of capital requirements in banks and insurance is not appropriate and that a direct comparison is misleading.

In its recent communications to the European Parliament, the European Systemic Risk Board (ESRB) has welcomed the EC's stated intention to better align the prudential treatment of mortgage loans in Solvency II with their treatment under the banking framework (Capital Requirements Regulation (CRR)/Capital Requirements Directive (CRD)). The ESRB has made recommendations to this effect in previous reports.

Insurance Europe considers the current treatment of mortgage loans under Solvency II to be appropriate and takes the view that the "alignment" of the capital requirements for mortgage loans under Solvency II and the Capital Requirements Directive (CRD) would be flawed and contrary to the risk-based nature of Solvency II.

This paper investigates the issue of mortgage loans further by assessing definitions, valuation, the manner in which the capital requirements are calculated and the dynamics due to changes in (economic) variables. It clarifies why there is no need to change the existing approach to mortgage loan capital requirements and why the current treatment does not lead to risks of cross-sector regulatory arbitrage.

Banking requirements on mortgages should not be applied in the insurance sector regime due to the different nature of the business

Banks and insurance companies have different business models. The current treatment and requirements are in line with the use of mortgage loans in the respective business model and subsequent risk profile of each sector.

Based on their business model, insurers use cash flows of mortgage loans to cover their long-term insurance liabilities cash flows (eg long-term life insurance). Mortgage loans are not used for trading purposes or for short-term benefits.

Banks, on the other hand, use mortgages in the interest margin equation (eg to obtain a margin in the funding cost relative to the return generated by mortgage loans) and as part of maturity transformation of short-term liabilities into long-term assets.

In addition to the above, EIOPA has not proposed any changes in the capital requirement of mortgage loans in its published opinion on the 2020 review and has not pursued any rigorous analysis that would justify an alignment between the two regimes.

Treatment of mortgage loans in Solvency II and CRD

Valuation

Insurers and banks are required to value their mortgages loans using different valuation bases, which are:

- Under Solvency II, all balance sheet items, including mortgages, should be measured at their economic value.
- Under CRD, in the majority of cases, banks value their mortgage loans at amortised cost.

Solvency II

In accordance with Article 75 of Directive 2009/138/EC, assets and liabilities on an insurer's balance sheet are valued based on their economic value, which reflects the amount for which they could be exchanged, transferred or settled between knowledgeable willing parties in an arm's length transaction. This means that,

¹ [Solvency II Overview \(europa.eu\)](http://europa.eu)

when adjusting for default risk, (re)insurers must consider all credit losses over the entire lifetime of the mortgage.

All future cashflows are discounted at their present value using an appropriate interest rate curve (ie risk free rates plus a spread) reflecting, amongst others, the default risk and its expected development over time. Therefore, any fluctuations on interest rates and/or spreads would impact the mortgage value, and this would consequently result in more volatile balance sheet and own funds for the (re)insurance sector.

CRD

The CRD requires banks to measure their financial assets based on the accounting approach in their financial statements. When applying International Financial Reporting Standards (IFRS), banks use the following valuation basis depending on the business model and Solely Payment of Principal and Interest (SPPI) assessment: at fair value through other comprehensive income (FVOCI), fair value through profit or loss (FVPL) or at amortised cost. A regular mortgage loan will generally be classified as held for collection, will pass the SPPI assessment and, therefore, be measured at amortised cost. Assets not measured at FVPL should be tested for impairments and, as such, a loss allowance should be calculated for mortgage loans based on their expected credit losses (ECL).

Classification type	Valuation methodology	Allowance for ECL?
Collecting contractual cashflows	Amortised cost	Yes
Collecting and selling contractual cashflows	FVOCI	Yes
Other business model	FVPL	No

Under the general approach, banks shall consider the expected credit losses for the first year of the mortgage, unless the credit risk significantly increases². In that case, the ECL shall be calculated over the lifetime of the mortgage. The ECL of a mortgage loan is based on (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (b) the time value of money; and (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. Therefore, fluctuations in interest rates and spreads will affect the ECL due to discounting, with increasing spread risk leading to higher ECL, but will not impact the amortised cost of mortgage loans. Concluding, the exposure value of mortgage loans classified as hold to collect will be typically below its notional value due to the deduction of (IFRS9/ECL) impairments.

The above indicate that:

- An alignment of the Solvency II treatment of mortgages with the CRD methodologies will be in contrast to the Solvency II principle of valuating all balance sheet items at their economic value.
- Solvency II already captures all expected credit losses that may arise during the lifetime of the mortgage and does not consider the losses only during the first year of the loan, as required by CRD.
- Fluctuations on interest rates and spreads for mortgages can have a direct impact on insurers' balance sheets, while that is not always applicable for banks.

Capital requirements

According to the insurance prudential regime, Solvency II-Delegated Regulation 2015/35, mortgage loans can be subject to counterparty default risk or spread risk, depending on their characteristics. More specifically, when a mortgage loan meets all criteria of Article 191 (2)-(13), then it should be treated as a type 2 exposure within the counterparty default risk module, while under all other cases the mortgage should be stressed under the spread risk sub-module.

² An entity shall compare the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

The different nature of the business models of the insurance and banking sector are reflected in the capital requirements, as these are prescribed in the CRD (Standardised Approach) and Solvency II (Standard Formula):

Solvency II

For insurers the capital requirement for mortgages under the counterparty default risk submodule is determined by a factor-based approach. This is calculated by multiplying the probability of default, which is equal to 15%, with the loss given default (LGD), which is determined by the formula:

$$LGD = \max(\text{Loan} - (80\% * \text{Mortgage} + \text{Guarantee}); 0).$$

Loan denotes the economic value of the mortgage loan, mortgage is the risk-adjusted economic value of the mortgage and guarantee is the amount that the guarantor would be required to pay to the insurer if the obligor of the mortgage was to default at a time when the value of the property held as mortgage was equal to 80% of the risk-adjusted value of the mortgage.

The confidence level used Solvency II is one year 99.5% VaR.

CRD

For banks the capital requirement is calculated as a distinct percentage (at least 8%, depending on the nature of the bank), multiplied by the risk weighted assets. The risk weighted assets are calculated by multiplying the accounting value with a risk weighting. The level of the risk weighting can vary from 35% to 100% depending on whether the criteria of Article 125 of CRD are met.

The confidence level used in the Standardised Approach of Basel III is 99.90% over a 10-day horizon.

A detailed comparison of Solvency II and CRD can be found in Annex II.

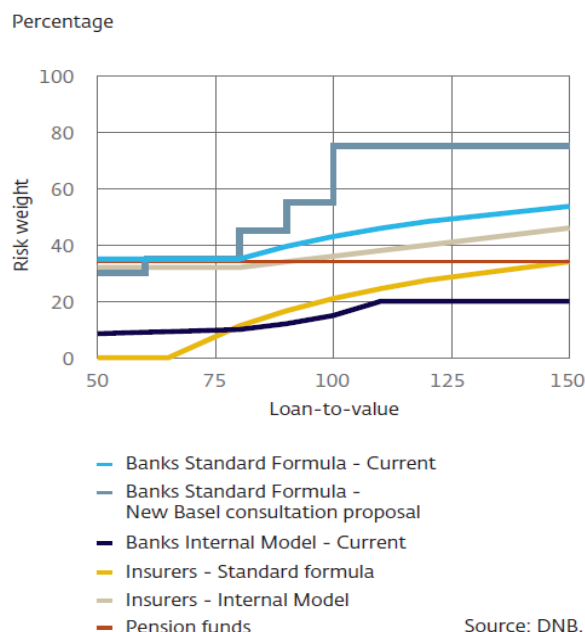
Comparison of capital requirements between banks and insurers

A direct comparison of capital requirements for banks and insurers is not appropriate for the reasons mentioned above.

Nevertheless, to address some of the issues raised by the ESRB, the two analyses set out below, provided by the VVN and DNB, can be assessed. These compare the impact of the different prudential treatment of mortgages for banks, insurers (and Dutch pension funds).

Chart 1:

Capital requirement requirements of mortgages for banks, insurers, and pension funds under the current prudential regimes (source: DNB)



Source: DNB.

Chart 1 shows the output of analyses made by the DNB in 2016 related to the Dutch mortgage market which was used by the ESRB to justify its recommendations to adjust the Solvency II capital requirements. The analysis compares the capital requirements for (re)insurers and banks, converted into risk weights, for different levels of loan-to-value (LTV) ratio under standard and internal approaches.

In its report, the ESRB acknowledges that the banking and (re)insurance sector have comparable prudential regimes as regards the assessment of a counterparty's credit risk. Moreover, (re)insurers and banks must meet the requirements on mortgage credit under Directive 2014/17/EU to be able to provide mortgages to consumers.

The ESRB and some national supervisors argue that the Solvency II capital charges for mortgage loans need to be increased to avoid regulatory arbitrage. The concerns relate to possible movements of mortgage portfolios between banks and insurance companies, or for instance, within bancassurance groups and mixed financial holdings. However, the conclusions of the ESRB are entirely based on a very simplified comparison of the standard formula requirements of banks and insurance companies, disregarding the varying levels of standard formula and internal models usage between insurers and banks.

The main concern raised by the ESRB is that Solvency II standard formula capital requirements for loans with $LTV < 80\%$ can be nil. By referencing that bank capital requirements for these loans as well as insurer internal model requirements for these loans is not nil, the ESRB assesses the Solvency II standard formula to be incorrect.

However, from an economic perspective, the nil capital requirement for counterparty default risk for loans with a low LTV is justified. Where there is sufficient equity (ie a low LTV) in a property on which a mortgage is held, then the loan provider will not suffer financial loss in the event of a default of the mortgage because it will be able to sell the property and recover its money, even if the property is significantly devalued.

The DNB analysis is also not considered to be a sufficiently robust analysis on which to propose changes to the Solvency II framework.

- The analysis only relates to mortgage loans without the Dutch National Mortgage Guarantee (NHG). In its report, the DNB notes that for banks using the standard approach, capital requirements for mortgages with the NHG are substantially lower than for those without. The analysis therefore only assesses part of the Dutch mortgage market.
- In its associated commentary in the source report³, the DNB notes the regulatory treatment "cannot be easily compared as the composition and the nature of the capital requirements varies" for the reasons previously outlined in this paper.
- The DNB's modelling of capital requirements for insurers using an internal model does not include the impact of the dynamic volatility adjustment (DVA) which would be expected to have a large impact on the net capital requirement for the internal model. The risk weights for insurance internal models are therefore not representative of the true capital requirement.

³ De Nederlandsche Bank (DNB), "Loan markets in motion", November 2016

Chart 2:

Capital requirements of banks and insurers under the current prudential regimes for different terms of fixed-interest mortgages (source: VVN)

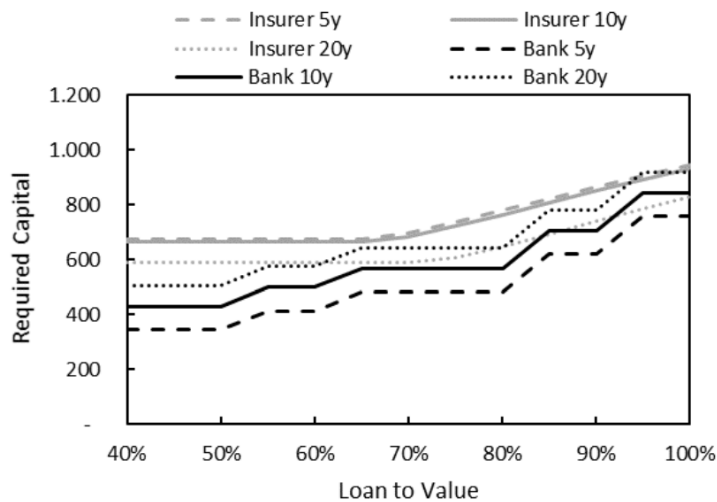


Chart 2 similarly shows how different terms of fixed-interest mortgage would impact the capital requirement of a comparable balance sheet of a hypothetical and stylised bank and insurer⁴. These estimated capital requirements are based on the standard formula and standardised approach. Sensitivity calculations are added, which show how the capital requirements change as the credit quality and the fixed-rate period of the mortgages are changed.

As seen in the graph, under this analysis banks have a higher capital requirement for mortgages with longer-term fixed interest, whereas the opposite holds for insurers whose capital requirement decreases for higher-term mortgages. This can be explained appropriately by the fact that long-term assets, like mortgages, provide a better match for the long-term liabilities of insurers decreasing the exposure to other types of risks, such as interest rate risk. On the other hand, this is not the case for banks that have liabilities of a shorter-term nature, and therefore a long-term asset would not be a good match for their outflows.

Therefore, the existing prudential regimes for the credit risk in mortgages reward the right risk management incentives and are economically justified by the economic structure of the obligations and the nature of the business of both sectors. **As a result, a possible amendment to align the Solvency II mortgage treatment with the banking regime would disincentivize insurers from investing in mortgage loans, would not reflect the nature of insurance business and may not be in line the with Solvency II principles (ie 99.5% VaR).**

The European mortgage market is very diverse and further analysis is required in case of a recalibration of mortgage credit risk under Solvency II

It is difficult to compare the mortgage market across European member states due to the different national and regional regimes and diverse country-specific characteristics. For example, in some countries mortgage loans become a necessity when purchasing a home due to low savings, while this is not the case in other member states where, for example, consumer credit might also be used. In addition to that, the risk profiles of mortgages as well as the existing risk mitigating mechanism, can differ across jurisdictions.

Considering the above, any change in the treatment of mortgage credit risk should be followed by a thorough analysis of the European mortgage market to ensure that no country ends up in a disadvantaged position. This analysis should reflect the different regimes, as well as the complexity of mortgages in Europe.

⁴ Note that the balance sheets of the bank and insurer also involve other risks that can lead to capital requirements, these have been included in the above analysis. Note that the new CRDV/CRR II proposals are used in the analysis.



The EC should not blindly adopt the banking sector’s approach for the mortgage credit risk for insurance companies. In fact, further investigation is needed to capture all of the different features of the European mortgage market.

An overview of the mortgage market in a selection of countries where insurers provide mortgage loans is provided in Annex III.

The low interest rate environment of the last years favours mortgages with longer-term fixed rates

Due to the low interest rate environment following the financial crisis and COVID-19, there is a limited price difference between 10-year rates and 30-year swap rates. This means that the interest rates in the mortgage market are lower, especially for the longer-term fixed interest rates which, as a consequence, become more popular for borrowers who are keen on choosing safety and certainty by fixing their mortgage rate for the long-term.

This increase in demand can lead to a growth in the market share of long-term mortgages and a decrease in the market share of shorter-term loans. The former are those that are more desirable to long-term investors such as insurers and pension funds. This can impact the asset management choices of insurers who can, therefore, increase their investments in mortgages.

Hence, there is a well-functioning mortgage market providing consumers with a variety of choices, and insurers with long-term liabilities should be encouraged to benefit from that trend, and not be penalised by a higher capital requirement.

Annex I: Comparison of in force legislation of Solvency II Delegated Regulation 2015/35 and Capital Requirements Directive 2013/575

Solvency II Delegated Regulation 2015/35	Capital Requirements Directive 2013/575
The exposure shall be either to a natural person or persons or to a small or medium sized enterprise.	In the banking legislation, only a difference between residential and commercial is made.
The residential property is or will be occupied or let by the owner.	Exposures or any part of an exposure fully and completely secured by mortgages on residential property which is or shall be occupied or let by the owner.
The value of the property does not materially depend upon the credit quality of the borrower.	The value of the property shall not materially depend upon the credit quality of the borrower.
The total amount owed to the insurance or reinsurance undertaking and, where relevant, to all related undertakings within the meaning of Article 212(1)(b) and (2) of Directive 2009/138/EC, including any exposure in default, by the counterparty or other connected third party, shall not, to the knowledge of the insurance or reinsurance undertaking, exceed €1 million.	The total amount owed to the institution and parent undertakings and its subsidiaries, including any exposure in default, by the obligor client or group of connected clients, but excluding exposures fully and completely secured on residential property collateral that have been assigned to the exposure class laid down in point (i) of Article 112, shall not, to the knowledge of the institution, exceed €1 million. The institution shall take reasonable steps to acquire this knowledge ⁵ .
The exposure shall be one of a significant number of exposures with similar characteristics such that the risks associated with such lending are substantially reduced.	The exposure shall be one of a significant number of exposures with similar characteristics such that the risks associated with such lending are substantially reduced ⁶ .
The risk of the borrower does not materially depend upon the performance of the underlying property, but on the underlying capacity of the borrower to repay the debt from other sources, and as a consequence, the repayment of the facility does not materially depend on any cash flow generated by the underlying property serving as collateral. For those other sources, the insurance or reinsurance undertaking shall determine maximum loan-to-income ratio as part of its lending policy and obtain suitable evidence of the relevant income when granting the loan.	The risk of the borrower shall not materially depend upon the performance of the underlying property or project, but on the underlying capacity of the borrower to repay the debt from other sources and, as a consequence, the repayment of the facility shall not materially depend on any cash flow generated by the underlying property serving as collateral. For those other sources, institutions shall determine maximum loan-to-income ratios as part of their lending policy and obtain suitable evidence of the relevant income when granting the loan.
All of the following requirements on legal certainty shall be met: (a) A mortgage or charge is enforceable in all jurisdictions which are relevant at the time of the conclusion of the credit agreement and shall be properly filed on a timely basis; (b) All legal requirements for establishing the pledge have been fulfilled; and (c) The protection agreement and the legal process underpinning it enable the insurance or reinsurance undertaking to realise the value of the protection within a reasonable timeframe.	(Article 208) The following requirements on legal certainty shall be met: (a) A mortgage or charge is enforceable in all jurisdictions which are relevant at the time of the conclusion of the credit agreement and shall be properly filed on a timely basis; (b) All legal requirements for establishing the pledge have been fulfilled; and (c) The protection agreement and the legal process underpinning it enable the institution to realise the value of the protection within a reasonable timeframe.

⁵ See article 123 for retail exposures (=residential mortgage part above 80% LTV).

⁶ See article 123 for retail exposures (=residential mortgage part above 80% LTV).

<p>All of the following requirements on the monitoring of property values and on property valuation shall be met: (a) the insurance or reinsurance undertaking monitors the value of the property on a frequent basis and at a minimum once every three years. The insurance or reinsurance undertaking carries out more frequent monitoring where the market is subject to significant changes in conditions; (b) the property valuation is reviewed when information available to the insurance or reinsurance undertaking indicates that the value of the property may have declined materially relative to general market prices and that review is external and independent and carried out by a valuer who possesses the necessary qualifications, ability and experience to execute a valuation and who is independent from the credit decision process</p>	<p>The following requirements on monitoring of property values and on property valuation shall be met: (a) institutions monitor the value of the property on a frequent basis and at a minimum once every year for commercial immovable property and once every three years for residential real estate. Institutions carry out more frequent monitoring where the market is subject to significant changes in conditions; (b) the property valuation is reviewed when information available to institutions indicates that the value of the property may have declined materially relative to general market prices and that review is carried out by a valuer who possesses the necessary qualifications, ability and experience to execute a valuation and who is independent from the credit decision process. For loans exceeding €3 million or 5 % of the own funds of an institution, the property valuation shall be reviewed by such valuer at least every three years</p>
	<p>Unless otherwise determined under Article 124(2), the part of the loan to which the 35% risk weight is assigned does not exceed 80% of the market value of the property in question or 80% of the mortgage lending value of the property in question in those member states that have laid down rigorous criteria for the assessment of the mortgage lending value in statutory or regulatory provisions.</p>

Annex II: High-level comparison of the Standard Formula approach of Solvency II and the Standardised Approach of Basel III

	Standardised Approach-Basel III	Standard Formula-Solvency II
Set of rules	CRD (2013/575), CRR (2013/575)	Solvency II Directive (2009/138), Delegated Regulation (2015/35)
Balance sheet valuation	IFRS (incl. IFRS9/ECL impairments)	Economic value (IFRS fair value is deemed to be an acceptable proxy for financial assets)
Mortgage valuation	Amortized cost (most commonly used)	Economic value
Capital ambition	99.9% based on 10-day horizon	99.5% VaR over one year horizon
Principles of capital requirements	Percentage over Risk Weighted Assets. The minimum percentage is 8% which can be adjusted upwards to reflect macroprudential, systemically relevance and entity specific risk characteristics.	1/200 loss in all identified sub-module of SCR aggregated into one capital requirement.
Capital add-on for large institutions	X%	No
Diversification among risks	No	Yes
Mortgage credit risk	Pillar I	Pillar I, counterparty default risk submodule
Allowance for government guarantee	Yes	No
Interest impact mortgages	Pillar II requirement based on EBA guidelines.	Pillar I under interest rate risk submodule. No prepayment risk other than included in the economic valuation.
Liquidity	NFSR, LCR, Liquidity survival period	No explicit requirement other than existence of liquidity risk management.

Annex III: Characteristics of mortgage markets across Netherlands, Germany, Sweden and Austria

Country	Characteristics
Belgium	<ul style="list-style-type: none"> ■ Most newly issued mortgage loans have a term of 20 to 25 years. ■ Most mortgage loans have a fixed-interest rate. ■ Mortgage loans are almost always held to maturity to offset against long-term insurance liabilities for an appropriate asset-liability management. ■ Mortgage loans are healthy and low risk. Belgian banks and insurance companies adhere to strict recommendations of the NSA regarding LTV limits for Belgian and Luxembourger mortgage loans. Additionally, Belgian banks and insurance companies report on their mortgage loan exposure to the NSA, among others on (indexed) LTV, debt-to-income, loan-to-income, (expected) default as well as on the energy efficiency of the underlying property to take into account potential climate change related transitional risks. ■ The underlying property is covered by an insurance policy with a broad cover. Banks demand that the underlying property has fire insurance. By law, fire insurance covers fire, storm, lightning, explosion, airplane and car/animal crashes and natural disasters (earthquake, flood, overflow or blockage of public drainage, and landslides & subsidence). Generally, fire insurance also covers water damage, burglary, glass break, heat oil pollution etc. Therefore, the risk of a loss of property is nil. ■ The Belgian social security provides a replacement income in case of an inability to work or unemployment, unlimited in time. Additionally, the Belgians regions provide for free a guaranteed income insurance specifically to continue payments of a mortgage loan for a family home.
Netherlands	<ul style="list-style-type: none"> ■ Most newly issued mortgages have a term of thirty years. ■ Most new mortgages have a fixed-interest term of twenty years. ■ Banks are still the largest holder of mortgages (approximately 80% of total volume). ■ Insurers have a market share of around 10% of the total mortgage market, while they were at around 8% in 2014. ■ Mortgage loans are generally held to maturity (so no intermediate sale) or sold at inception to third parties (eg pension funds, banks and private institutional investors), so insurers have no objective to benefit from short-term price fluctuations. Mortgage loans are used as a liability-driven investment category. ■ It is observed that short mortgages often appear on the balance sheet of banks, and longer mortgages with insurers.
Germany	<ul style="list-style-type: none"> ■ Most mortgage loans have a term of thirty years. ■ For some insurers, the contract term and fixed-interest period are the same and accordingly shorter. ■ The fixed-interest term for most insurers is fifteen or twenty years. ■ It is observed that mortgages with a shorter fixed rate interest period (< 10 years) appear on the balance sheet of banks, while mortgages with a longer fixed rate interest periods (> 10 years) are mainly used by insurers. ■ German insurers lend at lower LTVs of between 60-80% of the mortgage value with long-term fixed interest rates and amortisation in order to meet regulatory requirements within the prudent person principle (allocation to the security assets; Sicherungsvermögen). ■ According to the Deutsche Bundesbank, the approximate market share is around 6% for insurance companies and pension funds over the last years. ■ Mortgage loans granted by insurers are generally held to maturity and there is no objective of benefiting from short-term price fluctuations. Mortgage loans are used as a liability-driven investment category.

Austria	<ul style="list-style-type: none"> ■ Loans may only be held to meet the cover requirement pursuant to Article 301 VAG 2016 at a prudent level, and only if they can only be utilised once and are not subordinated. ■ Loans must also at a minimum be of a high credit quality for the purposes of the credit risk assessment pursuant to Article 8 or have adequate collateral. ■ In the case of mortgage loans, the property must be located in Austria or in another member state and be adequately insured against natural hazards and the market value of the property may be mortgaged at up to 60%.
Sweden	<ul style="list-style-type: none"> ■ Swedish mortgages are a new type of investment for Swedish insurers, and it has become more important the recent years. ■ Nearly all Swedish mortgages have a fixed-interest term of less than five years and a large fraction of them has a term of one year or less.

Insurance Europe is the European insurance and reinsurance federation. Through its 36 member bodies — the national insurance associations — it represents all types and sizes of insurance and reinsurance undertakings. Insurance Europe, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers pay out almost €1 000bn annually — or €2.7bn a day — in claims, directly employ nearly 950 000 people and invest over €10.4trn in the economy.