

DENMARK

Key characteristics of the insurance market



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1 Introduction

1.1 General

At the end of 2017 (2017 Q4), 81 insurance companies¹ in Denmark submitted their Solvency II related reporting package to the Danish National Supervisory Authority (NSA). These companies accounted for 3,828% of Total assets of insurance undertakings operating within the European Union (EU).

Table 1 depicts the number of Solvency II reporting submissions in Denmark by insurance activities and the importance of the country within the EU, based on Total assets.

Table 1 - Insurance reporting submissions

Insurance reporting submissions	#
Life undertakings	24
Non-Life undertakings	52
Reinsurance undertakings	0
Composite undertakings	5
Total	81
Total assets DK / Total assets EU %	3,828%
Ranking DK based on Total assets EU	6

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

1.2 Balance sheet

At the end of 2017 (2017 Q4), Denmark was the number 6 country in the EU insurance market in terms of assets held with an amount of 432 billion EUR reported under Solvency II rules.

With regards to the Assets held for index-linked and unit-linked contracts, Denmark ranked number 5 in terms of absolute amount with 149 billion EUR invested in this category. Moreover, with 34,6% of Total assets of this category, Denmark was significantly above the EU average, i.e. 24,3% in terms of Total assets.

In terms of technical provisions, 44,1% of the total balance sheet relates to the life business (i.e. non index-linked and unit-linked business), while 2,4% represented non-life obligations.

¹ In the report, the term 'insurance companies' indicates both direct insurance and reinsurance companies. The insurance market covered in this factsheet therefore refers to insurers and reinsurers.

Table 2 - Solvency II balance sheet (S.02.01) and EU comparison (solo)

in Mio EUR	DK			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Investments, deposits, cash and cash equivalents	250 891	8	58,0%	67,8%	67,3%	22,6%	90,1%	17,2%
Assets held for index-linked and unit-linked contracts	149 426	5	34,6%	24,2%	24,3%	2,5%	59,3%	16,2%
Other assets	31 929	8	7,4%	8,1%	8,4%	2,1%	19,5%	4,9%
Total assets	432 246	6	100,0%	100,0%	100,0%	100,0%	100,0%	0,0%
Technical provisions - life	190 805	7	44,1%	46,3%	32,2%	3,0%	64,2%	17,9%
Technical provisions - non-life	10 251	11	2,4%	6,6%	12,9%	2,4%	38,5%	9,1%
Technical provisions - index-linked and unit-linked	145 583	5	33,7%	25,1%	23,4%	2,4%	58,4%	16,0%
Other liabilities	45 430	5	10,5%	8,9%	9,0%	4,0%	21,3%	3,9%
Total liabilities	392 069	6	90,7%	86,9%	77,6%	49,1%	92,7%	11,1%
Excess of assets over liabilities	40 177	8	9,3%	13,1%	22,4%	7,3%	50,9%	11,1%
Total liabilities + Excess of assets over liabilities	432 246	6	100,0%	100,0%	100,0%	100,0%	100,0%	0,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

The balance sheet item Investments, deposits, cash and cash equivalents will be further detailed in section 3, while section 2 will focus on Assets held for index-linked and unit-linked contracts.

1.3 Solvency II ratios

At the end of 2017 (2017 Q4), the Danish insurance market as a whole had available own funds that were more than triple the Solvency Capital Requirement (SCR) levels required by the European Solvency II Directive. The reported SCR ratio amounted to 290% with long-term guarantee (LTG) and transitional measures, significantly higher than that of the EU, which amounted to 237% at year-end 2017. Out of the 28 EU Member States, Denmark is ranked at the 4th position in terms of the reported SCR ratios.

Table 3 - Solvency II own funds and SCR (S.23.01) and EU comparison (solo)

in Mio EUR	DK		EU				
	Amount	Rank	%	Avg	Min	Max	StD
Total available own funds to meet the SCR	41 245	8	-	-	-	-	-
SCR	14 101	10	-	-	-	-	-
Surplus available own funds	27 145	8	-	-	-	-	-
Ratio of Eligible own funds to SCR	290%	4	237%	225%	135%	361%	52%
Ratio of Eligible own funds to SCR (10th percentile)	170%	2	136%	138%	110%	193%	19%
Ratio of Eligible own funds to SCR (25th percentile)	212%	2	162%	164%	128%	214%	24%
Ratio of Eligible own funds to SCR (50th percentile)	285%	2	215%	208%	144%	300%	37%
Ratio of Eligible own funds to SCR (75th percentile)	367%	3	306%	280%	164%	445%	59%
Ratio of Eligible own funds to SCR (90th percentile)	443%	9	457%	396%	173%	643%	99%
Ratio of Eligible own funds to MCR	737%	7	640%	613%	282%	933%	170%

Source: EIOPA statistics and Deloitte-CEPS analysis

EIOPA's report on long-term guarantees measures and measures on equity risk published on 18 December 2018 mentions the average impact of the use LTG and transitional measures. At year-end 2017, Danish participants reported an SCR ratio of 289% including the application of LTGs and transitionals. Removing the measures caused a significant decrease of the SCR ratio to 263%.²

² https://eiopa.europa.eu/Publications/Reports/2018-12-18%20_LTG%20AnnualReport2018.pdf

2 Investments, deposits, cash and cash equivalents

2.1 Scope

The asset allocation of Danish insurance undertakings is mainly analysed through the reported Solvency II Exposure List (S.06.02). The classification of the Solvency II Balance Sheet (S.02.01) follows the legal nature of the assets in terms of classification, which can differ, from the exposures reporting.

Based upon the comparative view below, amounts reported in the Solvency II Exposure List (S.06.02) and Solvency II Balance Sheet (S.02.01) differ slightly with the latter being higher than the former. This is explained by the fact that some companies reporting under Solvency II are exempted to report the Solvency II Exposure List. The decision to exempt certain companies from particular reporting obligations lies with individual National Competent Authorities. In terms of allocation in percentage, there is a significant shift of 14% from Holdings in related undertakings (including participations and equities) towards Collective Investments Undertakings, when going from Solvency II Balance Sheet to the Exposure list.

Table 4 - Solvency II balance sheet (S.02.01) and Solvency II exposure list (S.06.02) comparison

in number	Exposure list DK		Solvency II balance sheet DK		Difference
	#	%	#	%	#
Life undertakings	24	32,4%	24	29,6%	0
Non-Life undertakings	45	60,8%	52	64,2%	-7
Reinsurance undertakings	0	0,0%	0	0,0%	0
Undertakings pursuing both life and non-life insurance activity	5	6,8%	5	6,2%	0
Total	74	100,0%	81	100,0%	-7

in Mio EUR	Exposure list DK		Solvency II balance sheet DK		Difference
	Amount	%	Amount	%	%
Holdings in related undertakings, incl. participations and equities	30 501	12,2%	65 606	26,1%	-14,0%
Holdings in related undertakings, including participations	n/a	n/a	50 673	20,2%	n/a
Equities	n/a	n/a	14 933	6,0%	n/a
Equities - listed	n/a	n/a	10 720	4,3%	n/a
Equities - unlisted	n/a	n/a	4 213	1,7%	n/a
Collective Investments Undertakings	104 209	41,6%	69 235	27,6%	14,0%
Bonds	100 259	40,0%	101 063	40,3%	-0,3%
Loans and mortgages	5 911	2,4%	5 977	2,4%	0,0%
Property	3 295	1,3%	3 295	1,3%	0,0%
Deposits	1 809	0,7%	2 189	0,9%	-0,2%
Cash and cash equivalents	3 880	1,5%	3 524	1,4%	0,1%
Other investments	2	0,0%	2	0,0%	0,0%
Total	250 713	100,0%	250 891	100,0%	0,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

2.1.1 Listed and unlisted equity

The distinction between listed and unlisted equity is made based upon the reported Solvency II Balance Sheet (S.02.01). Table 5 compares the listed and unlisted equity, whereby Holdings in related undertakings (including participations) are excluded.

³ Some companies reporting under Solvency II are exempted from reporting the Solvency II Exposure List. The decision to exempt certain companies from particular reporting obligations lies with individual National Competent Authorities.

**Table 5 - Listed and unlisted equity exposure based upon Solvency II balance sheet (S.02.01)**

in Mio EUR	DK			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equities - listed	10 720	4	71,8%	83,7%	75,0%	12,8%	99,6%	21,1%
Equities - unlisted	4 213	4	28,2%	16,3%	25,0%	0,4%	87,0%	21,1%
Total equities	14 933	4	100,0%	100,0%	100,0%	100,0%	100,0%	0,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

Based upon the quarterly reporting as of 2017 Q4, Danish insurers invested 71,8% of their directly-held equity positions in listed equity in comparison to an average of 75,0% in the EU. With an amount of 10 720 million EUR, Denmark ranked number 4 in the EU.

With an invested amount of 4 213 million EUR, unlisted equity constituted a significant portion of the equity investment category of the directly-held equity investments, i.e. 28,2%. This placed Denmark as the number 4 in the EU.

2.2 Asset exposure

From an asset exposure perspective, the insurance market in Denmark mainly invested in Collective Investment Undertakings (in total 41,6% of Total Investments, deposits, cash and cash equivalents), Government bonds and Corporate bonds (38,9%), and Equity (12,2%).

Within the bond categories, the insurance market was twice as much exposed to corporate debt (26,9%) than government securities (12,0%), categories for which Denmark ranked number 5 and 8 in the EU, respectively. Comparing the different assets classes, the government bonds asset class shows the highest standard deviation of 18,9%.

The category of Collective Investment Undertakings was the most important for the Danish insurance market in terms of asset exposures. Within this category, the industry was mainly exposed to Debt funds, Equity funds, and Other funds for which Denmark ranked respectively number 3, number 4, and number 2 in the EU.

Equity was the third category to which the Danish insurers had the most exposure. Equity of real estate related corporation constitutes 3,2% within the 12,2% of the total equity exposure.



Table 6 - Asset exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	DK			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equity	30 501	6	12,2%	12,0%	9,5%	1,1%	28,1%	6,5%
Common equity	18 099	7	7,2%	10,4%	7,8%	1,0%	22,5%	6,0%
Equity of real estate related corporation	7 911	3	3,2%	1,0%	1,1%	0,0%	4,0%	1,2%
Other equity	4 491	5	1,8%	0,6%	0,6%	0,0%	2,0%	0,7%
Collective Investment Undertakings	104 209	4	41,6%	19,2%	12,8%	1,5%	41,6%	9,3%
Equity funds	27 259	4	10,9%	3,2%	2,7%	0,4%	10,9%	2,4%
Private equity funds	4 618	2	1,8%	0,5%	0,5%	0,0%	6,9%	1,3%
Debt funds	45 005	3	18,0%	7,8%	5,6%	0,0%	18,0%	4,9%
Money market funds	498	10	0,2%	2,3%	1,1%	0,0%	6,3%	1,6%
Asset allocation funds	45	18	0,0%	1,1%	0,8%	0,0%	3,9%	1,0%
Real estate funds	3 593	6	1,4%	1,6%	0,8%	0,0%	3,3%	0,9%
Alternative funds	2 995	4	1,2%	0,4%	0,3%	0,0%	3,1%	0,6%
Infrastructure funds	2 174	3	0,9%	0,2%	0,1%	0,0%	0,9%	0,2%
Other	18 023	2	7,2%	2,0%	0,9%	0,0%	7,2%	1,7%
Government bonds	30 145	8	12,0%	28,7%	39,7%	10,0%	77,0%	18,9%
Corporate bonds	67 525	5	26,9%	26,9%	21,6%	1,8%	47,3%	11,2%
Structured notes	1 161	7	0,5%	1,3%	0,5%	0,0%	2,5%	0,6%
Collateralised securities	1 428	7	0,6%	0,6%	0,6%	0,0%	9,3%	1,8%
Mortgages and loans	5 911	6	2,4%	4,8%	3,8%	0,3%	26,3%	5,2%
Property	3 295	10	1,3%	2,0%	3,5%	0,8%	11,6%	2,6%
Deposits	1 809	8	0,7%	2,8%	3,6%	0,2%	16,6%	3,6%
Cash and cash equivalents	3 880	10	1,5%	1,4%	4,3%	0,5%	16,6%	3,5%
Other investments	2	12	0,0%	0,1%	0,1%	0,0%	0,9%	0,3%
Not reported	847	1	0,3%	0,0%	0,0%	0,0%	0,3%	0,1%
Total Investments, deposits, cash and cash equivalents	250 713	8	100,0%	100,0%	100,0%	100,0%	100,0%	0,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

2.2.1 Asset exposures between Life, Non-Life and Composite insurance undertakings, and reinsurers

Table 7, based upon the Asset Exposure reporting (S.06.02) of Q4 2017, gives further insight into the investment behaviour of Life, Non-Life and Composite insurers, and reinsurers in Denmark.

**Table 7 - Asset exposures based upon Solvency II exposure list (S.06.02) for Life, Non-Life and Composite insurance undertakings, and reinsurers**

in %	DK			EU		
	Life	Non-life	Composite and reinsurance	Life	Non-life	Composite and reinsurance
Equity	13,1%	20,3%	5,7%	6,6%	18,3%	16,5%
Common equity	7,4%	18,7%	1,7%	5,0%	16,2%	14,9%
Equity of real estate related corporation	3,4%	1,2%	3,3%	1,0%	0,8%	1,2%
Other equity	2,3%	0,4%	0,7%	0,6%	1,3%	0,4%
Collective Investment Undertakings	38,7%	11,5%	64,1%	22,4%	22,3%	13,8%
Equity funds	13,1%	5,0%	6,1%	3,7%	2,9%	2,7%
Private equity funds	2,3%	0,0%	1,0%	0,5%	0,5%	0,5%
Debt funds	9,8%	4,6%	50,4%	9,7%	9,7%	4,7%
Money market funds	0,3%	0,0%	0,0%	2,8%	1,4%	2,0%
Asset allocation funds	0,0%	0,0%	0,0%	1,3%	1,2%	0,9%
Real estate funds	1,5%	0,4%	1,7%	1,6%	1,8%	1,4%
Alternative funds	1,6%	0,0%	0,5%	0,3%	0,3%	0,5%
Infrastructure funds	0,9%	0,0%	1,0%	0,2%	0,2%	0,3%
Other	9,1%	1,5%	3,5%	2,3%	4,3%	0,8%
Government bonds	15,2%	8,7%	3,0%	28,1%	19,1%	33,4%
Corporate bonds	24,4%	52,7%	24,1%	29,2%	29,3%	22,9%
Structured notes	0,7%	0,0%	0,0%	1,4%	0,6%	1,5%
Collateralised securities	0,7%	0,3%	0,2%	0,8%	0,6%	0,5%
Mortgages and loans	3,0%	1,9%	0,6%	7,4%	3,2%	2,3%
Property	1,7%	1,1%	0,1%	2,0%	2,5%	1,7%
Deposits	0,9%	1,3%	0,5%	0,8%	1,6%	5,8%
Cash and cash equivalents	1,2%	2,2%	1,7%	1,0%	2,5%	1,4%
Other investments	0,0%	0,0%	0,0%	0,2%	0,0%	0,1%
Not reported	0,5%	0,0%	0,0%	0,0%	0,0%	0,0%
Total Investments, deposits, cash and cash equivalents	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

At EU level Non-Life insurers invested a significantly higher portion of their Investments in Equity (18,3% equity investments) in comparison to pure Life insurers (6,6% equity investments). In Denmark this difference was approximatively at the same level, and we note that Non-Life insurers invested 20,3% of their assets into this category whereas their Composite and reinsurance and Life counterparts invested respectively 5,7% and 13,1%.

An interesting observation is the contrast in behaviour between Danish Non-Life insurers and their counterpart at EU level with regard to the Corporate bonds: Danish Composite insurers reported 52,7% of their investments in this category, in sharp contrast to the EU level which amounted to 29,3%.

2.3 Equity exposure

Based upon the information included in the Solvency II Exposure List (S.06.02) and Balance Sheet (S.02.01), equity exposures can be calculated and presented in different ways:

- Equity exposure as the sum of Equity (Common equity, Equity of real estate related corporation and Other equity), Equity and Private equity funds, and Equity risk included in structured notes;
- Equity of real estate related corporation could be seen as a property exposure. Therefore equity exposures are presented including and excluding Equity of real estate related corporation;
- The equity amounts of the Solvency II Exposure List does not provide further details as to whether the equity exposures relate to listed or unlisted equity positions. In addition, the Solvency II Exposure List does not mention whether the equity relates to Holdings in related undertakings, including participations;
- Therefore, the listed and unlisted share amounts reported in the Solvency II Balance Sheet are considered and integrated as an equity exposure indicator. A rescaling is performed in case a difference is noted between the two Solvency II information sets (Exposure List versus Balance Sheet). The adjusted equity exposure stemming from this analysis excludes the Equity exposure coming from Holdings in related undertakings, including participations. These holdings can potentially be important within insurance groups.

Table 8 - Equity exposure based upon Solvency II balance sheet (S.02.01) and Solvency II exposure list (S.06.02)

in Mio EUR	DK			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equity	30 501	6	12,2%	12,0%	9,5%	1,1%	28,1%	6,5%
Common equity	18 099	7	7,2%	10,4%	7,8%	1,0%	22,5%	6,0%
Equity of real estate related corporation	7 911	3	3,2%	1,0%	1,1%	0,0%	4,0%	1,2%
Other equity	4 491	5	1,8%	0,6%	0,6%	0,0%	2,0%	0,7%
Collective Investment Undertakings - Equity funds	31 877	4	12,7%	3,8%	3,2%	0,4%	14,7%	3,5%
Equity funds	27 259	4	10,9%	3,2%	2,7%	0,4%	10,9%	2,4%
Private equity funds	4 618	2	1,8%	0,5%	0,5%	0,0%	6,9%	1,3%
Structured notes - Equity risk	954	2	0,4%	0,2%	0,1%	0,0%	0,6%	0,1%
Total Equity exposure	63 332	6	25,3%	16,0%	12,7%	2,5%	37,4%	8,4%
Equity without Equity of real estate related corporation	22 590	6	9,0%	11,0%	8,4%	1,1%	24,1%	6,1%
Equity exposure without Equity of real estate related corporation	55 420	6	22,1%	15,0%	11,7%	2,4%	33,3%	7,9%
Equities market value balance sheet (rescaled to CIC scope)	14 918	4	6,0%	3,6%	3,2%	0,1%	20,6%	4,0%
Equities - listed (rescaled to CIC scope)	10 710	4	4,3%	3,0%	2,6%	0,0%	15,4%	3,2%
Equities - unlisted (rescaled to CIC scope)	4 209	4	1,7%	0,6%	0,6%	0,0%	5,2%	1,0%
Equity exposure based upon (Un)Listed equities (rescaled)	47 749	5	19,0%	7,6%	6,5%	1,2%	29,8%	6,7%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

The observed standard deviations at EU level are relatively high given the asset allocation in percentage between the different asset classes at EU level.

In Denmark, we note that equity exposures coming from Collective Investment Undertakings amount to 12,7% and are higher than the listed and unlisted equity exposures which in total amount to 6%. Hereby the listed and unlisted equities in Denmark are similar to the asset allocation at EU level.



2.3.1 Direct and indirect equity exposure

Table 9 - Direct and indirect equity exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	DK			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Direct equity	30 501	6	48,2%	75,2%	73,4%	39,2%	94,5%	15,9%
Common equity	18 099	7	28,6%	64,8%	59,4%	28,6%	93,3%	19,0%
Equity of real estate related corporation	7 911	3	12,5%	6,4%	8,4%	0,0%	39,1%	9,6%
Other equity	4 491	5	7,1%	3,9%	5,7%	0,0%	35,3%	8,8%
Indirect equity	32 830	4	51,8%	24,8%	26,6%	5,5%	60,8%	15,9%
Collective Investment Undertakings - Equity funds	31 877	4	50,3%	23,6%	25,9%	4,6%	60,6%	15,7%
Equity funds	27 259	4	43,0%	20,2%	22,8%	4,6%	52,9%	13,4%
Private equity funds	4 618	2	7,3%	3,3%	3,1%	0,0%	28,4%	5,7%
Structured notes - Equity risk	954	2	1,5%	1,3%	0,7%	0,0%	4,0%	1,0%
Total Equity exposure	63 332	6	100,0%	100,0%	100,0%	100,0%	100,0%	0,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

In 2017 Q4, the insurance market in Denmark was invested approximately the same in Direct equity (48,2% of Total equity) than in Indirect equity (51,8% of Total equity).

In terms of direct equity exposure, Denmark ranked number 6 in the EU. In terms of Total equity exposure, Denmark ranked number 6 in the EU.

Within the Indirect equity category, Equity funds constituted the bulk of investments with 43% of Total equity, nearly more than 6 times the amount invested in Private equity funds.

2.3.2 Equity by location

Table 10 - Equity exposure by location based upon Solvency II exposure list (S.06.02)

in Mio EUR	DK			
	EU home	EU other	outside EU (1)	Total
Equity	16 339	4 053	10 109	30 501
Common equity	6 151	3 047	8 901	18 099
Equity of real estate related corporation	7 449	276	186	7 911
Other	2 739	731	1 021	4 491
Collective Investment Undertakings - Equity funds	25 924	2 634	3 319	31 877
Equity funds	24 520	1 781	957	27 259
Private equity funds	1 403	853	2 361	4 618
Structured notes - Equity risk	34	0	920	954
Total Equity exposure	42 296	6 688	14 348	63 332
in %	DK			
	EU home	EU other	outside EU (1)	Total
Equity	53,6%	13,3%	33,1%	100,0%
Common equity	34,0%	16,8%	49,2%	100,0%
Equity of real estate related corporation	94,2%	3,5%	2,4%	100,0%
Other	61,0%	16,3%	22,7%	100,0%
Collective Investment Undertakings - Equity funds	81,3%	8,3%	10,4%	100,0%
Equity funds	90,0%	6,5%	3,5%	100,0%
Private equity funds	30,4%	18,5%	51,1%	100,0%
Structured notes - Equity risk	3,5%	0,0%	96,5%	100,0%
Total Equity exposure	66,8%	10,6%	22,7%	100,0%

(1) The following countries are included in the class 'outside EU': IS, LI, NO, AU, CA, JP, US, CH and countries grouped under the caption 'Rest of World'. In addition some investments are not assigned to an individual country and are also included in this class.

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

Based upon the 2017 Q4 reporting with regards to the location of equity investments, insurers established in Denmark favoured domestic investments to a large extent,



dedicating to these 53,6% of their direct equity investments, and 81,3% of their indirect investments.

Table 10 also showed that besides the home market, Danish insurers invested significantly less in equity of other EU Member States than that of non-EU Member States. The United States, the Rest of World and unassigned and the United Kingdom were the preferred destinations.

Table 11 - Direct equity exposure by location based upon Solvency II exposure list (S.06.02)

in Mio EUR	DK	
	Amount	%
Home country	16 339	53,6%
DK	16 339	53,6%
Top 5 countries (outside home country)	11 236	36,8%
US	5 501	18,0%
Rest of World and unassigned	3 094	10,1%
UK	1 202	3,9%
JP	746	2,4%
FR	692	2,3%
Home + Top 5 countries (outside home country)	27 575	90,4%
Total Direct equity exposure (with real estate corporation)	30 501	100,0%

in Mio EUR	DK	
	Amount	%
Home country	8 890	39,4%
DK	8 890	39,4%
Top 5 countries (outside home country)	10 994	48,7%
US	5 429	24,0%
Rest of World and unassigned	3 041	13,5%
UK	1 198	5,3%
JP	737	3,3%
FR	589	2,6%
Home + Top 5 countries (outside home country)	19 884	88,0%
Total Direct equity exposure (without real estate corporation)	22 590	100,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

3 Index-linked and unit-linked investments

3.1 Scope

Based upon the comparative view below, we note a slight difference with respect to the Assets held for index-linked and unit-linked contracts reported in the Solvency II Exposure List (S.06.02) and Solvency II Balance Sheet (S.02.01).

Table 12 - Solvency II balance sheet (S.02.01) and Solvency II exposure list (S.06.02) comparison

in number	Exposure list DK		Solvency II balance sheet DK		Difference
	#	%	#	%	#
Life undertakings	24	32,4%	24	29,6%	0
Non-Life undertakings	45	60,8%	52	64,2%	-7
Reinsurance undertakings	0	0,0%	0	0,0%	0
Undertakings pursuing both life and non-life insurance activity	5	6,8%	5	6,2%	0
Total	74	100,0%	81	100,0%	-7

in Mio EUR	Exposure list DK		Solvency II balance sheet DK		Difference
	Amount	%	Amount	%	%
Assets held for index-linked and unit-linked contracts	146 029	100,0%	149 426	100,0%	-2,3%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

3.2 Asset exposure

Table 13 depicts a more detailed view of the Assets held for index-linked and unit-linked contracts, based upon the Solvency II exposure list (S.06.02).

Table 13 - Asset exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	DK			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equity	29 614	3	20,3%	17,9%	4,5%	0,0%	30,1%	7,1%
Common equity	21 827	3	14,9%	16,5%	3,9%	0,0%	28,8%	6,3%
Equity of real estate related corporation	1 814	3	1,2%	0,8%	0,3%	0,0%	1,5%	0,5%
Other equity	5 974	1	4,1%	0,6%	0,3%	0,0%	4,1%	0,9%
Collective Investment Undertakings	75 961	9	52,0%	64,6%	73,1%	30,1%	97,5%	16,3%
Equity funds	27 617	7	18,9%	27,3%	29,2%	11,2%	57,5%	10,5%
Private equity funds	4 239	1	2,9%	0,2%	0,2%	0,0%	2,9%	0,6%
Debt funds	21 367	6	14,6%	12,2%	19,0%	4,8%	47,5%	11,4%
Money market funds	343	11	0,2%	2,0%	1,7%	0,0%	7,5%	1,8%
Asset allocation funds	609	14	0,4%	14,4%	13,1%	0,4%	30,5%	7,7%
Real estate funds	3 261	3	2,2%	1,4%	0,6%	0,0%	6,2%	1,2%
Alternative funds	13 007	1	8,9%	1,9%	2,4%	0,0%	16,3%	3,8%
Infrastructure funds	3 526	1	2,4%	0,1%	0,1%	0,0%	2,4%	0,5%
Other	1 991	10	1,4%	5,1%	6,9%	0,0%	44,3%	10,0%
Government bonds	8 540	4	5,8%	5,9%	6,9%	0,0%	31,4%	8,4%
Corporate bonds	23 677	2	16,2%	4,5%	6,0%	0,0%	22,7%	6,9%
Structured notes	77	19	0,1%	1,6%	4,1%	0,0%	18,9%	4,9%
Collateralised securities	1 315	2	0,9%	0,1%	0,1%	0,0%	0,9%	0,2%
Mortgages and loans	2 251	1	1,5%	0,3%	0,2%	-3,7%	2,5%	1,0%
Property	2 637	3	1,8%	1,2%	0,6%	0,0%	7,6%	1,5%
Deposits	985	7	0,7%	1,2%	2,0%	-0,3%	14,5%	3,3%
Cash and cash equivalents	947	9	0,6%	1,2%	2,2%	0,0%	8,5%	2,5%
Other investments	0	-	0,0%	0,3%	0,3%	0,0%	8,1%	1,5%
Not reported	27	3	0,0%	1,1%	0,1%	0,0%	2,3%	0,4%
Total Investments, deposits, cash and cash equivalents	146 029	5	100,0%	100,0%	100,0%	100,0%	100,0%	0,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

The categories Collective Investment Undertakings (52,0%), Equity (20,3%) and Corporate bonds (16,2%) represent the most important asset classes of the index-linked and unit-linked investments. Overall, we note a significantly different asset exposure allocation in

comparison to the asset exposure for non index-linked and unit-linked investments. Hereby we refer to section 2 for further details.

3.3 Equity exposure

The Solvency II balance sheet (S.02.01) does not include a further split in different asset classes for the Assets held for index-linked and unit-linked contracts. Hence the rescaling exercise as presented in section 2 cannot be performed here.

Table 14 - Equity exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	DK			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equity	29 614	3	20,3%	17,9%	4,5%	0,0%	30,1%	7,1%
Common equity	21 827	3	14,9%	16,5%	3,9%	0,0%	28,8%	6,3%
Equity of real estate related corporation	1 814	3	1,2%	0,8%	0,3%	0,0%	1,5%	0,5%
Other equity	5 974	1	4,1%	0,6%	0,3%	0,0%	4,1%	0,9%
Collective Investment Undertakings - Equity funds	31 856	7	21,8%	27,6%	29,3%	11,2%	57,5%	10,4%
Equity funds	27 617	7	18,9%	27,3%	29,2%	11,2%	57,5%	10,5%
Private equity funds	4 239	1	2,9%	0,2%	0,2%	0,0%	2,9%	0,6%
Structured notes - Equity risk	3	21	0,0%	1,2%	2,7%	0,0%	15,0%	3,5%
Total Equity exposure	61 474	5	42,1%	46,7%	36,5%	11,7%	58,6%	10,9%
Equity without Equity of real estate related corporation	27 801	6	19,0%	17,1%	4,2%	0,0%	29,2%	6,8%
Equity exposure without Equity of real estate related corporation	59 660	6	40,9%	45,9%	36,2%	11,7%	58,6%	10,8%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

In Denmark, we note that equity exposures related to index-linked and unit-linked contracts are significantly higher in comparison to non index-linked and unit-linked activities. Equity funds and Common equity are the main contributors to the equity exposures.

3.3.1 Direct and indirect equity exposure

Table 15 - Direct and indirect equity exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	DK			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Direct equity	29 614	3	48,2%	38,3%	11,1%	0,0%	54,2%	15,2%
Common equity	21 827	3	35,5%	35,4%	9,6%	0,0%	51,8%	13,2%
Equity of real estate related corporation	1 814	3	3,0%	1,7%	0,7%	0,0%	4,0%	1,1%
Other equity	5 974	1	9,7%	1,3%	0,8%	0,0%	9,7%	2,2%
Indirect equity	31 859	7	51,8%	61,7%	88,9%	45,8%	100,0%	15,2%
Collective Investment Undertakings - Equity funds	31 856	7	51,8%	59,1%	81,5%	45,7%	100,0%	15,5%
Equity funds	27 617	7	44,9%	58,6%	81,0%	44,9%	100,0%	16,0%
Private equity funds	4 239	1	6,9%	0,5%	0,5%	0,0%	6,9%	1,4%
Structured notes - Equity risk	3	21	0,0%	2,6%	7,4%	0,0%	35,8%	9,6%
Total Equity exposure	61 474	5	100,0%	100,0%	100,0%	100,0%	100,0%	0,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

In 2017 Q4, Danish insurers invested more than half of their Assets held for index-linked and unit-linked contracts in Indirect equity (51,8% of Total equity). Direct equity constituted 48,2% of Total equity.

In terms of direct equity exposure, Denmark ranked number 3 in the EU. In terms of Total equity exposure, Denmark ranked number 5 in the EU.

Within the indirect equity category, Equity funds constituted the bulk of investments, amounting to 44,9% of Total equity, whereas allocation to Private equity funds represented only 6,9%.

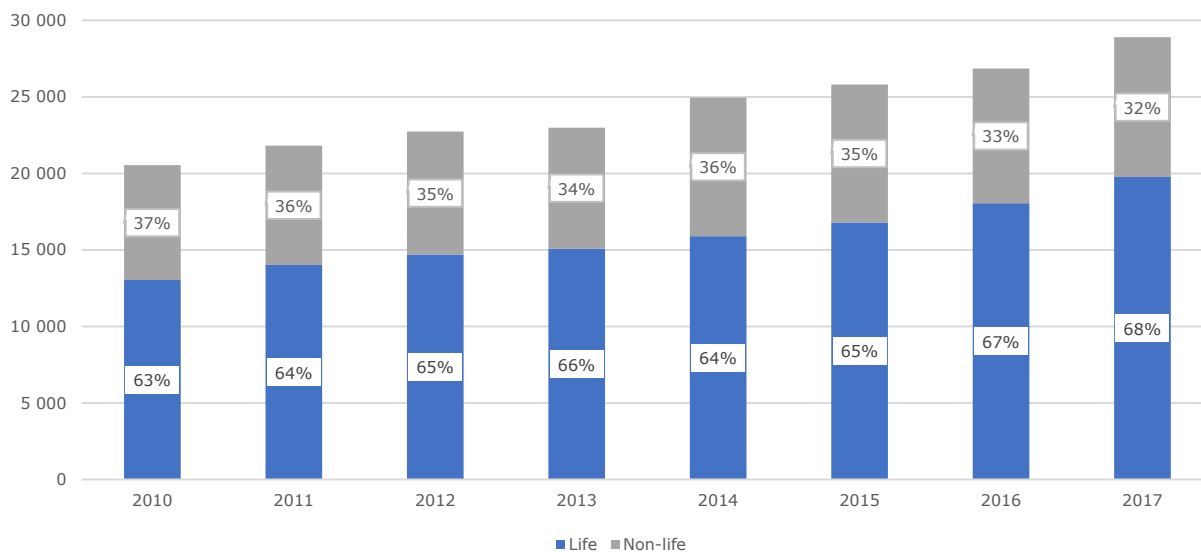
4 Insurance products

4.1 Overview

This section covers the most important insurance products offered in Denmark and the volume of the market. Data reported in this section is obtained from the Danish Financial Supervisory Authority (FSA).⁴

Premiums written by Danish insurance companies have been steadily on the rise since 2010, and grew at an annual average rate of 5,3%. In particular, premium income went up by 40,7% between 2010 (20 530 million EUR) and 2017 (28 898 million EUR). Both segments of the market (life and non-life) contributed towards this development, as both followed an upward trend over the years. Similar to the European insurance market, dominated by the life insurance segment, in Denmark life insurance business accounts for approximately 65%.

Graph 1 - Gross written premiums (in Mio EUR)



Note: Numbers are based on written gross premiums.

Source: FSA

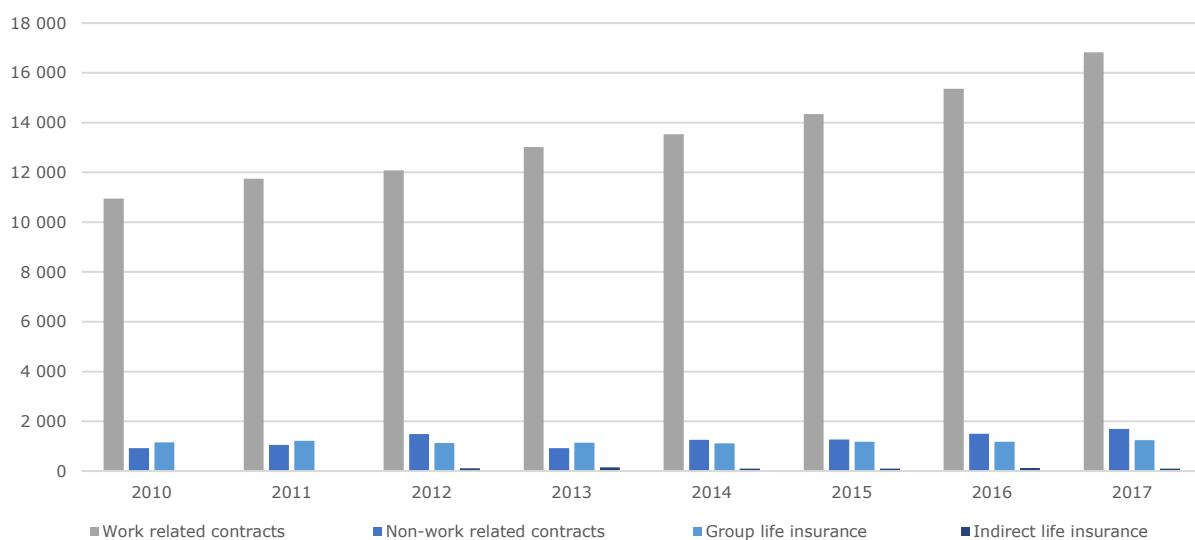
⁴ Available at <https://www.finanstilsynet.dk/Tal-og-Fakta>.

4.2 Life insurance products

Since 2010, gross written premiums have increased by 52,3% and stood at 19 852 million EUR at the end of 2017. Looking at the structure of the market, work related life insurance contracts are the most common products, having a share of 84,7% (or 16 824 million EUR) in total premium income in 2017. Non-work related contracts, while they have gained in importance over the last four years (up by 83,3%), they represent only 8,5% of the life premiums. Other insurance products, such as group life insurance and indirect life insurance, represent a smaller fraction of the market. These accounted for 6.7% of premiums, collectively.

According to the Danish NSA, over the past ten years, there has been a movement towards index-linked products mainly because of the low interest rates environment and the increased longevity, which have put guaranteed products under pressure.

Graph 2 - Gross written premiums for life insurance products (in Mio EUR)



Source: FSA

4.3 Non-Life insurance products

Non-life insurance business represents one-third of the Danish insurance market. Over the last year, premium income increased by 3,9% to 9 138 million EUR. Three segments of the market generate 77,4% of the total income.

4.3.1 Fire and other damage to property

Insurance premiums for fire and other damage to property, which represented 34,6% of the market in 2017, grew by 2,2% to 2 161 million EUR.

4.3.2 Motor

In 2017 motor related premiums increased by 5,1% to 2 761 million EUR and represented 30,2% of the total non-life income. The majority of this income (64.8%) was due to other motor insurance, while the remaining 35,2% was due to motor vehicle third party liability insurance.

4.3.3 Income protection

Income protection was the third most important non-life insurance class and represented 12.6% of the market. Premiums went up by 2,3% to 1 149 million EUR.

4.3.4 Medical expenses

In 2017, medical expenses insurance represented 7,4% of the non-life market, with gross written premiums at 673 million EUR, up by 13,8% to 2016.

4.3.5 General liability

General liability income premiums stood at 413 million in 2017, up by 5% to 2016, and represented 4,5% of the non-life segment.

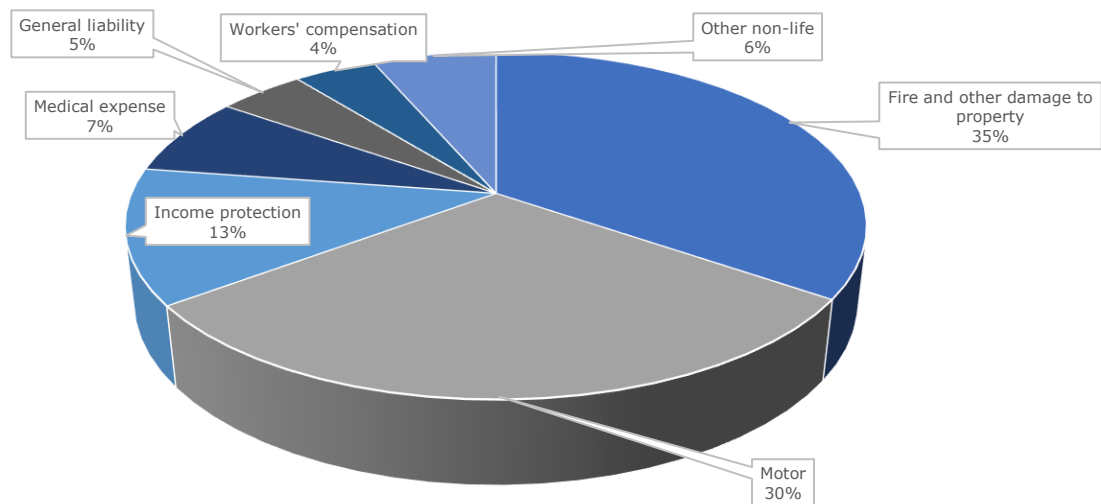
4.3.6 Worker's compensation

In Denmark, worker's compensation insurance accounted for about 4,3% or 389 million EUR of the non-life insurance products premiums.

4.3.7 Other non-life

Other non-life insurance – such as credit and suretyship, financial loss, legal expenses, assistance, as well as marine, aviation and transport – accounted for 6,5% of the non-life premiums, and remained stable at 592 million EUR.

Graph 3 - Allocation of gross written premiums for non-life insurance products (in %)



Note: Motor includes motor vehicle liability insurance and other motor insurance. Other includes credit and suretyship, financial loss, legal expenses, assistance, as well as marine, aviation and transport.

Source: FSA



4.4 Average duration

In 2016, EIOPA published their Insurance Stress Test Report⁵, which resulted in the following conclusions for Denmark:

- The approximate effective duration for the TP life for all lines of business reported by the EIOPA 2016 stress test participants is 16,73;
- The Macaulay duration for the TP life for all lines of business reported by the EIOPA 2016 stress test participants is 17,59.

In comparison, the approximate effective duration and Macaulay duration for the TP life for all lines of business for the EU/EEA are 8,23 and 13,97, respectively.

⁵ EIOPA, 2016, 2016 EIOPA Insurance Stress Test Report. <https://eiopa.europa.eu/publications/surveys/eiopa-bos-16-302%20insurance%20stress%20test%202016%20report.pdf>



5 Accounting & Tax framework

5.1 Accounting framework

The EU has introduced rules, as laid down in Directive 2013/34/EU, to promote the convergence of accounting standards at global level and to ensure consistent and comparable financial reporting across the EU. Regulation 1606/2002/EC requires all listed companies to prepare their consolidated financial statements in accordance with a single set of international standards, the so-called IFRS.⁶

1. Applicable GAAP at consolidated level: IFRS required for all listed companies and permitted for all non-listed companies⁷;
2. Applicable GAAP at statutory level: IFRS required for all listed companies (other than banks) that do not prepare consolidated financial statements and permitted for all listed companies (other than banks) that do prepare consolidated financial statements⁷;
3. Prudential regulatory framework: Solvency II for the calculation of the Solvency Capital Requirement.

5.2 Tax framework

5.2.1 Capital gains on shares

Capital gains derived by corporate shareholders on subsidiary shares, group company shares and unquoted portfolio shares are not taxable and losses are not deductible, irrespective of the holding period. However, capital gains on portfolio shares are taxable at the standard corporate income tax rate (22%), irrespective of the holding period:

1. "Subsidiary shares" are shares which are held by a company and which constitute at least 10% of the nominal share capital of the issuing company (additional requirements if subsidiary is foreign);
2. "Group company shares" are shares where the issuer and the shareholder are subject to Danish tax consolidation or have the possibility to opt for cross-border tax consolidation;
3. "Unquoted portfolio shares" are shares, which are not traded on a regulated market or multilateral trading facility, in a public limited company, a limited company or a comparable foreign company constituting less than 10% of the nominal share capital of the issuing company;
4. "Portfolio shares" are shares not qualifying as subsidiary shares, group company shares or unquoted portfolio shares.

For a non-resident shareholder, capital gains and losses on shares are taxable or deductible if the shares are attributable to a permanent establishment in Denmark and form part of the fixed capital (anlægskapital) of the permanent establishment.

5.2.2 Capital losses on shares

Capital losses on portfolio shares, taxable according to the realization principle, may be set off only against capital gains on other shares that are taxable according to the realization

⁶ https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/financial-reporting_en

⁷ <https://www.ifrs.org/-/media/feature/around-the-world/jurisdiction-profiles/denmark-ifrs-profile.pdf>



principle and not against other capital gains or income. The capital loss of a tax year may be carried forward indefinitely.

5.2.3 Taxation of dividends

Dividends received by a Danish company on subsidiary shares and group shares generally are tax-exempt, whereas dividends on portfolio shares are subject to taxation at the standard corporate income tax rate.

Dividends from unquoted portfolio shares are taxable on 70% of the dividend amount.

Dividends paid to a non-resident state are subject to a 27% withholding tax. For companies, the final rate is 22%, since 5% can be reclaimed. The rate is 15% if the recipient holds less than 10% of the distributing company and the subsidiary is situated in a country with whom Denmark has a tax treaty, international treaty, convention or administrative assistance agreement, providing in the exchange of information.

An exemption is due if the recipient is the beneficial owner of the dividend and owns at least 10% of the share capital of the payer and the EU parent-subsidiary directive applies.

Foreign tax paid may be credited against Danish tax on the same profits, but the credit is limited to the amount of Danish tax payable on the foreign net income.

6 Historical data

The following section contains historical overviews of Solvency I, Solvency II and ECB data in order to provide insights on possible short and long-term trends.

6.1 Index-linked and unit-linked investments in comparison to total assets

Based upon the Solvency I and Solvency II (S.02.01) historical information, the evolution of the index-linked and unit-linked investments in comparison to total assets of Denmark is compared to the EU. The break in Graph 4 shows the transition from the Solvency I to the Solvency II regulatory framework. Under Solvency II assets are presented based upon their market value.

Graph 4 - Evolution of index-linked and unit-linked investments based upon Solvency I and Solvency II



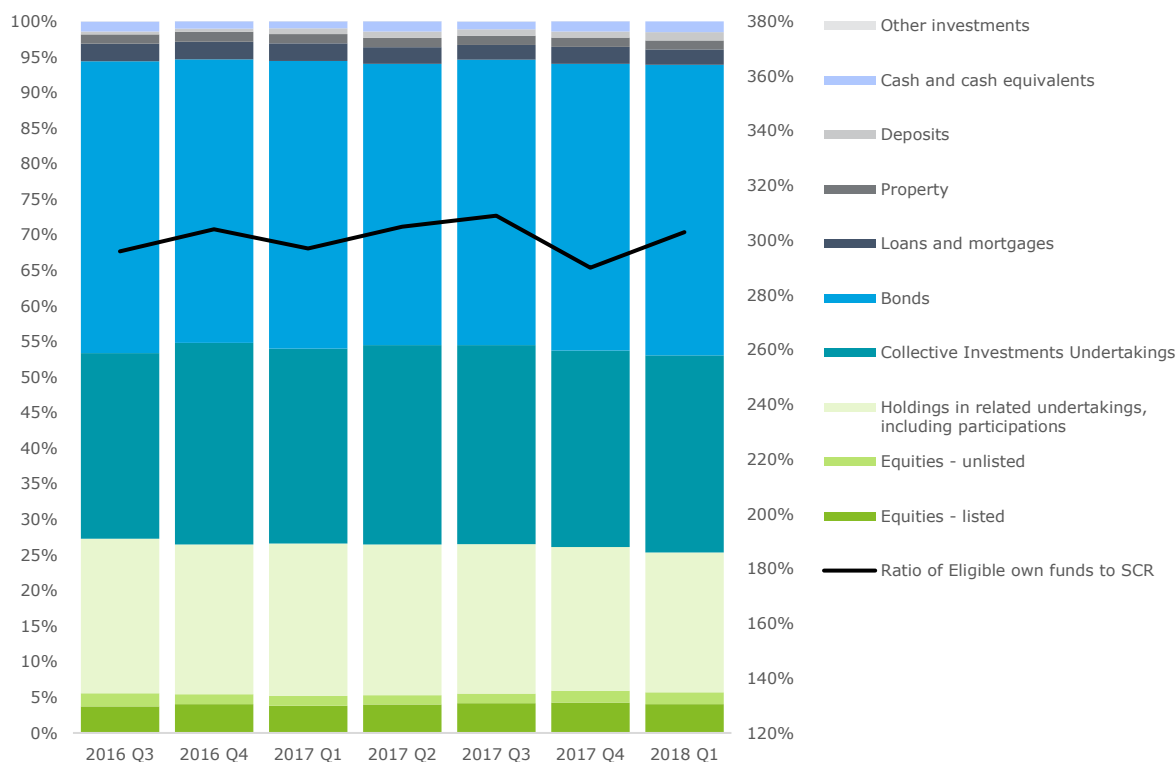
Source: EIOPA Solvency I and Solvency II statistics and Deloitte-CEPS analysis

As shown in Graph 4, the share of index-linked and unit-linked investments in comparison to total assets increases heavily as from 2008. Note that the graph for the EU shows a relatively stable behaviour over the observation period, with a slightly increasing trend as from 2011.

6.2 Solvency II – excluding index-linked and unit-linked investments

Based upon the Solvency II (S.02.01) quarterly data from 2016 Q3 until 2018 Q1, the evolution of the different asset categories is depicted in Graph 5. Furthermore, the evolution of the SCR ratio is shown over the seven quarters.

Graph 5 - Evolution Solvency II balance sheet (S.02.01) items (Total Investments, deposits, cash and cash equivalents) and SCR ratio



Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

The composition of the Danish insurers' balance sheet has remained relatively stable over the quarters since the introduction of Solvency II on 1 January 2016⁸. This seems to be confirmed by the fact that the most dominant assets classes such as Bonds, Collective Investment Undertakings and Holdings in related undertakings (including participations) do not suggest a clear trend whether it be downwards or upwards.

Bonds have constituted the major part of the Danish insurers' balance sheet since the introduction of Solvency II.

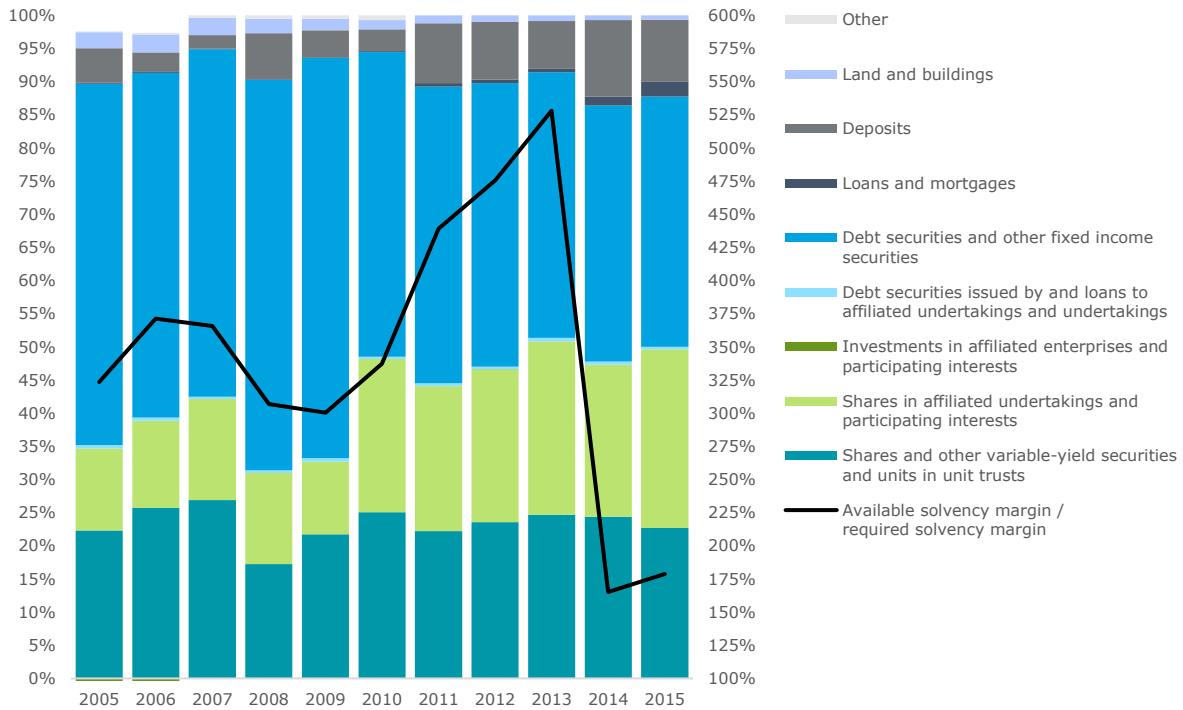
For Denmark, the SCR ratio shows a relatively stable behaviour over the period 2016 Q3 until 2018 Q1. Overall, this trend has not resulted into significant changes in the asset allocation of the overall Danish insurance market.

⁸ Day one reporting, 2016 Q1 and Q2 are not publicly available

6.3 Solvency I – excluding index-linked and unit-linked assets

Based upon the Solvency I yearly data from 2005 until 2015, the evolution of the different investment asset categories is depicted in the Graph 6. Furthermore, the evolution of the solvency ratio is shown over the history.

Graph 6 - Evolution Solvency I balance sheet items (Total Investments, deposits, cash and cash equivalents)

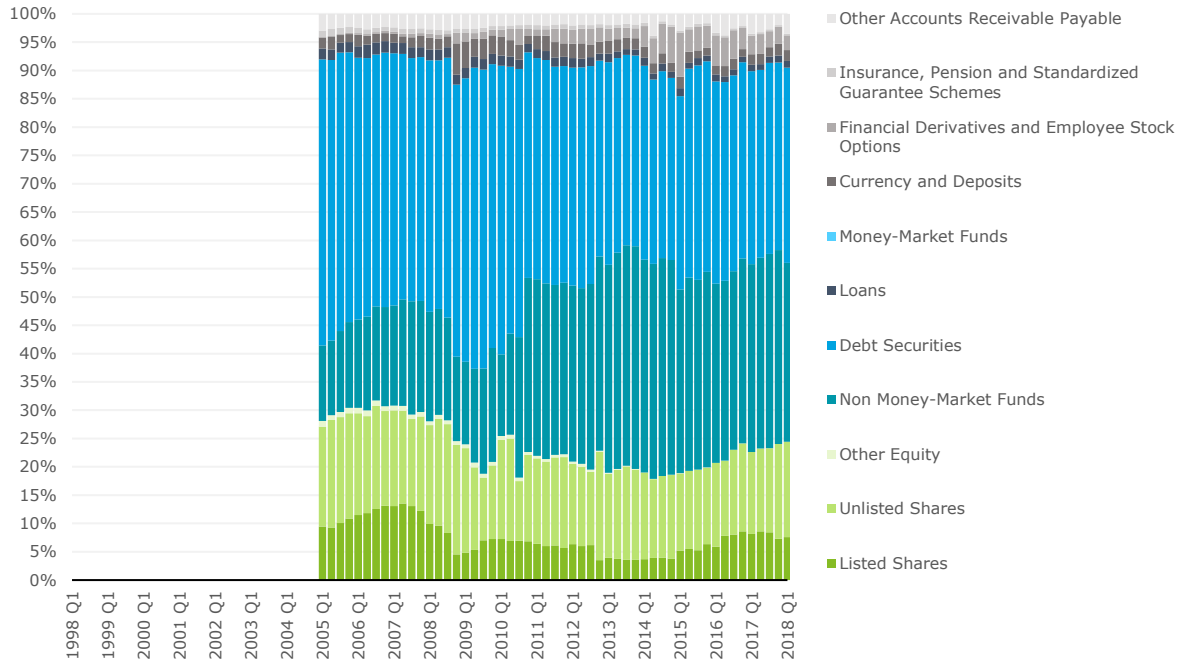


Source: EIOPA Solvency I statistics and Deloitte-CEPS analysis

Graph 6, which relates to Solvency I figures suggests the following observations. The dominance of Bonds that we observed under the rules of Solvency II has been a characteristic of the Danish insurers' balance sheet for more than a decade. Furthermore, note that the solvency ratio showed a very significant drop from 2013 to 2014.

6.4 European Central Bank – including index-linked and unit-linked assets

Graph 7 - Evolution ECB balance sheet items (asset categories)



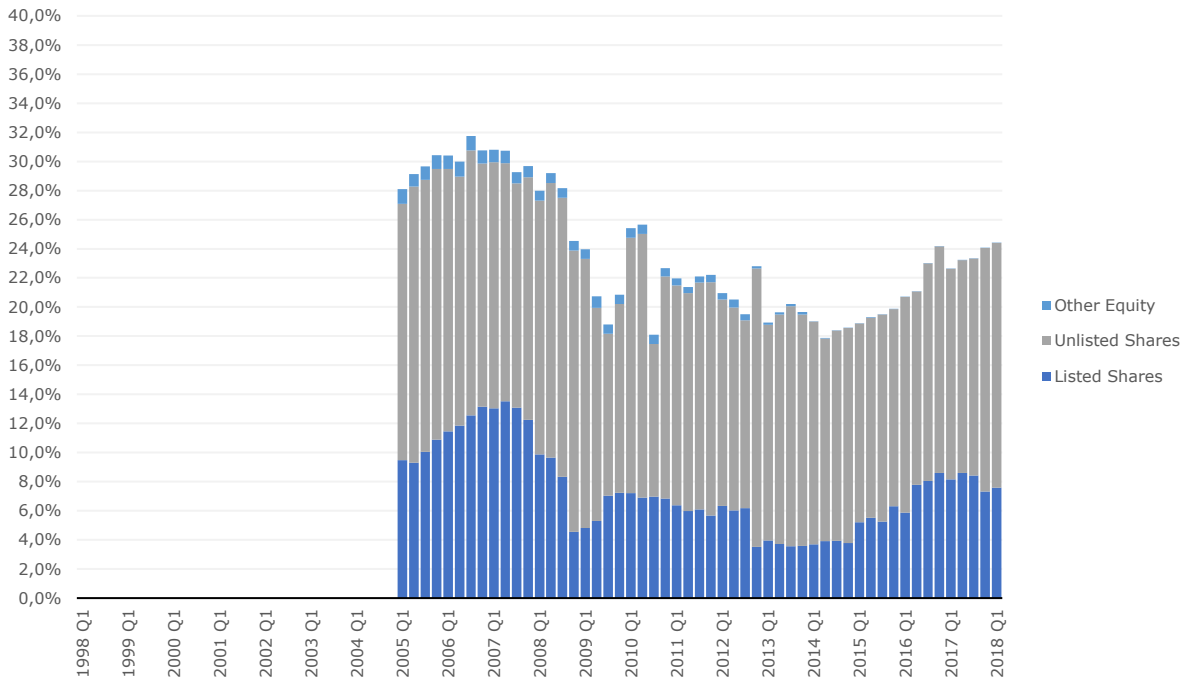
Source: ECB Statistical Data warehouse and Deloitte-CEPS analysis

Graph 7 relates to figures of investments by Danish Insurers since 2005 Q1 as reported by the ECB. It can be observed that the dominance of bonds in the investments which is observed in Solvency I and II (see graphs above) is confirmed as a long-standing characteristic of Danish insurers. However, over the last years, there is an increasing importance of the Non Money-Market Funds.

On the next page, the Equity asset classes are presented in a more detailed view. Furthermore, the evolution of the listed shares (normalised to a start value of 100) of Denmark is plotted against the aggregated EU data.

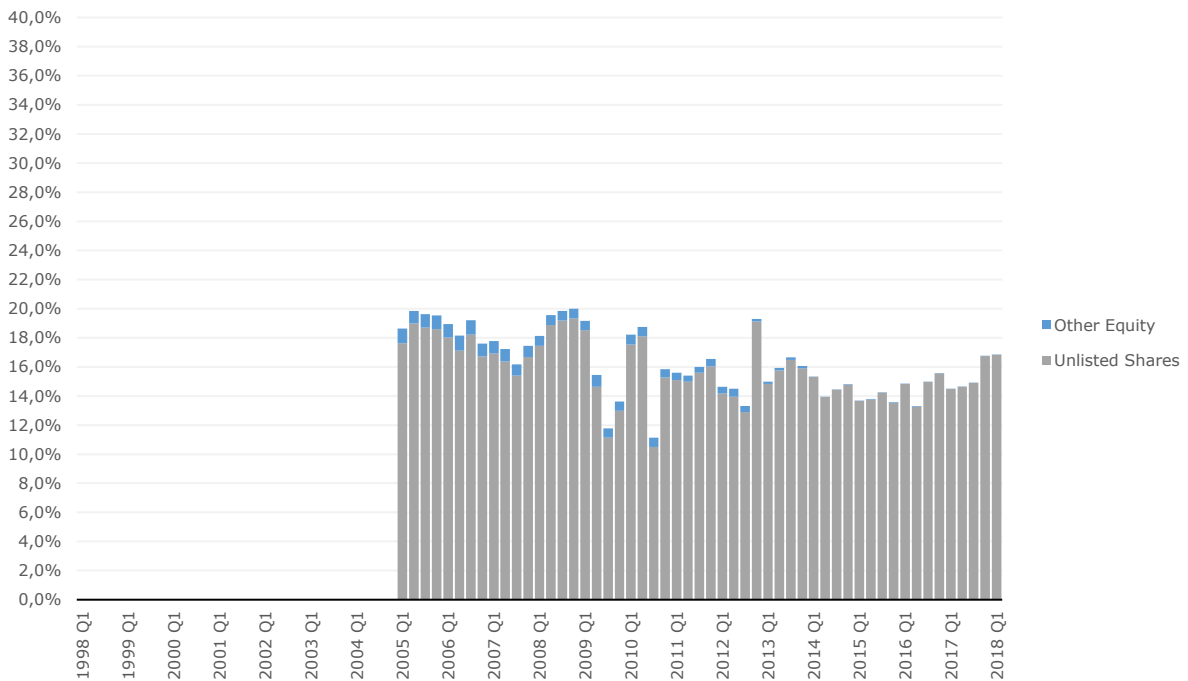
We remark that these graphs include index-linked and unit-linked assets which cannot be individualised from the figures published by the ECB.

Graph 8 - Evolution ECB balance sheet items (equity categories)



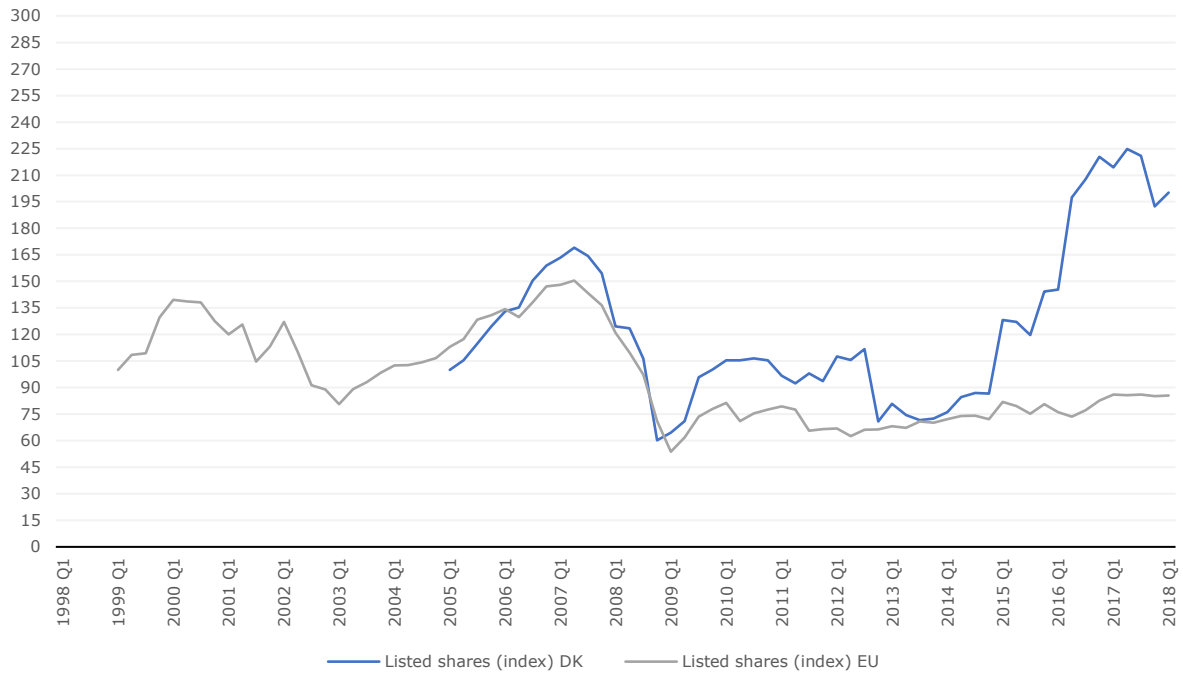
Source: ECB Statistical Data warehouse and Deloitte-CEPS analysis

Graph 9 - Evolution ECB balance sheet items (Unlisted Shares and Other Equity)



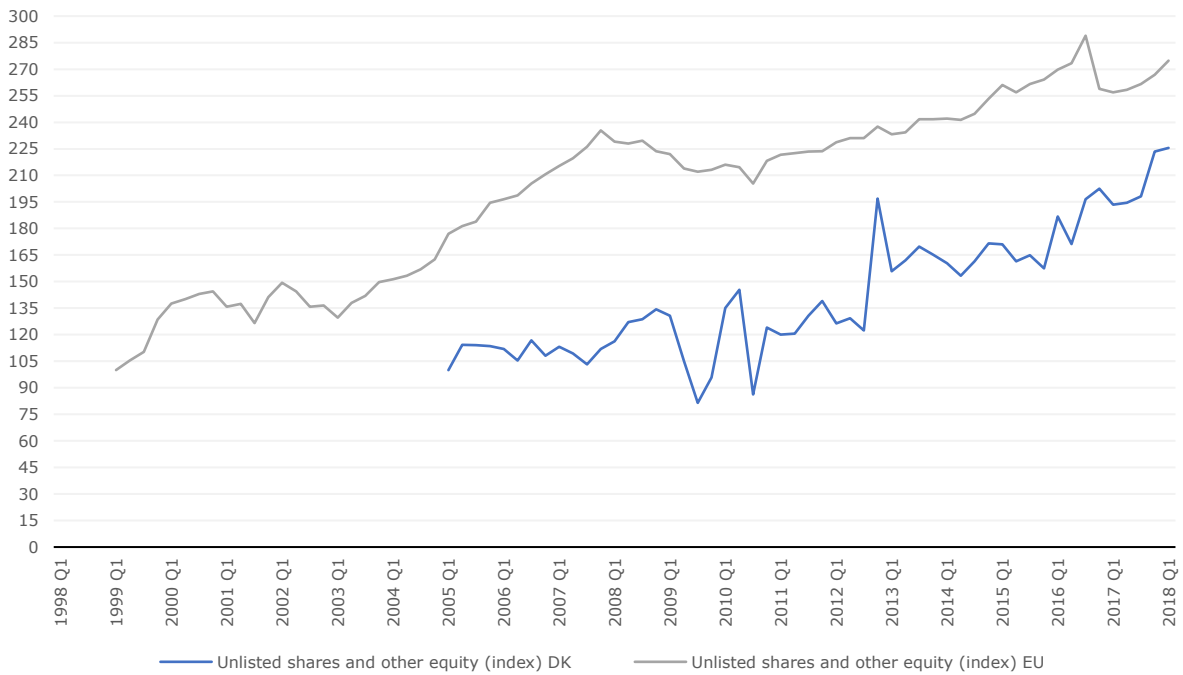
Source: ECB Statistical Data warehouse and Deloitte-CEPS analysis

Graph 10 - Evolution ECB listed shares DK and EU (as index)



Source: ECB Statistical Data warehouse and Deloitte-CEPS analysis

Graph 11 - Evolution ECB unlisted shares DK and EU (as index)



Source: ECB Statistical Data warehouse and Deloitte-CEPS analysis



6.5 Trends in Equity Investments

This section provides a trend analysis of the equity investments of the Danish insurers using the balance sheet data of the insurance sector from the ECB Statistical Data warehouse. Given the availability of the equity split in the ECB database, the analysis focuses on investments in listed shares and investments in unlisted shares and other equity.

6.5.1 Listed Shares

In the analysis below, the listed shares of insurance corporations are plotted against the total assets in the industry both in amounts and in indexed values. The aim of this comparative analysis is to understand the evolution of listed shares in the overall insurance market. Similarity of the growth patterns in the listed shares and total assets can be considered as an indication of the extent to which the equity investments are driven by a good (or bad) economic environment in the industry at a certain point in time. A presentation of the variables only in amounts might dilute the magnitude of the growths for countries with large assets because in such a representation, the listed shares will be overstated. Therefore, we also plot each series as indexed to the initial point in their available history.

In the next step, we focus on the relationship with the listed shares and stock market indices. The ECB QSA balance sheet items are valued at market prices at the end of each quarter. Therefore, it is plausible to assume that the changes in the stock prices are reflected on the amounts held in listed shares. In order to remove this “price effect” from the observed amounts of listed shares and approximate the “real” amounts held in shares, we consider adjusting the observed amounts in listed shares. Even though we observe high correlations with listed shares and several stock indices, since the exact destinations of the portfolio invested in listed shares at each period is not observable, we build a “Weighted Equity Index” similar to the EIOPA Equity Dampener.

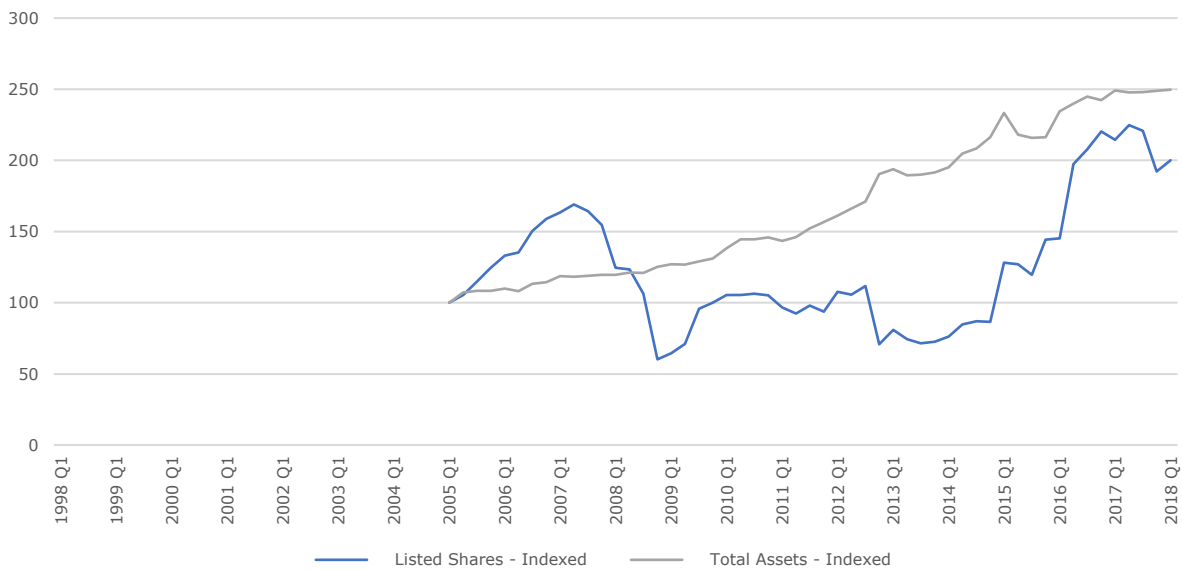
Amounts invested in listed shares and the total amount of assets of the insurance sector are plotted in Graph 13 while the indexed values of the series are presented in Graph 14. In the first graph, we observe a long-term upward trend in the investments in listed shares during the whole observation period (i.e. 2005 Q1-2018 Q1), however, we observe that the investments declined during the Global Financial Crisis. On the other hand, we also observe that the overall growth in the total assets is larger than the growth of the investments in listed shares.

Graph 12 – Evolution of Listed Shares and Total Assets (in Mio EUR)



Source: ECB Statistical Data warehouse and Deloitte-CEPS analysis

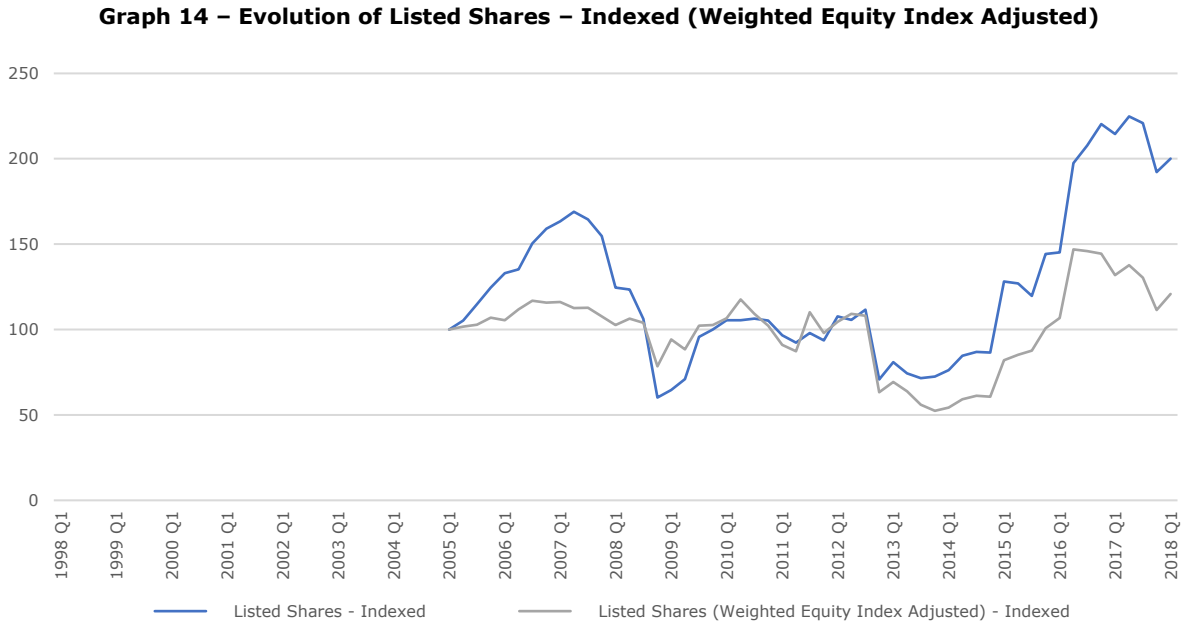
Graph 13 – Evolution of Listed Shares and Total Assets (indexed values)



Source: ECB Statistical Data warehouse and Deloitte-CEPS analysis

Graph 15 presents the indexed values of the amounts invested in listed shares against its Weighted Equity Index adjusted counterpart. On this graph we observe a long-term upward trend in the adjusted investments of the Danish insurers over the observation period (i.e. 2005 Q1 – 2018 Q1). The most significant drops in the adjusted investments are 24,5% and 41,5% in 2008 Q4 and 2012 Q4 respectively. The adjusted investments recover after both decreases, however, the recovery takes more time after the second drop. The value of the indexed adjusted values increases to 146,9% in 2016 Q2 and start to decrease after

this quarter. The index value drops to 111,4% in 2017 Q4 and closes the observation period with 120,7%.



Source: ECB Statistical Data warehouse and Deloitte-CEPS analysis

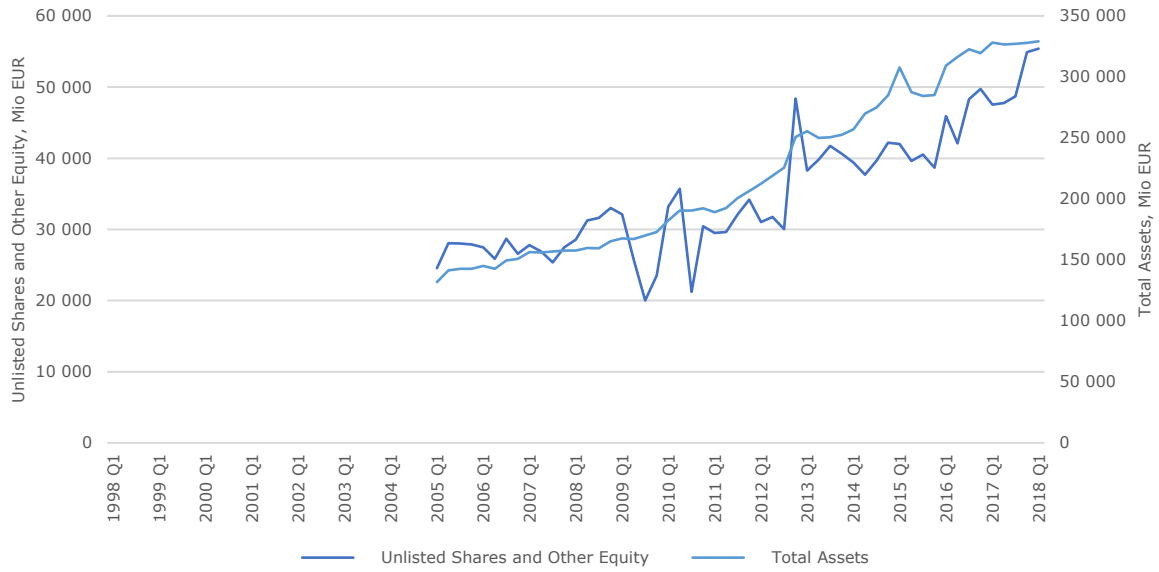
6.5.2 Unlisted Shares

Graph 16 depicts the amounts invested in unlisted shares and other equity plotted against the total assets in the insurance markets of while Graph 16 presents the indexed values of the series for an easier comparison of the movements in these two series.

The total assets increase steadily over the period, ending the period in 2018 at 250% of their initial value. The unlisted shares follow the same general pattern, however the series is more volatile, with spikes in 2010 and 2013. The series ends at 226%, meaning they have become a smaller proportion of the overall assets over the period.



Graph 15 – Evolution of Total Unlisted Shares and Other Equity and Total Assets (in Mio EUR)



Source: ECB Statistical Data warehouse and Deloitte-CEPS analysis

Graph 16 – Evolution of Unlisted Shares and Other Equity (indexed values)



Source: ECB Statistical Data warehouse and Deloitte-CEPS analysis