Statistical bulletin

MQ5: Investment by Insurance Companies, Pension Funds and Trusts: Q3 2014

Investment choices of financial institutions based on financial transactions (investments and disinvestment's), including balance sheet data for short-term assets and liabilities, and income and expenditure data.

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Next release:
17 September 2015

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1. Key points

- Total net investment by insurance companies, pension funds and trusts is estimated at £23 billion in the third quarter of 2014, higher than the five-year quarterly average for this series (£14 billion) and higher than net investment in the previous quarter (£11 billion)

- Net investment in British government securities (gilts) in Q3 2014 is estimated at £8 billion. This is the eighth successive quarter of net investment in gilts, indicating that some businesses (particularly pension funds) are continuing to avoid the relative volatility of equity markets

- In Q3 2014, net investment of £3 billion in overseas securities contrasted with net disinvestment of £2 billion in UK corporate securities. This continuing trend may indicate that businesses have more confidence in their ability to make money from overseas securities than they do from UK corporate securities

- This release reports on these institutions' balance sheets at the end of 2013. Total assets were valued at £3,473 billion compared with £3,284 billion at the end of 2012, an increase of 6%

- In 2013, net investment in short-term assets of £25 billion was the highest recorded estimate since 2007 (£41 billion)

2. Overview

Information about the investment choices of insurance companies, self-administered pension funds, investment trusts, unit trusts and property unit trusts. Reported in this release are quarterly net investment data arising from financial transactions (investments and disinvestments) made by these institutional groups. Also included are quarterly balance sheet data for short-term assets and liabilities, along with quarterly income and expenditure data for insurance companies and self-administered pension funds. All data are reported at current prices (effects of price changes included).

Every Q3 release contains annual balance sheet data for all the institutional groups; providing information on the market value of assets and liabilities. Annual income and expenditure data for insurance companies are also reported at this time.

A question often asked of the MQ5 release is 'why does it only cover certain institutional groups?' The answer is that these institutions control a substantial level of assets (over £3 trillion) and engage in considerable volumes of investment activity to fund their operations. An understanding of their investments and assets is important in order to monitor the stability of the financial sector and is a key contribution to the UK National Accounts.

Over the next few years, changes to surveys covering the financial sector will be necessary to ensure ONS becomes compliant with the revised European System of Accounts 2010 (ESA10). Once these changes have been made and 'bedded in', ONS will consider expanding the MQ5 release to cover other parts of the financial sector, such as securities dealers and businesses engaged in the provision of financial services.

ONS makes every effort to provide informative commentary on the data in this release. As part of the quality assurance process, individual businesses are contacted in an attempt to capture reasons for extreme period-on-period data movements. It can prove difficult to elicit detailed reasons from some businesses to help inform the commentary. Frequently, reasons given for data movements refer to a 'change in investment strategy' or a 'fund manager's decision'. Consequently, it is not possible for all data movements to be fully explained.

ONS is aware that a number of users make use of these data for modelling or forecasting purposes. In doing so, careful attention should be paid to the revisions policy (50.7 Kb Pdf) for this release. Comparing the first published estimates of total net investment with the equivalent estimates published three years later, the average quarterly revision (without regard to sign) is £6 billion.

The estimate of total net investment for Q2 2014 (last quarter) has been revised downwards by £4 billion (see background note 7 for further information).

A glossary is available to assist users with their understanding of the terms used in this release.

3. Your views matter

We are constantly aiming to improve this release and its associated commentary. We would welcome any feedback you might have, and would be particularly interested in knowing how you make use of these data to inform your work. Please contact us via email: Financial.Inquiries@ons.gsi.gov.uk or telephone Fred Norris on +44 (0)1633 456109.

4. Net investment by asset type

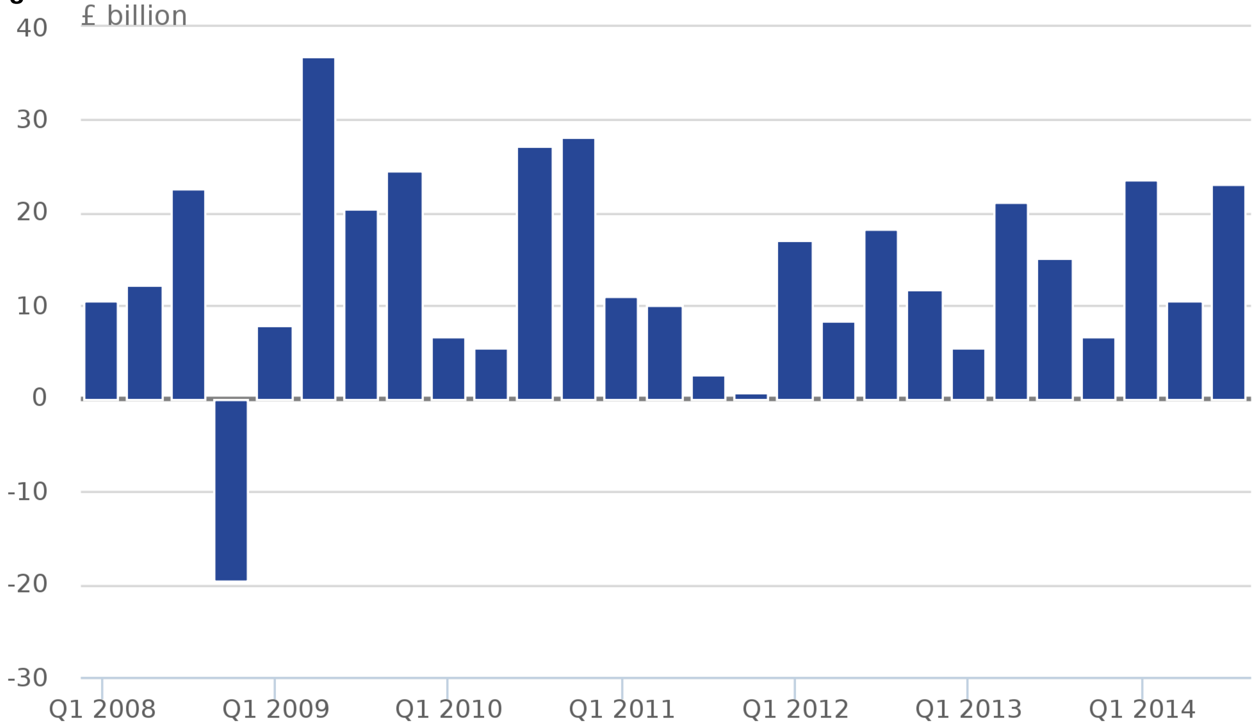
The total assets of the businesses covered by this release (insurance companies, pension funds and trusts) were valued at £3,473 billion at the end of 2013, the latest period for which annual results are available. During 2013, these businesses acquired £1,666 billion and disposed of £1,638 billion longer-term financial instruments. Net investment is the difference between these substantial levels of acquisitions and disposals, as well as changes in holdings of short-term assets, and can therefore be volatile. Table 1 (at the end of this section) displays net investment data by asset type.

Total net investment is estimated at £23 billion in Q3 2014 (Figure 1).

Total net investment varies across the quarters of a calendar year and so an increase or decrease in investment from one quarter to the next is not necessarily an indicator of improved or worsening economic activity – these estimates are more likely to reflect varying investment strategies. In terms of context, the five-year quarterly average for this series is net investment of approximately £14 billion. The highest quarterly estimate of net investment since records began was £43 billion in Q3 2007. Net disinvestment last occurred in Q4 2008 (£20 billion).

For 2013 as a whole, net investment reported by the institutions covered by this release is estimated at £48 billion, compared with £56 billion and £24 billion for 2012 and 2011 respectively.

Figure 1: Total net investment



Source: Office for National Statistics

Short-term assets

Investment in short-term assets (those maturing within one year of their originating date) can be affected by the level of the net inflows of funds into the businesses concerned (premiums or contributions, for example) and by the relative attractiveness of other investments, both in terms of their potential returns and in their perceived risk.

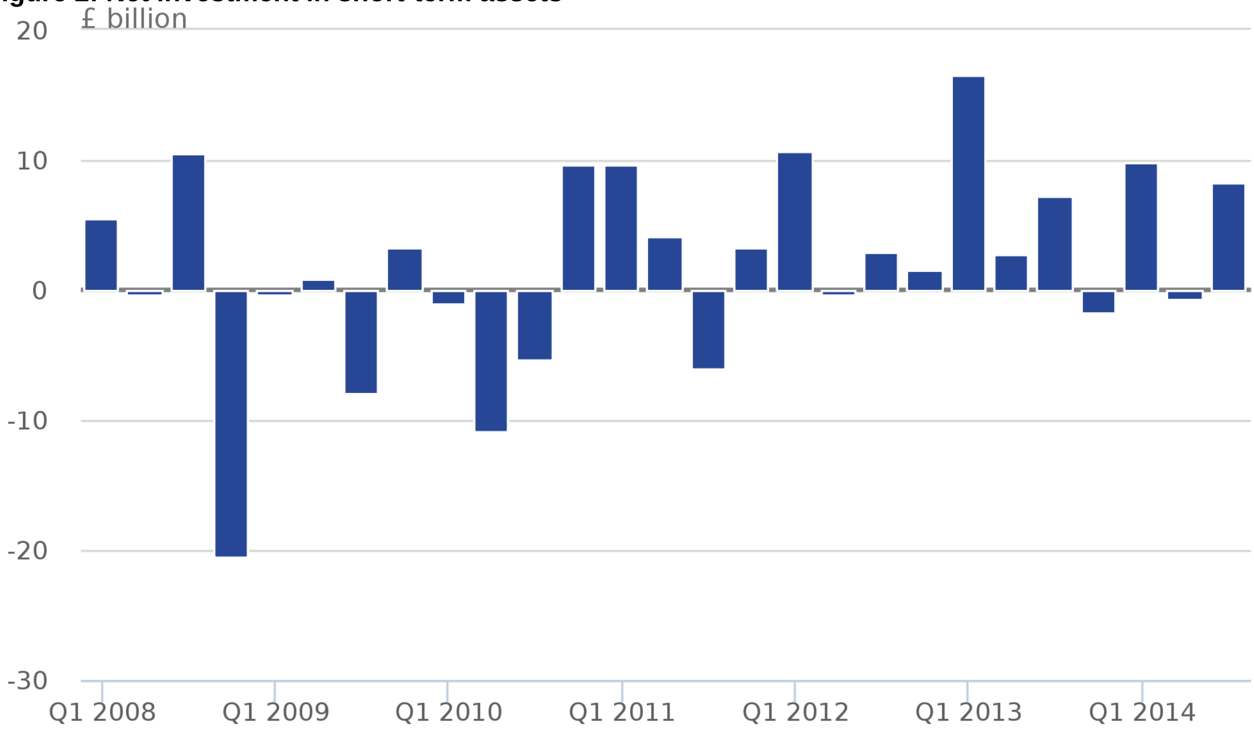
In Q3 2014 there was net investment of £8 billion in short-term assets (Figure 2). This follows net disinvestment of £1 billion in Q2 2014 and net investment of £10 billion in Q1 2014. The five-year quarterly average for this series is net investment of £3 billion.

The annual net investment of £25 billion in short-term assets in 2013 was the largest since 2007. Continued strong investment in short-term assets during 2014 may reflect shifts in the balance of perceived risks among the surveyed institutional groups. Several global equity indices (including the FTSE) increased strongly during 2013, reflecting growing evidence of an economic recovery in the US and the UK. These positive developments were balanced against a reduction in the UK's credit rating, first by Moody's and then by Fitch, and by continuing sovereign debt concerns in the euro area with Cyprus receiving international financial support in March 2013. In light of these developments, a number of businesses reported that they were continuing to invest in short-term assets as they were "choosing to favour liquidity at this point in time." Liquid assets are particularly attractive during periods of uncertainty, as they allow businesses to change their investment strategies with relative speed as events unfold.

The relatively strong investment in short-term assets in Q1 and Q3 of 2014, may indicate that businesses are remaining cautious and reluctant to commit to longer-term investment strategies, potentially reflecting continuing uncertainties in the economic and geopolitical environment.

Net disinvestment in short-term assets was reported in each of the years 2008, 2009 and 2010. This contrasts with the years 2011, 2012 and 2013 when net investment was reported. This longer-term comparison highlights how institutions, taking account of the prevailing economic climate, have potentially chosen to restructure their investment portfolios.

Figure 2: Net investment in short-term assets



Source: Office for National Statistics

British Government Sterling Securities (Gilts)

Gilts are fixed income or index-linked bonds issued by the British government. On the primary gilt market, the purchaser of a gilt lends the government money in return for regular interest payments and the promise that the nominal value of the gilt will be repaid (redeemed) on a specified future date. These assets may then be bought and sold by investors in the secondary market. Gilts are very liquid assets which offer virtually risk-free returns.

In recent times, the market for gilts has been notably influenced by the Bank of England's Quantitative Easing (QE) programme. Approximately £375 billion of gilts have been bought by the Bank under QE since the start of the programme in 2009.

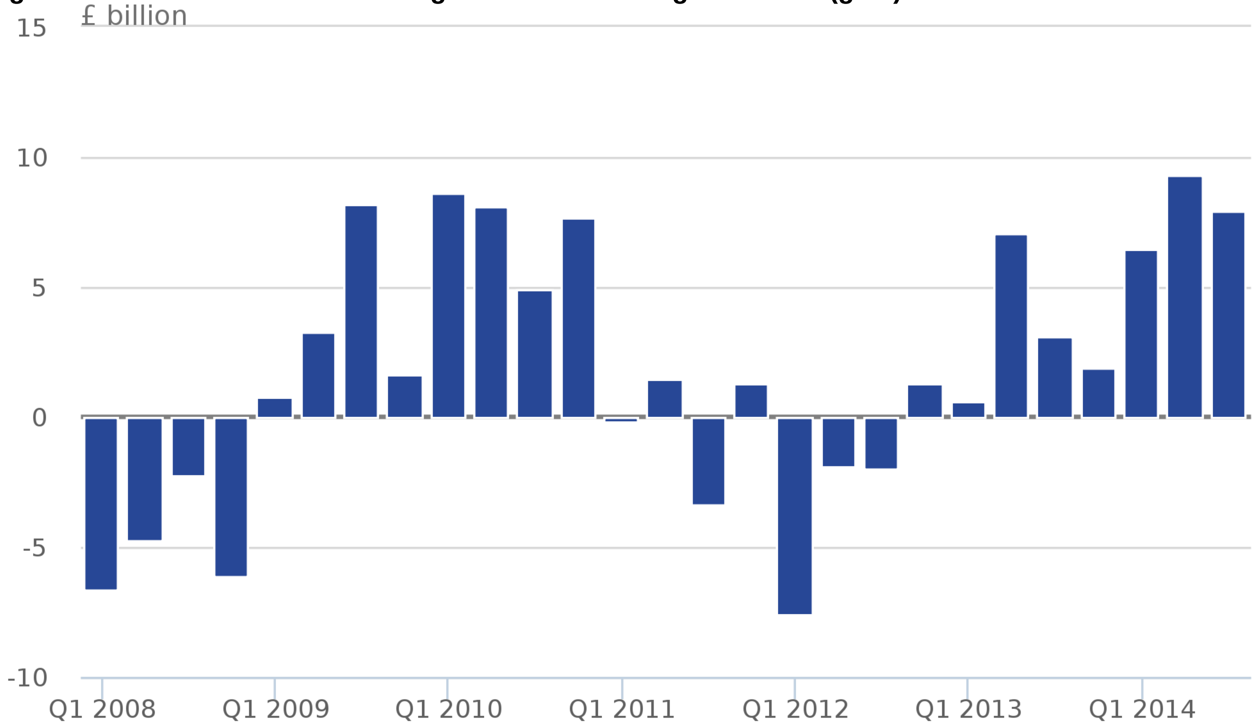
The institutions covered by this release reported net investment in gilts in Q3 2014 of £8 billion (Figure 3), continuing a period of net investment that now extends over eight quarters.

Net investment in gilts is estimated to be £13 billion in 2013 following net disinvestment in gilts of £10 billion in 2012. So far in 2014, net investment in gilts is estimated to be £24 billion. This reversal in favour of investment may reflect a change of investment strategy among some market participants (particularly pension funds). It would seem to suggest that investors are switching back to, and staying in gilts, possibly in an attempt to avoid the relative volatility of equity markets.

Investment trends in gilts can best be explained by reviewing the role they play in financial markets. Gilts are attractive investments when interest rates are high and are likely to fall. If interest rates fall the price of the gilt rises and may therefore be sold at a profit. Conversely, if interest rates are low, as they are at present and have been since early 2009, the price of gilts is high and a loss might be anticipated if the stock is held to redemption. These characteristics, coupled with the completion of the Bank of England's most recent asset purchase programme, helps to explain the longer-term profile of net investment in gilts.

Investment in gilts is discussed in more detail in the article - ' Trends in gilt investment from 2007-2013'.

Figure 3: Net investment in British government sterling securities (gilts)



Source: Office for National Statistics

UK corporate securities and overseas securities

These asset categories comprise ordinary shares, corporate bonds and preference shares. In addition, non-UK government securities are included as part of overseas securities.

The latest survey of these businesses' balance sheets, for the end of 2013, showed that for only the fourth time, the value of overseas ordinary shares held by these institutions exceeded the value of UK ordinary shares. This is a recent trend, which was seen for the first time in 2010.

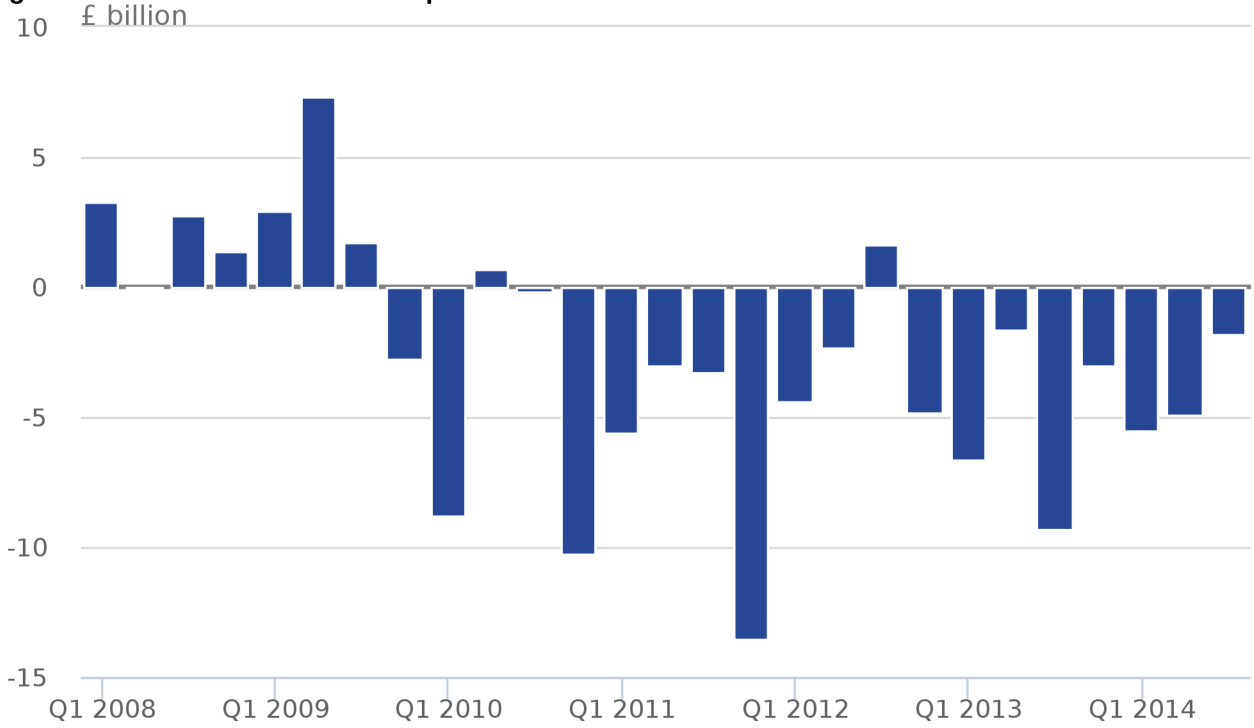
It would further appear that this trend has continued into 2014 (annual balance sheet survey data are required to confirm this assertion). This change in strategy, over the past four years, marks a key shift and would seem to indicate that the institutions covered by this release have sought higher returns relative to risk on their investments in overseas markets in preference to investing in UK securities.

This shift in behaviour is supported by external analysis. In May 2014, The Telegraph commented on research undertaken by Capita, suggesting that dividend payments for British shares will fall during 2014 and observed "with these clouds on the horizon some experts argue income investors should instead shop for divi-paying shares overseas. As well as there being much greater choice – there are seven times more income paying shares overseas than are listed on London's stock exchange."

UK corporate securities

In Q3 2014 there was net disinvestment (£2 billion) in UK corporate securities (Figure 4).This follows net disinvestment of £5 billion in Q2 2014 and continues a period of disinvestment that now extends over eight quarters. In 2014 so far, there has been net disinvestment of £12 billion in UK corporate securities. This is likely to reflect either the reallocation of funds towards short-term assets as part of a wider change in investment strategy, or the continued favouring of overseas securities.

Figure 4: Net investment in UK corporate securities

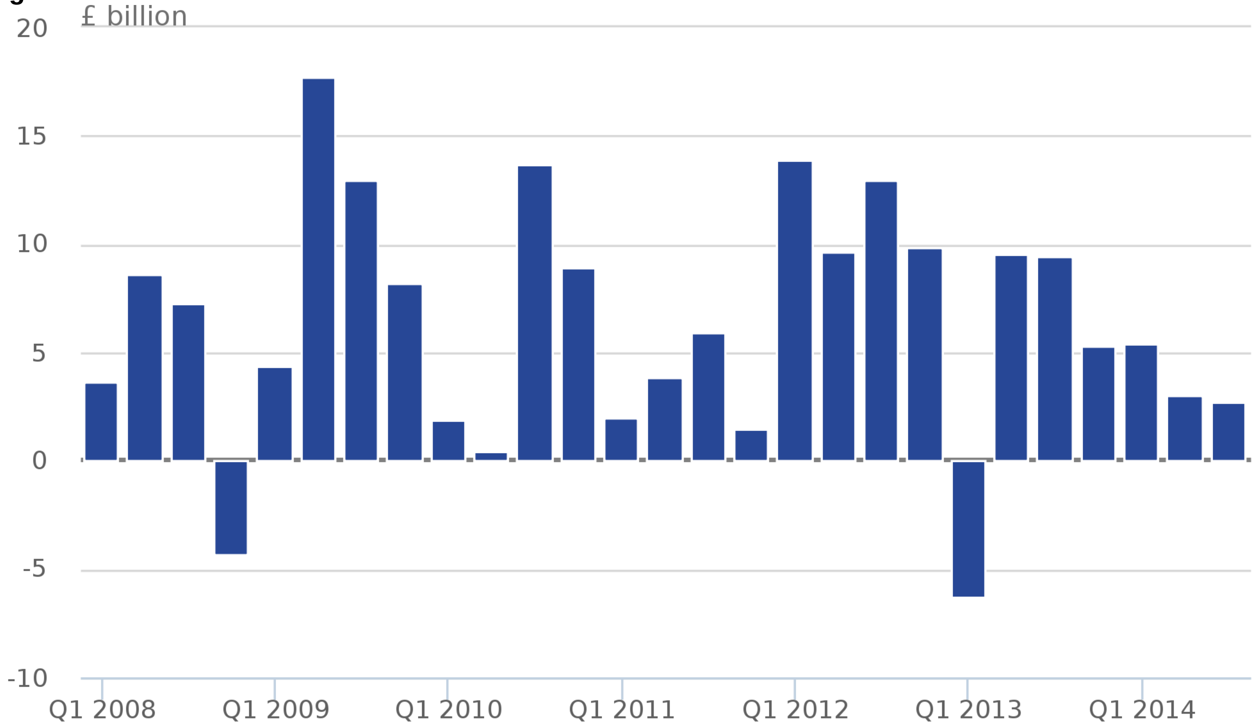


Source: Office for National Statistics

Overseas securities

In Q3 2014 the institutions covered by this release reported net investment in overseas securities of £3 billion (Figure 5). This was the sixth consecutive quarter of net investment in overseas securities; however the level of net investment has fallen in four of the last five quarters. Long-term insurance companies reported net disinvestment of £3 billion, the fourth consecutive period of disinvestment in overseas securities by these companies.

Figure 5: Net investment in overseas securities



Source: Office for National Statistics

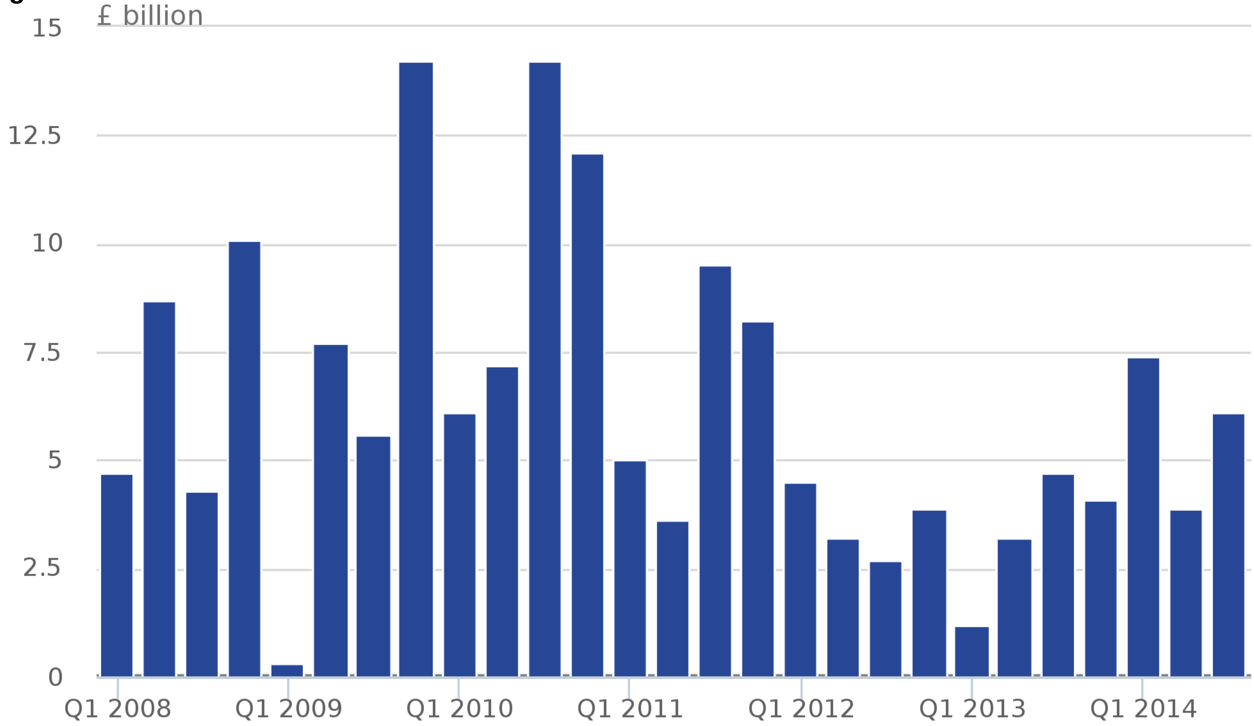
Other assets

The category ‘other assets’ covers UK and overseas investment, and includes: British government securities denominated in foreign currency; local authority and public corporation securities; loans; mutual fund investments; fixed assets; investment in insurance managed funds, insurance policies and annuities; direct investment and other assets not elsewhere classified.

Investment in other assets has been positive since Q3 2003. The net investment of £6 billion in Q3 2014 (Figure 6), matches the five-year quarterly average for this series.

In Q3 2014 self-administered pension funds reported net investment in other assets of £1 billion. This is their lowest investment in other assets since Q2 2012 and compares with net investment of £3 billion and £4 billion in the second and first quarters of 2014 respectively.

Figure 6: Net investment in other assets



Source: Office for National Statistics

Table 1: Net investment by asset type

£ billion

	Total	Short-term assets	British government sterling securities	UK corporate securities	Overseas securities	Other assets
2008	26.0	-4.8	-19.6	7.4	15.3	27.8
2009	90.0	-4.2	13.9	9.1	43.3	27.8
2010	67.5	-7.6	29.2	-18.5	24.8	39.6
2011	24.3	10.9	-0.8	-25.5	13.3	26.3
2012	55.6	15.0	-10.2	-10.0	46.5	14.3
2013	48.4	24.9	12.6	-20.4	18.1	13.3

2008	Q1	10.6	5.5	-6.6	3.3	3.7	4.7
	Q2	12.2	-0.3	-4.7	-0.1	8.6	8.7
	Q3	22.7	10.6	-2.2	2.8	7.3	4.3
	Q4	-19.5	-20.5	-6.1	1.4	-4.3	10.1
2009	Q1	8.0	-0.3	0.8	2.9	4.4	0.3
	Q2	36.9	0.8	3.3	7.3	17.7	7.7
	Q3	20.5	-8.0	8.2	1.7	13.0	5.6
	Q4	24.6	3.3	1.6	-2.8	8.2	14.2
2010	Q1	6.6	-1.1	8.6	-8.8	1.9	6.1
	Q2	5.6	-10.8	8.1	0.7	0.4	7.2
	Q3	27.2	-5.4	4.9	-0.2	13.7	14.2
	Q4	28.1	9.7	7.7	-10.3	8.9	12.1
2011	Q1	11.0	9.7	-0.2	-5.6	2.0	5.0
	Q2	10.1	4.1	1.5	-3.0	3.9	3.6
	Q3	2.5	-6.1	-3.4	-3.3	5.9	9.5
	Q4	0.7	3.2	1.3	-13.5	1.5	8.2
2012	Q1	17.1	10.7	-7.6	-4.4	13.9	4.5
	Q2	8.4	-0.3	-1.9	-2.3	9.7	3.2
	Q3	18.3	3.0	-2.0	1.6	13.0	2.7
	Q4	11.8	1.6	1.3	-4.8	9.9	3.9
2013	Q1	5.4	16.5	0.6	-6.6	-6.3	1.2
	Q2	21.1	2.8	7.1	-1.6	9.6	3.2
	Q3	15.2	7.3	3.1	-9.3	9.4	4.7
	Q4	6.7	-1.7	1.9	-3.0	5.3	4.1
2014	Q1	23.7	9.9	6.5	-5.5	5.4	7.4
	Q2	10.6	-0.7	9.3	-4.9	3.0	3.9
	Q3	23.2	8.3	7.9	-1.8	2.7	6.1

Source: Office for National Statistics

Notes:

1. Components may not sum to totals due to rounding.

2. Data for all quarters of 2014 remain provisional and subject to revision until the incorporation of the 2014 annual survey results in December 2015.

5. Net Investment by institutional group

Net investment data for each of the institutional groups covered by this release are displayed in Table 2.

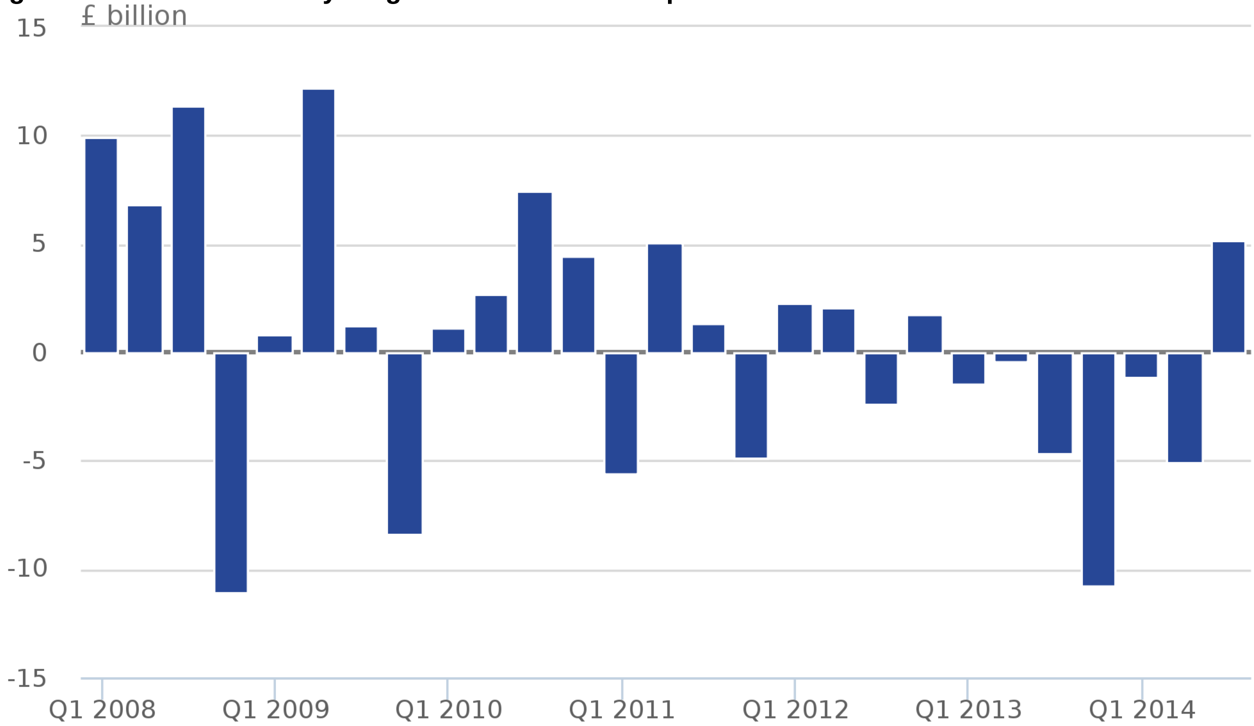
Long-term insurance companies

These are companies which provide either protection in the form of life assurance or critical illness policies, or investment in the form of pension provision.

Long-term insurance companies showed net investment of £5 billion in the third quarter of 2014 (Figure 7). This was the first quarter of net investment for this institutional group since Q4 2012 and the largest quarterly net investment since Q3 2010.

The net disinvestment estimated to have occurred in 2011 (£4 billion) and 2013 (£17 billion) are the only instances of overall annual disinvestment recorded for this series, which dates back to 1963. In 2013, long-term insurance companies showed net disinvestment in UK corporate securities and gilts of £19 billion and £9 billion respectively. This disinvestment in longer-term assets contrasts with strong net investment in short-term assets (£14 billion), the largest since 2007. This may indicate a shifting investment strategy, towards the relative flexibility of liquid assets.

Figure 7: Net investment by long-term insurance companies



Source: Office for National Statistics

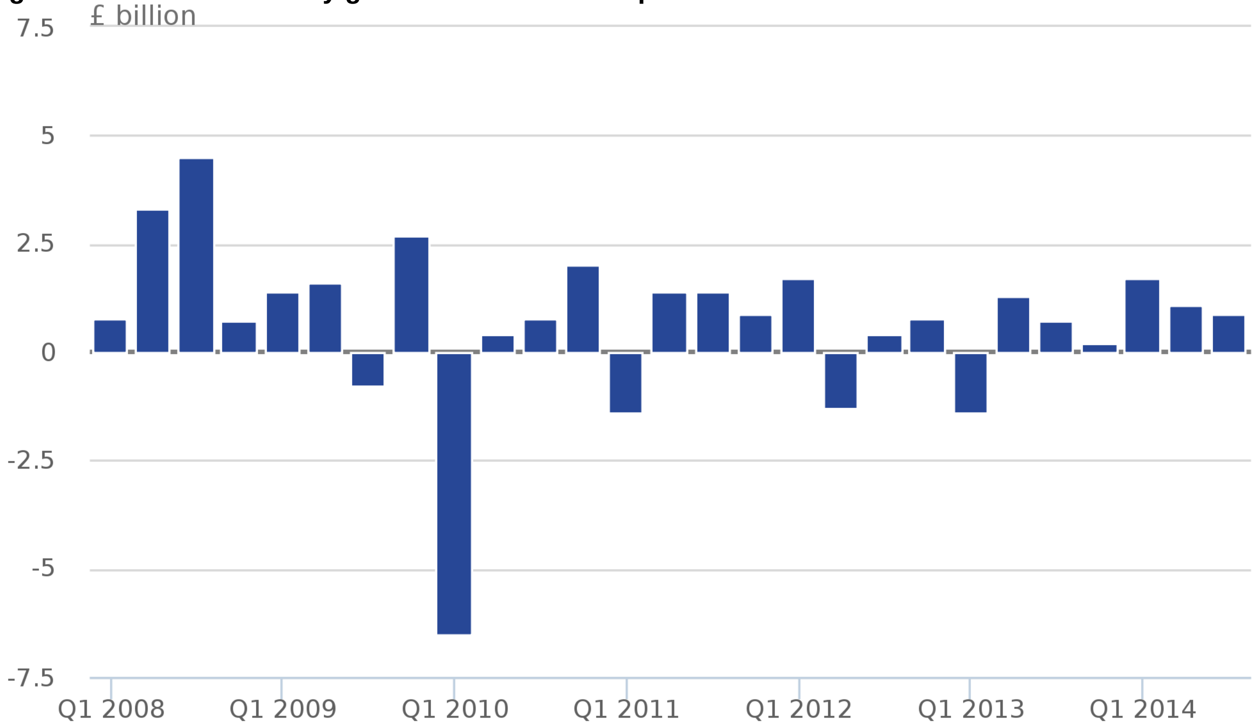
General insurance companies

These are companies which undertake other types of insurance such as motor, home and travel. This type of insurance is usually over a shorter period, most commonly 12 months.

General insurance companies showed net investment in Q3 2014 of £1 billion (Figure 8) which is slightly higher than the five-year quarterly average (£0.4 billion) for this series.

The largest single quarterly estimate over the past six years was in Q1 2010, when general insurance companies reported net disinvestment of £6 billion, which was driven by the disposal of short-term assets.

Figure 8: Net investment by general insurance companies



Source: Office for National Statistics

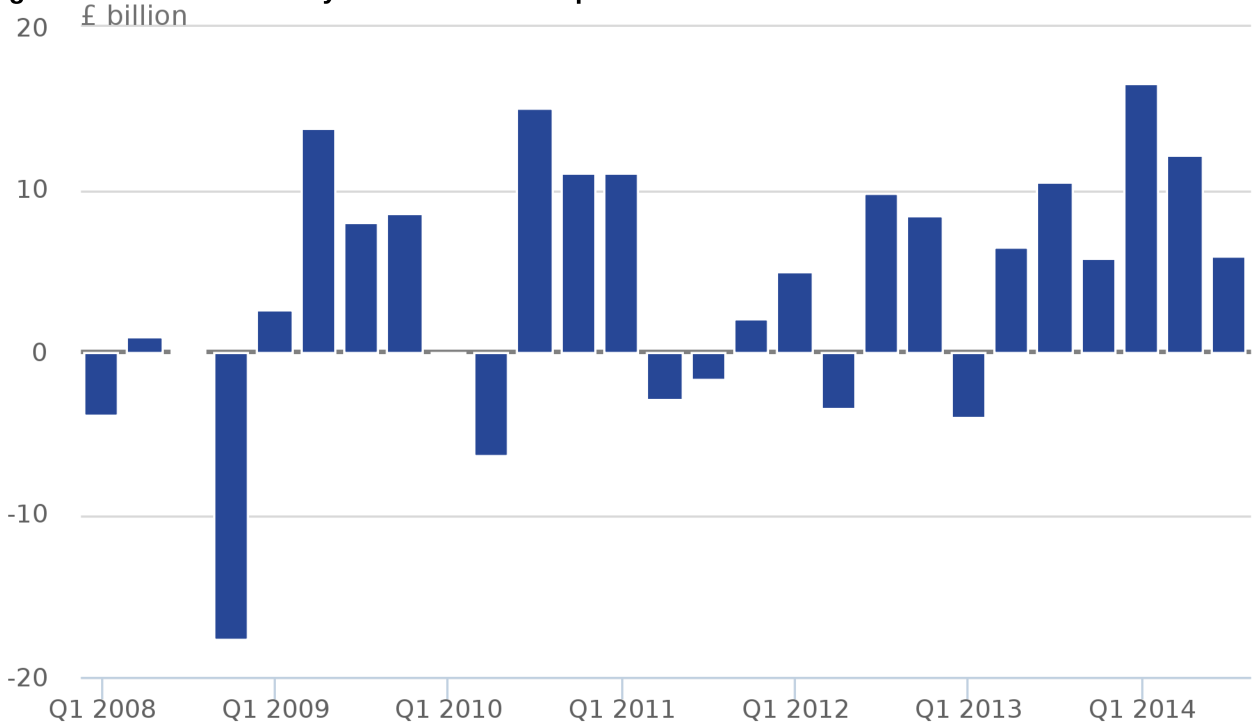
Self-administered pension funds

These are funds established by pension scheme trustees to facilitate and organise the investment of employees' retirement funds. Self-administered pension funds showed net investment in Q3 2014 of £6 billion (Figure 9), their sixth consecutive quarter of net investment.

Self-administered pension funds continued to report strong net investment in gilts during 2014. Net investment of £6 billion in gilts in Q3 2014, followed net investment of £9 billion reported in both the first and second quarters of 2014, which were the largest quarterly net investments in gilts reported by this institutional group since the start of the time series in 1963. It may be that pension funds have been switching back to bonds in an attempt to beat the volatility of equity markets and receive guaranteed income streams to meet pension payments.

In terms of the future, pension changes announced in the March 2014 Budget may force a slowdown in the rate of bond purchases. Under the changes, individuals will no longer be required to purchase an annuity on retirement using the proceeds of defined contribution (DC) pension funds – a move that the Treasury has acknowledged could prompt demands for similar withdrawal rights from those in defined benefit (DB) schemes. This could mean that schemes may cut their long-term holdings of gilts and bonds.

Figure 9: Net investment by self-administered pension funds



Source: Office for National Statistics

Investment trusts

Investment trusts acquire financial assets with money subscribed by shareholders or borrowed in the form of loan capital. Investment trusts are not trusts in the legal sense, but are limited companies with two special characteristics: their assets consist of securities (mainly ordinary shares) and they are debarred by their articles of association from distributing capital gains as dividends. Shares of investment trusts are traded on the Stock Exchange and increasingly can be bought direct from the company.

The trend in the estimates for investment trusts continued broadly flat as it has been since the beginning of 2008 (Table 2).

Unit trusts and property unit trusts

Unit trusts include open-ended investment companies (OEICs) but do not cover other unitised collective investment schemes or those based offshore. They are set up under trust deeds, the trustee usually being a bank or insurance company. The funds in the trusts are managed not by the trustees, but by independent management companies. Units representing a share in the trusts' assets can be bought from the managers or resold to them at any time.

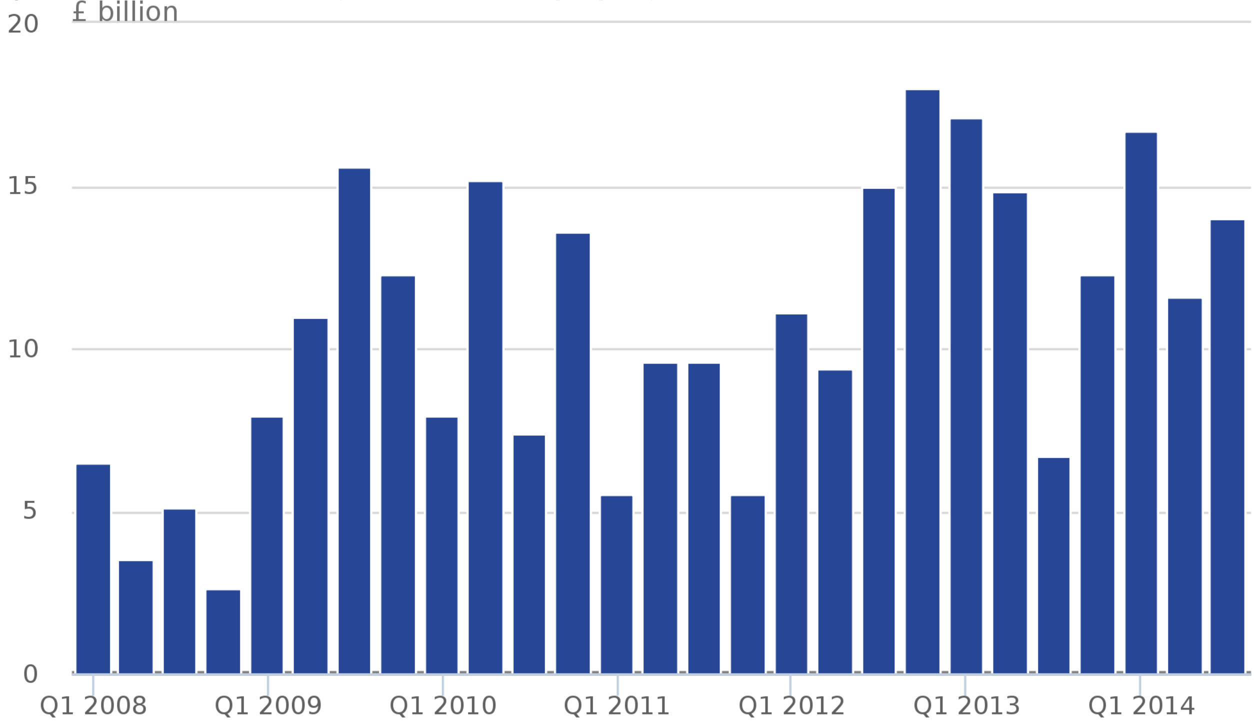
Property unit trusts invest predominantly in freehold or leasehold commercial property yet may hold a small proportion of their investments in the securities of property companies.

Unit trusts and property unit trusts continued to invest in the third quarter of 2014, their 27th successive quarter of net investment (Figure 10). The level of net investment by unit trusts and property unit trusts in Q3 2014 (£14 billion) exceeds the five-year quarterly average for this institutional group (£12 billion).

The full-year estimate for 2013 of £51 billion follows the £53 billion recorded for unit trusts and property unit trusts in 2012, which was the highest level of net investment ever recorded for any institutional group.

In support of the recent high estimates for investments by unit trusts and property trusts are statistics released by the Investment Management Association. It reported that funds under management reached a record level in October 2014 of £819 billion, an increase of £48 billion since the end of 2013.

Figure 10: Net investment by unit trusts and property unit trusts



Source: Office for National Statistics

Table 2: Net investment by institutional group

£ billion

		Total	Long-term insurance companies	General insurance companies	Self-administered pension funds	Investment trusts	Unit trusts and property unit trusts	Consolidation adjustment[1]
2008		26.0	17.0	9.4	-20.4	0.3	17.7	2.0
2009		90.0	5.9	4.9	32.9	-0.6	46.8	0.1
2010		67.5	15.6	-3.2	19.7	0.5	44.0	-9.1
2011		24.3	-4.2	2.3	8.6	0.4	30.3	-13.0
2012		55.6	3.7	1.6	19.7	-0.2	53.5	-22.6
2013		48.4	-17.3	0.8	18.8	0.6	50.9	-5.4
2008	Q1	10.6	9.9	0.8	-3.9	0.6	6.5	-3.2
	Q2	12.2	6.8	3.3	0.9	-0.7	3.5	-1.8
	Q3	22.7	11.4	4.5	0.1	0.8	5.1	0.7
	Q4	-19.5	-11.1	0.7	-17.6	-0.4	2.6	6.3
2009	Q1	8.0	0.8	1.4	2.6	-0.3	7.9	-4.4
	Q2	36.9	12.2	1.6	13.8	-0.2	11.0	-1.5
	Q3	20.5	1.2	-0.8	8.0	0.1	15.6	-3.6
	Q4	24.6	-8.4	2.7	8.6	-0.2	12.3	9.7
2010	Q1	6.6	1.1	-6.5	-0.1	-0.7	7.9	4.9

	Q2	5.6	2.7	0.4	-6.3	0.7	15.2	-7.0
	Q3	27.2	7.4	0.8	15.1	0.0	7.4	-3.4
	Q4	28.1	4.5	2.0	11.0	0.5	13.6	-3.6
2011	Q1	11.0	-5.6	-1.4	11.1	0.6	5.5	0.7
	Q2	10.1	5.1	1.4	-2.9	0.3	9.6	-3.4
	Q3	2.5	1.3	1.4	-1.6	-0.1	9.6	-8.1
	Q4	0.7	-4.9	0.9	2.1	-0.5	5.5	-2.3
2012	Q1	17.1	2.3	1.7	4.9	0.1	11.1	-3.0
	Q2	8.4	2.1	-1.3	-3.4	0.1	9.4	1.6
	Q3	18.3	-2.4	0.4	9.8	-0.4	15.0	-4.0
	Q4	11.8	1.8	0.8	8.4	0.1	18.0	-17.2
2013	Q1	5.4	-1.4	-1.4	-4.0	0.5	17.1	-5.5
	Q2	21.1	-0.4	1.3	6.5	-0.2	14.8	-1.0
	Q3	15.2	-4.7	0.7	10.5	0.1	6.7	1.9
	Q4	6.7	-10.8	0.2	5.8	0.1	12.3	-0.8
2014	Q1	23.7	-1.1	1.7	16.5	0.0	16.7	-10.1
	Q2	10.6	-5.1	1.1	12.1	0.4	11.6	-9.4
	Q3	23.2	5.2	0.9	6.0	0.5	14.0	-3.4

Source: Office for National Statistics

Notes:

1. The consolidation adjustment is an adjustment to remove inter-sectoral flows between the different types of institution covered. The adjustment includes (i) investment in authorised unit trust units, open-ended investment companies and investment trust securities by insurance companies, pension funds and trusts and (ii) investment by pension funds in insurance managed funds and property unit trust units.

2. Components may not sum to totals due to rounding.

3. Data for all quarters of 2014 remain provisional and subject to revision until the incorporation of the 2014 annual survey results in December 2015.

4. The total net investment for all groups is shown within the excel spreadsheet.

6. Income and expenditure by institutional group

Rather than provide commentary on total income and expenditure for the institutional groups, it is considered more beneficial to users, based on their feedback, if commentary concentrates on the main components. For insurance companies, premiums and claims are the focus, while contributions (net of refunds) and payments are the focus for self-administered pension funds (Table 3). It should be noted that income and expenditure data are not currently collected for the trusts institutional group.

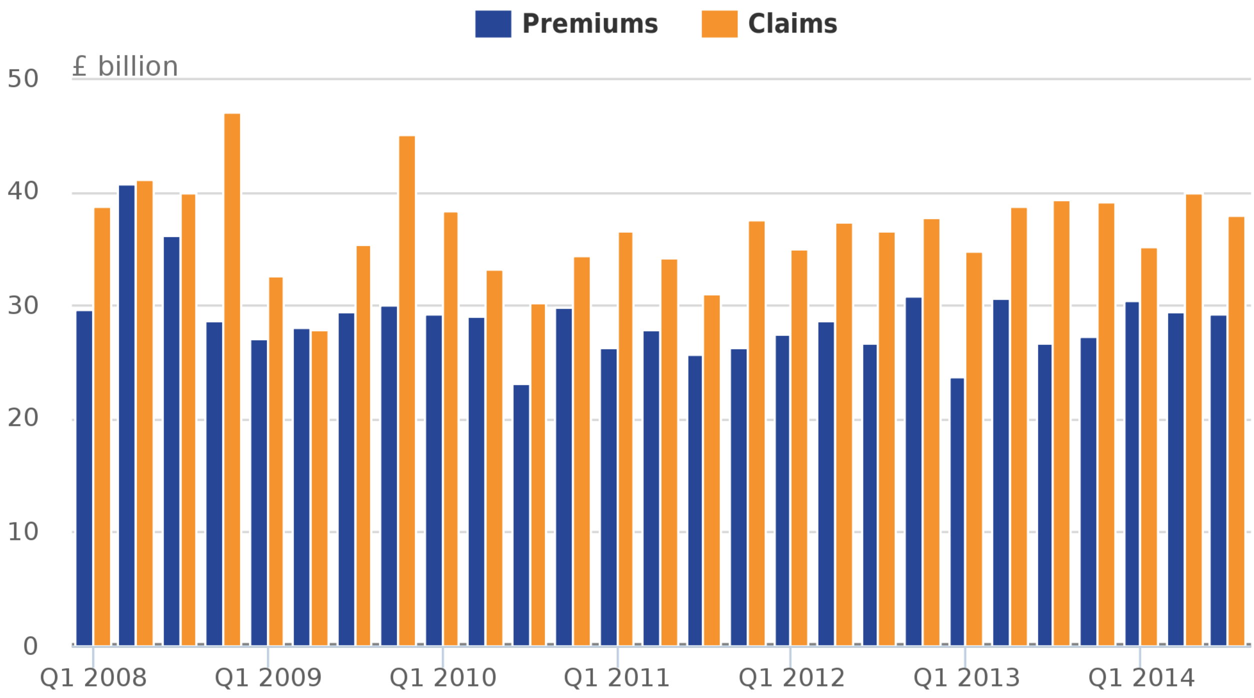
Long-term insurance companies

In the third quarter of 2014, the value of long-term insurance premiums was £29 billion (Figure 11) unchanged from the previous quarter and in line with the five-year quarterly average of £28 billion.

In 2006 and 2007 the value of premiums exceeded the value of claims. This trend has been reversed since and continued in each of the years 2008 to 2013. Annual estimates for 2013 as a whole show the value of claims to be around 40% greater than the value of premiums.

In Q3 2014, claims (£38 billion) were approximately 30% greater than the value of premiums (£29 billion).

Figure 11: Long-term insurance companies' premiums and claims

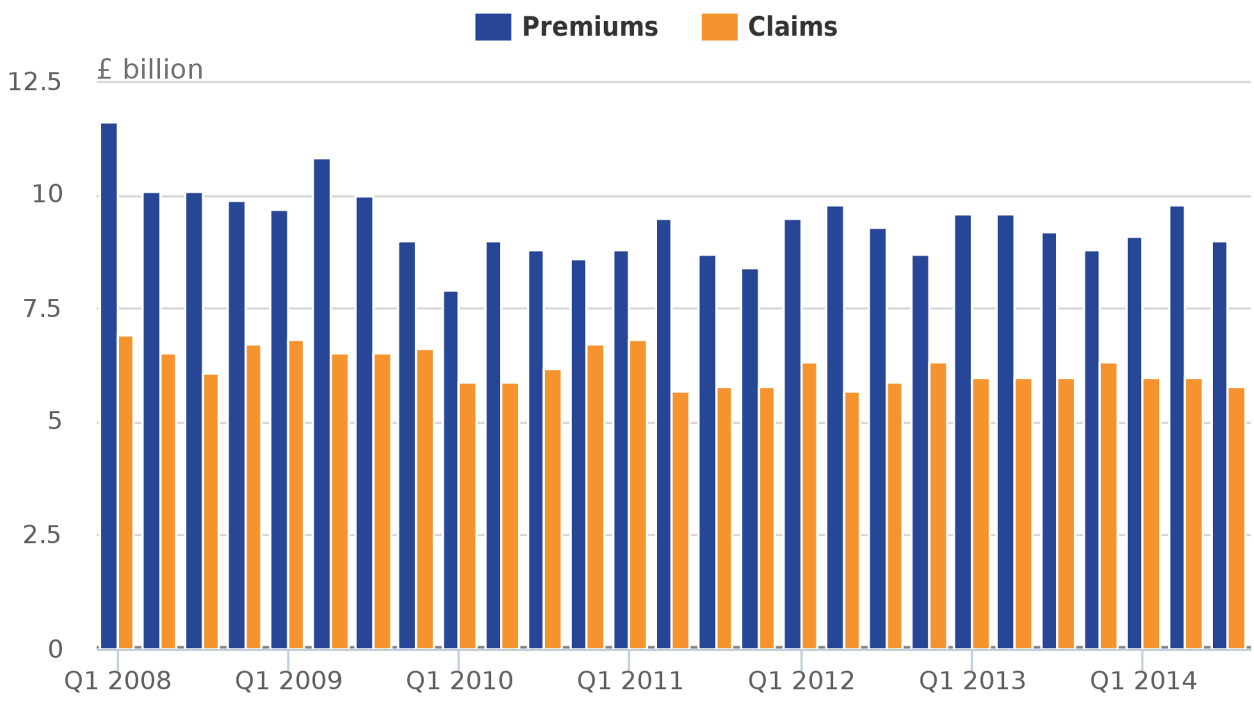


Source: Office for National Statistics

General insurance companies

For general insurance, premiums (£9 billion) were around 55% greater than the value of claims (£6 billion) in Q3 2014 (Figure 12).

Figure 12: General insurance companies' premiums and claims



Source: Office for National Statistics

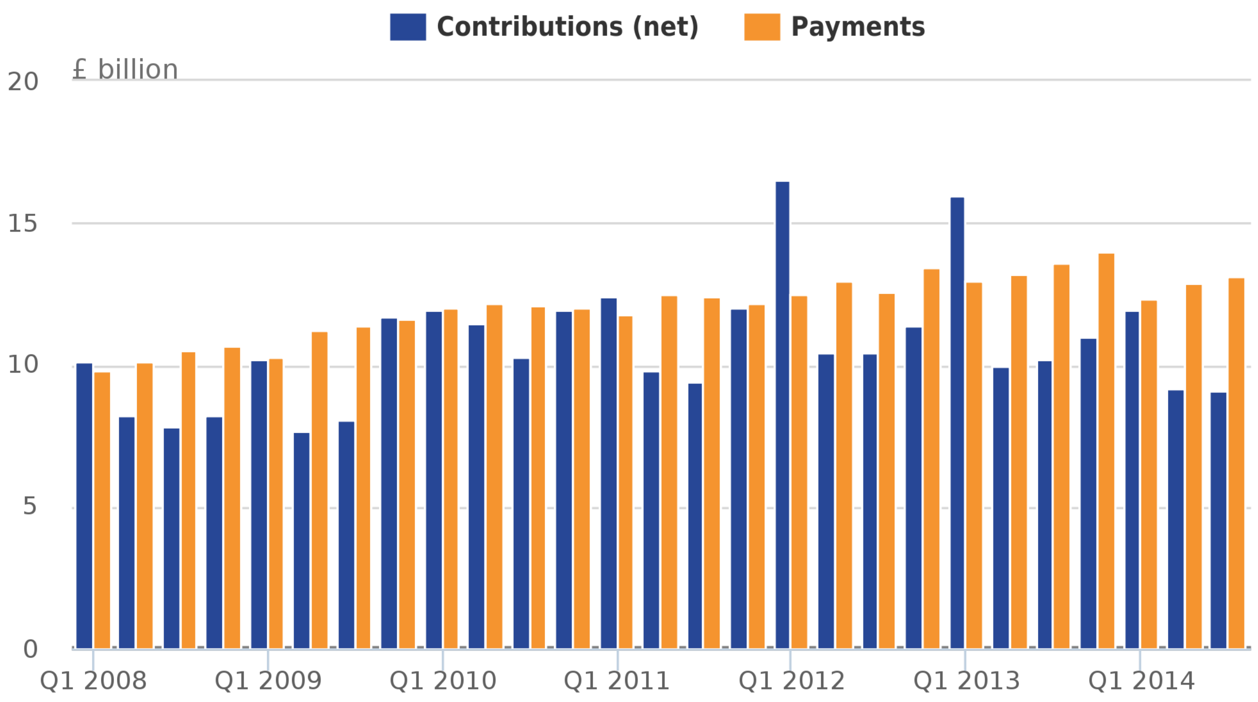
Self-administered pension funds

In Q3 2014 payments (£13 billion) exceeded net contributions (£9 billion) to self-administered pension funds. This difference between the levels of net contributions and payments was greater than at any time since Q1 2012.

It had previously been hypothesised that increasingly there seemed to be a pattern for pension funds to make one-off payments to reduce the deficits in their funds in Q1 and Q4 of a given year. This would lead to generally higher net contributions in these quarters compared with other quarters of the year (Figure 13). A possible explanation for this pattern was that companies, while compiling their end-of-year accounts, were better placed to determine by how much they were able to reduce the gap between the assets and liabilities of their pension funds by making one-off payments to reduce fund deficits.

These one-off payments are typically made in the form of employers special contributions. In Q1 2012 and Q1 2013, pension funds made special contributions of £8 billion and in Q1 2014, £5 billion. In the second and third quarters of 2014, pension funds made special contributions of £3 billion and £2 billion respectively, which is at a similar level to those made in the fourth quarter of 2012 and the second, third and fourth quarters of 2013. This may indicate that pension funds are now choosing to make larger special contributions in the first quarter, compared with the remaining quarters, of a given year.

Figure 13: Self-administered pension funds' contributions (net) and payments



Source: Office for National Statistics

Table 3: Income and expenditure by institutional group

£ billion

	Long-term insurance		General insurance		Self-administered pension funds	
	Premiums	Claims	Premiums	Claims	Contributions (net)	Payments
2008	135.1	166.9	41.7	26.1	34.3	41.1
2009	114.6	141.1	39.5	26.4	37.7	44.5
2010	111.2	136.1	34.3	24.8	45.6	48.3

2011		106.1	139.5	35.4	24.1	43.6	48.8
2012		113.6	146.8	37.4	24.1	48.6	51.4
2013		108.2	152.0	37.3	24.2	47.3	53.9
2008	Q1	29.6	38.8	11.6	6.9	10.1	9.8
	Q2	40.8	41.1	10.1	6.5	8.2	10.1
	Q3	36.1	39.9	10.1	6.1	7.8	10.5
	Q4	28.6	47.1	9.9	6.7	8.2	10.7
2009	Q1	27.0	32.6	9.7	6.8	10.2	10.3
	Q2	28.0	27.9	10.8	6.5	7.7	11.2
	Q3	29.5	35.4	10.0	6.5	8.1	11.4
	Q4	30.1	45.1	9.0	6.6	11.7	11.6
2010	Q1	29.3	38.3	7.9	5.9	11.9	12.0
	Q2	29.0	33.2	9.0	5.9	11.5	12.2
	Q3	23.1	30.3	8.8	6.2	10.3	12.1
	Q4	29.8	34.3	8.6	6.7	11.9	12.0
2011	Q1	26.3	36.6	8.8	6.8	12.4	11.8
	Q2	27.8	34.2	9.5	5.7	9.8	12.5
	Q3	25.6	31.1	8.7	5.8	9.4	12.4
	Q4	26.3	37.5	8.4	5.8	12.0	12.2
2012	Q1	27.4	35.0	9.5	6.3	16.5	12.5
	Q2	28.6	37.4	9.8	5.7	10.4	13.0
	Q3	26.6	36.6	9.3	5.9	10.4	12.6
	Q4	30.9	37.8	8.7	6.3	11.4	13.4
2013	Q1	23.7	34.7	9.6	6.0	16.0	13.0
	Q2	30.6	38.8	9.6	6.0	10.0	13.2
	Q3	26.6	39.4	9.2	6.0	10.2	13.6
	Q4	27.3	39.1	8.8	6.3	11.0	14.0
2014	Q1	30.5	35.2	9.1	6.0	11.9	12.3
	Q2	29.4	40.0	9.8	6.0	9.2	12.9
	Q3	29.2	38.0	9.0	5.8	9.1	13.1

Source: Office for National Statistics

Notes:

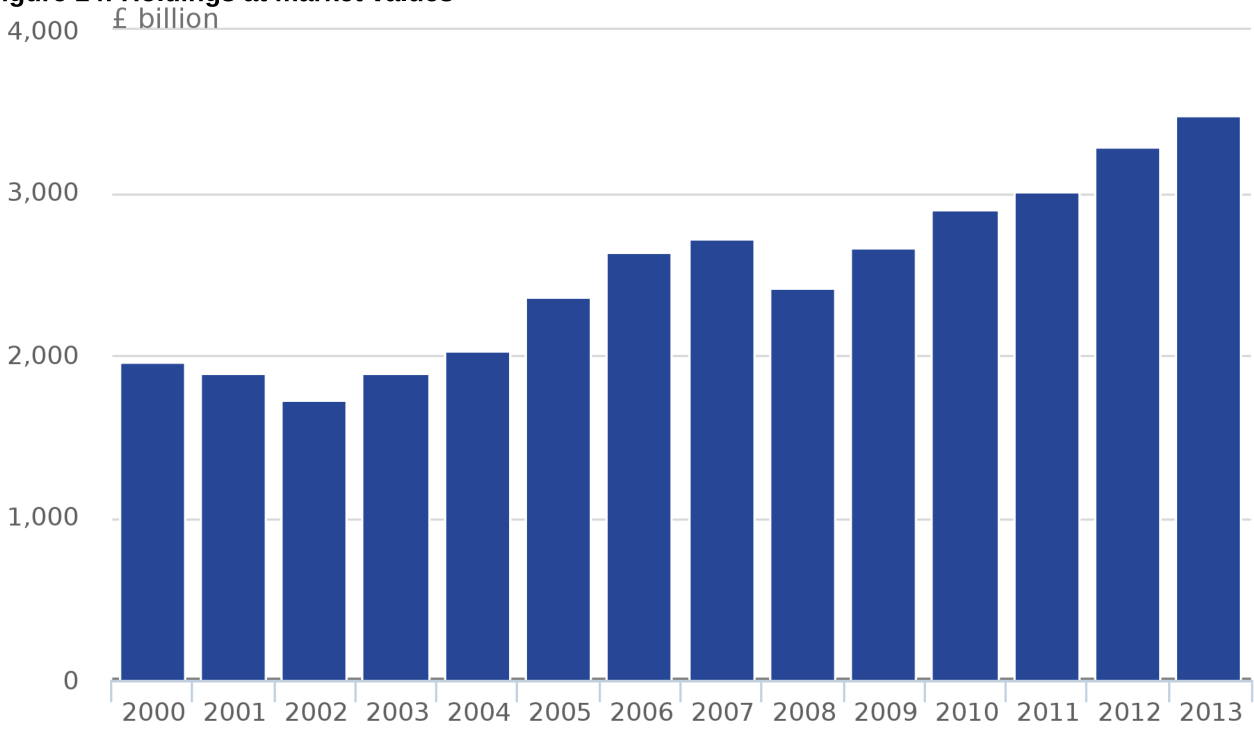
1.Components may not sum to totals due to rounding.

2.Data for all quarters of 2014 remain provisional and subject to revision until the incorporation of the 2014 annual survey results in December 2015.

7. Holdings at market values

The total assets of insurance companies, pension funds and trusts has increased each year since 2008 and at the end of 2013 was valued at £3,473 billion. This compares with £3,284 billion at the end of 2012 (Figure 14). This rise of 6% reflects both the revaluation of assets held through the year and the balance between the sales of some assets and the purchase of others (net investment or transactions).

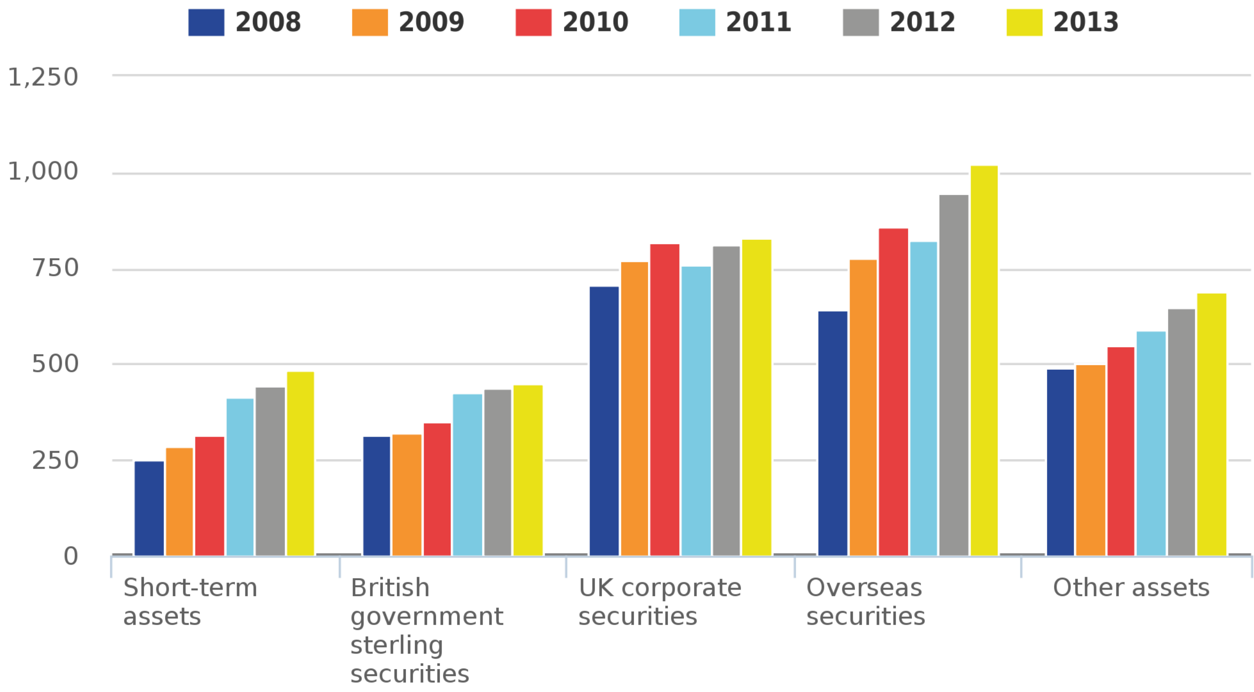
Figure 14: Holdings at market values



Source: Office for National Statistics

The value of assets rose for all five asset types in 2013 compared with 2012 (Figure 15). Short-term assets and overseas securities both increased by 8%, other assets by 6% and the values of British government sterling securities (gilts) and UK corporate securities both increased by 3%.

Figure 15: Holdings at market values by asset type



Analysing patterns of investment and the final value of different asset types during 2013 highlights some of the defining features of financial markets during this period (Table 4). The institutions covered by this release disinvested £20 billion in UK corporate securities in 2013, but the value of their holdings increased by 3%. This may reflect the increase in UK corporate share prices through 2013 compared with the previous few years following the downturn.

Table 4: Holdings at market values by asset type

£ billion

	Total	Short-term assets	British government sterling securities	UK corporate securities	Overseas securities	Other assets
2008	2,408.9	249.3	318.0	705.1	644.3	492.2
2009	2,657.4	285.4	323.0	770.5	777.3	501.3
2010	2,894.8	316.8	351.9	817.8	856.5	551.8
2011	3,009.8	414.1	423.8	757.1	825.3	589.5
2012	3,283.9	446.6	435.2	809.0	944.6	648.6
2013	3,472.5	483.4	449.1	831.4	1,021.5	687.1

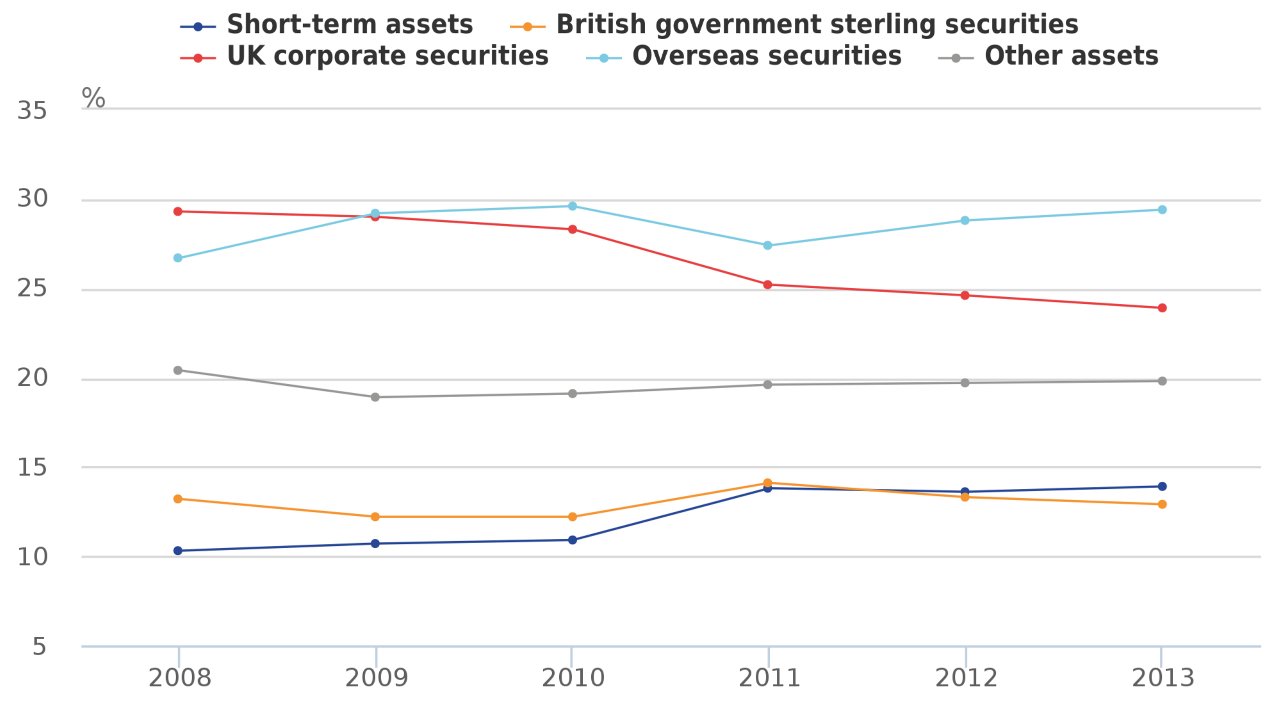
Source: Office for National Statistics

Notes:

1. Components may not sum to totals due to rounding.

In 2013, overseas securities were the largest asset type as a proportion of total holdings (29%). Holdings of UK corporate securities accounted for 29% of total holdings in 2008 but this decreased to 24% in 2013 (Figure 16). Over the same period, short-term assets increased from 10% to 14%.

Figure 16: Holdings at market value by asset type, as a proportion of total holdings



Source: Office for National Statistics

In 2013, for the fourth consecutive year, the value of overseas ordinary shares held by these institutions exceeded the value of UK ordinary shares (Table 5). These are the only years in this series (which started in 1964), where this has occurred. As recently as 2009, the value of UK ordinary shares held exceeded the value of overseas ordinary shares. Since 2009, holdings in overseas ordinary shares have increased by 37%, while holdings of UK ordinary shares increased by only 6%. This may suggest that investors feel overseas share markets offer a more profitable return.

Table 5: Holdings of UK and overseas securities at market values

£ billion

	UK securities			Overseas securities		
	Government sterling securities	Ordinary shares	Other [1]	Government securities	Ordinary shares	Other [1]
2008	318.0	445.0	260.1	65.2	396.0	183.1
2009	323.0	493.3	277.2	54.8	485.8	236.7
2010	351.9	534.8	283.0	57.5	557.4	241.7
2011	423.8	467.6	289.6	65.7	514.1	245.5
2012	435.2	489.3	319.7	79.9	588.1	276.6
2013	449.1	525.8	305.7	82.9	664.1	274.5

Source: Office for National Statistics

Notes:

1. Includes bonds and preference shares.

In 2013, mutual funds and other assets comprised 82% of the other assets total, which is in line with the 2012 estimate (Table 6). In 2013, UK loans made up 5% of the other assets total.

Table 6: Holdings of other assets at market values

£ billion

	UK loans	UK land, buildings and new construction	Mutual funds and other assets [1]
2008	23.8	79.9	388.4
2009	22.1	75.1	404.1
2010	22.8	85.1	443.8
2011	31.0	93.6	464.9
2012	34.0	87.8	526.7
2013	35.1	88.6	563.4

Source: Office for National Statistics

Notes:

1. UK and overseas. Includes authorised and unauthorised unit trust units; property unit trusts; investment trust securities; open-ended investment companies; hedge funds; other mutual fund investments not elsewhere classified; British government securities denominated in foreign currency; local authority and public corporation securities; overseas loans; other UK fixed assets; overseas fixed assets; investment in insurance managed funds, insurance policies and annuities; direct investment and other assets not elsewhere classified.

8. Revisions arising from the results of the 2013 annual surveys

This release is compiled using data from quarterly and annual surveys. The annual surveys provide a fuller view of financial activity by these institutions than can be obtained from the quarterly surveys, which frequently have to be estimated by the businesses that respond. As a consequence there are revisions to the published data for the year, including net investment. In the years 2002 to 2007 (that is, before the market shock) those net investment revisions, irrespective of sign, averaged approximately £8 billion. In the years 2008 to 2013 (when markets have been more fluid), the annual revisions have averaged approximately £26 billion.

For 2013, total net investment (difference between acquisitions and disposals of longer-term financial instruments, as well as changes in holdings of short-term assets) by these institutions is estimated to be £48 billion. This estimate is approximately £36 billion less than before the data from the annual surveys were available. This revision is due to the result of new information being available from a considerable number of businesses, many of which (particularly in the long-term insurance and pensions sectors) now take the view that their net investment during the year was at a lower level than their first estimate. It is important to note that many businesses forecast their first estimates. This further helps to explain the sizeable discrepancy between the two estimates, especially if financial markets, which have been hard to predict over the past few years, do not perform in line with these businesses expectations.

The largest single revision to net investment estimates, by asset type, was for UK corporate securities, which were revised downwards by £11 billion followed by British government sterling securities (Gilts) which were revised downwards by £10 billion.

Both acquisitions and disposals of longer-term financial instruments are now seen as having been at lower levels than first estimated. The revision for acquisitions by all businesses in the institutional groups covered by this release was around 3% and disposals are now also seen as being approximately 3% lower than before. The difference between the two is now approximately £7 billion less than previously estimated.

A spreadsheet is available giving a revisions triangle (152.5 Kb Excel sheet) for net investment estimates from 1996 to date. Further information on revisions is given in background note 7 and Table R in the reference tables (1.69 Mb Excel sheet) shows revisions by asset type.

9. Background notes

1. **Institutional groups**

Insurance companies

Active in both life insurance and non-life insurance, they also conduct pension business on behalf of companies and individuals.

Long-term business (mainly life insurance and pensions) has an emphasis on the spreading of risks over time, whereas general business (mainly home, motor and travel insurance) is largely concerned with the spreading of risks between persons and organisations.

Besides consisting largely of life insurance, long-term business also includes occupational and individual pension business. Pension business includes both insured funds and insurance managed funds. Fully insured funds belong to pension schemes where the schemes' trustees hold, as a sole asset, an insurance policy contract or an annuity contract. All the schemes' assets are held in one insurance company. Insurance managed business is where investment of the pension funds for a group of employees is managed by an insurance company. This is in the form of an investment contract in which the insurance company offers participation in one or more pooled funds. Insurance managed funds are reported both by insurance companies and self-administered pension funds, so caution should be exercised if combining estimates from the two sources.

The figures for long-term funds include items relating to shareholders' funds in respect of pure life companies. For other companies these items are consolidated into the figures for general funds.

Self-administered pension funds

A self-administered pension scheme is defined as an occupational pension scheme with units invested in one or more managed schemes or unit trusts. The trustees of these types of schemes can employ either an in-house fund manager to make the day-to-day investment decisions or they can opt to use an external manager to manage the investment. Insurance managed funds are reported both by insurance companies and self-administered pension funds (see 'Insurance Companies').

Fully insured funds are excluded but their activity is included in figures for insurance companies' long-term business.

The data in this release relates to the self-administered pension and superannuation funds of the private sector and to the funded, self-administered schemes of local authorities and employees previously employed in the nationalised industries. The main superannuation arrangements in central government are unfunded and these are excluded from the statistics.

Investment trusts

The figures cover investment trusts recognised as such by HM Revenue & Customs for tax purposes and some unrecognised trusts. Investment trusts companies acquire financial assets with money subscribed by shareholders or borrowed in the form of loan capital. They are not trusts in the legal sense, but are limited companies with two special characteristics: their assets consist of securities (mainly ordinary shares) and they are debarred by their articles of association from distributing capital gains as dividends. Shares of investment trusts are traded on the Stock Exchange and increasingly can be bought direct from the company.

Unit trusts

The data covers unit trusts authorised by the Financial Conduct Authority under the terms of the Financial Services and Markets Act 2000. The statistics include open-ended investment companies (OEICs) but they do not cover other unitised collective investment schemes (for example unauthorised funds run on unit trust lines by, for example, securities firms and merchant banks, designed primarily for the use of institutional investors) or those based offshore (Channel Islands, Bermuda etc.) or in other EU member states.

Unit trusts are set up under trust deeds, the trustee usually being a bank or insurance company. The funds in the trusts are managed not by the trustees, but by independent management companies. Units representing a share in the trusts' assets can be bought from the managers or resold to them at any time.

Property unit trusts

The statistics aim to cover all UK property unit trusts authorised under the terms of the Financial Services and Markets Act 2000. Property unit trusts invest predominantly in freehold or leasehold commercial property yet may hold a small proportion of their investments in the securities of property companies. Their assets are held in the name of a trustee and are managed on a co-operative basis by a separate committee (elected by the unit holders) or company.

2. **Basic Quality Information**

   A Quality and Methodology Information (268.3 Kb Pdf) (QMI) report can be found on the Office for National Statistics (ONS) website. The QMI report aims to provide users with a greater understanding of ONS's statistics, their quality and the methods that are used to create them.

3. **Administrative data**

   The surveys that underpin this release use administrative data sources as their target populations. Further information can be found in the QMI report linked in background note 2.

4. **Uses of data**

   The primary use of data from the insurance companies, pension funds and trusts surveys is in the Financial and Sector Accounts and the compilation of Gross Domestic Product (GDP) estimates within the UK National Accounts and the UK Balance of Payments. There are numerous other users within and outside government who use the data to produce various financial analyses and to inform policy decisions. Such users include:

   Bank of England: Data are used for monetary policy and financial stability monitoring.

   Department for Work & Pensions: Specifically interested in the investment activity of pension funds, and any pension business undertaken by insurance companies.

   HM Revenue and Customs : Data are used to aid taxation analysis of financial institutions.

   Association of British Insurers: Compare its own data to that of ONS, to ensure both datasets display similar trends.

   Department for Business, Innovation and Skills: Use data to analyse investment activity across various financial instruments.

   Debt Management Office: Data are used to monitor the investment activity in British government securities (gilts).

   Investment Management Association: Compare its own data to that of ONS to ensure both datasets display similar trends. They also use the data to provide an overall view of the UK savings and pensions markets and the components that make it up.

   European Union's Statistical Office (Eurostat): Use data to compile statistics at a European level to enable comparisons between countries and to support the development of European fiscal policy.

   Organisation for Economic Co-operation & Development (OECD): Analyse investment activity to help formulate economic growth and financial stability recommendations for member countries.

   Trade associations, city analysts, institutional investors and fund managers use these data for modelling or forecasting purposes and also to track asset allocation trends. Academics and journalists also use the data for research purposes.

5. **Your views matter**

   We are constantly aiming to improve this release and associated commentary. We would welcome any feedback you might have, and would be particularly interested in knowing how you make use of these data to inform your work. Please contact us via email: Financial.Inquiries@ons.gsi.gov.uk or telephone Fred Norris on +44 (0)1633 456109.

   There is a Business and Trade Statistics community on the StatsUserNet website. For more information, see background note 15.

6. **International comparisons**

It is difficult to meaningfully compare the 'Investment by Insurance Companies, Pension Funds and Trusts' release with that of other countries. This is largely due to different rules and regulations surrounding insurance and pension provision, and also because other countries do not combine data for these specific institutional groups into a single detailed publication. The focus for other countries is frequently on collecting data for National Accounts purposes, not on producing a separate publication for these institutional groups.

Many countries around the world use different sources to collect these data. In some cases the data collection is split between the national statistical office and the central bank (Belgium) or the industry regulator (Finland). The periodicity of data collection also varies between countries; some collect data quarterly (Sweden), others on an annual basis (New Zealand). In addition, some countries use a transactions approach (UK) to data collection, while others prefer a balance sheet style (Ireland).

International bodies such as the (OECD) compare institutional investment data across countries to help formulate economic growth and financial stability recommendations.

7. **Revisions**

Data for all quarters of 2014 remain provisional and subject to revision until the incorporation of the 2014 annual survey results in December 2015.

A revisions policy (50.7 Kb Pdf) is available to assist users with their understanding of the cycle and frequency of data revisions. Users of this release are strongly advised to read this policy before using the data for research or policy related purposes.

Quarterly

Revisions to the data for 2013 have been caused by incorporating the results of the 2013 annual insurance and pension funds surveys. As part of the processing of these results, discrepancies in the returns of individual respondents are identified and corrected by comparing their quarterly and annual returns.

Total net investment in 2013 has been revised downwards to £48 billion from a net investment of £84 billion published last quarter. The most notable revision was in UK corporate securities, which decreased by £11 billion.

Net investment for the first quarter of 2013 has been revised from £15 billion to £5 billion. In the second quarter a net investment of £26 billion was revised to £21 billion. In the third quarter net investment has been revised from £30 billion to £15 billion, and in the fourth quarter from £14 billion to £7 billion.

Data for Q2 2014 have been revised, partly as a result of late questionnaires being received and partly as a result of disaggregate data revisions. Net investment has been revised downwards from £15 billion to £11 billion.

Revisions to data provide one indication of the reliability of key indicators. The table below compares the first published estimate for total net investment with the equivalent figure published three years later. The data start with the first estimate published for Q4 2006 (in March 2007) and compares this with the estimate for the same quarter published three years later (in March 2010). The difference between these two estimates is calculated and this process is repeated for five years of data (all quarters up to Q3 2011). The averages of this difference (with and without regard to sign) are shown in the right hand columns of the table. These can be compared with the value of the estimate in the latest quarter. A statistical test has been applied to the average revision to find out if it is statistically significantly different from zero. An asterisk (*) shows if the test is significant.

Table 7: Revisions between first publication and estimates three years later

£ billion

	Value in latest quarter	Average revision	Average revision without regard to sign
Total net investment	23.2	1.7	6.6

Source: Office for National Statistics

A spreadsheet is available giving a revisions triangle (152.5 Kb Excel sheet) of estimates from 1996 to date and the calculations behind the averages in the table.

Annual

The introduction of annual survey results with the third quarter figures each year leads to revisions of the published quarterly estimates, both to income and expenditure, and to transactions data.

Revisions to transactions data are usually caused by problems with quarterly misreporting of data by businesses, which are identified as part of the quality assurance of the corresponding annual survey returns made by the businesses.

For income and expenditure, the revisions are due to the incorporation of the annual insurance survey results, which are based on larger samples and also generally reflect audited accounts. It is important to note that for both the pension funds and trusts sectors an annual income and expenditure survey is not undertaken.

For each 'set' of surveys (for example, quarterly transactions and quarterly income and expenditure surveys for pension funds) there is a common sample, but each survey is conducted independently, which can result in different response rates. In some instances individual survey questionnaires are completed by different people within the same business, and with limited linkage within existing systems between the surveys at the individual respondent level. Therefore, there can be discrepancies at an aggregate level between the numbers emerging from the transactions and income and expenditure surveys.

The set of annual surveys includes balance sheet data from the insurance companies and pension funds sectors. This allows the data to be 'aligned' so that transactions, income and expenditure and the balance sheet are consistent. The alignment process assumes that the transactions data are the weakest of the three strands of information and therefore takes the necessary adjustment. This assumption has been confirmed by contact with respondents when data have been queried. It is important to note that no alignment process is currently undertaken for the trusts sector.

The following table shows the average absolute values and revisions (without regard to sign), over the last five years (2009 to 2013), arising from the take-on of the annual survey results. A statistical test has been applied to the average revision to find out if it is statistically significantly different from zero. An asterisk (*) shows if the test is significant.

Table 8: Average values and revisions (2009 to 2013)

£ billion

	Average absolute values	Average absolute revisions
Long-term insurance companies		
Total income	219.9	8*
Total expenditure	217.1	8.3
Net investment	0.7	12.1
General insurance companies		
Total income	43.6	0.3
Total expenditure	41.7	1.6
Net investment	1.3	3.1*
Self-administered pension funds		
Net investment	20	15.3
Total net investment	57.2	27.0

Source: Office for National Statistics

Notes:

1. * A statistical test has been applied to the average revision to find out if it is statistically significantly different from zero. An asterisk (*) shows if the test is significant.

8. **Response rates**

The figures in this release are based on a system of quarterly and annual surveys collecting data on income and expenditure, transactions in financial assets and the balance sheet in separate surveys.

Table 9: Overall response rate by survey

Q3 2014	%
Transactions	
Long-term insurance companies	89
General insurance companies	91
Self-administered pension funds	88
Unit trusts	88
Investment trusts	89
Property unit trusts	90
Income and expenditure	
Long-term insurance companies	87
General insurance companies	86
Self-administered pension funds	89
2013 Annual	**%**
Balance sheet	
Long-term insurance companies	98
General insurance companies	98
Self-administered pension funds	93
Income and expenditure	
Long-term insurance companies	97
General insurance companies	98
Assets and liabilities	
Unit trusts	96
Investment trusts	89
Property unit trusts	93

Source: Office for National Statistics

9. **General information**

These points should be noted when examining reference tables:

- Total pension contributions made to funded schemes cannot be derived by summing pension premiums from table 2.4 and contributions from table 4.3. To do so would result in double counting since pension business premiums in table 2.4 include any premiums (including transfers) received from self-administered pension funds and any transfers within the long-term insurance sector. More information on this and on other work undertaken to improve pension statistics as part of the 2002 pension contributions statistics review can be found on the ONS website. These pages include a discussion note (25.5 Kb Pdf) on how insurance companies have been recording pension transactions in the surveys used as a source for this release and on improvements made to the survey questionnaires from the first quarter of 2004 to prevent mis-reporting.

- Certificates of deposits issued by overseas banks are included in short-term assets overseas.
- An increase in borrowing is indicated by a positive figure, a decrease by a negative figure.
- Total net investment for long-term funds includes investment by self-administered pension funds in insured funds.
- Loans to a parent authority by local authority funds are included with UK local authority securities.
- The consolidation adjustment is an adjustment to remove inter-sectoral flows between the different types of financial institution covered by this release. It has been calculated by identifying and calculating totals for net investment in mutual funds such as authorised unit trust units, investment trust securities and insurance managed funds by the institutions.
- Components in tables denominated in £ billion may not sum to totals due to rounding.

10. **Definitions and Symbols Used**

    † data have been revised since the last edition; the period marked is the earliest to have been revised. .. not available. - nil or less than £0.5 million.

    A glossary of the terms used in this release is available to assist users.

11. **Disclosure**

    It is sometimes necessary to suppress figures for certain items in order to avoid disclosing investment activity by individual institutions. In these cases the figures are usually combined with those for another item and this will be indicated in the tables by means of a footnote.

12. **National Statistics**

    The United Kingdom Statistics Authority has designated these statistics as National Statistics, in accordance with the Statistics and Registration Service Act 2007 and signifying compliance with the Code of Practice for Official Statistics.

    Designation can be broadly interpreted to mean that the statistics:

    - meet identified user needs
    - are well explained and readily accessible
    - are produced according to sound methods
    - are managed impartially and objectively in the public interest

    Once statistics have been designated as National Statistics it is a statutory requirement that the Code of Practice shall continue to be observed.

13. **Social Media**

    Follow ONS on Twitter and receive up to date information about our statistics.

    Like ONS on Facebook to receive our updates in your newsfeed and to post comments on our page.

14. **Government Statistical Service (GSS) Business Statistics**

    To find out about other official business statistics, and choose the right data for your needs, use the GSS Business Statistics Interactive User Guide. By selecting your topics of interest, the tool will pinpoint publications that should be of interest to you, and provide you with links to more detailed information and the relevant statistical releases. It also offers guidance on which statistics are appropriate for different uses.

15. **Discussing ONS Business Statistics online**

There is a Business and Trade Statistics community on the StatsUserNet website. StatsUserNet is the Royal Statistical Society's interactive site for users of official statistics. The community objectives are to promote dialogue and share information between users and producers of official business and trade statistics about the structure, content and performance of businesses within the UK. Anyone can join the discussions by registering via either of the links.

16. **Special Events**

ONS has published commentary, analysis and policy on 'Special Events' which may affect statistical outputs. For full details visit the Special Events page on the ONS website.

17. **Release policy**

All data in this release can be downloaded free of charge from the ONS website. Here are the instructions to obtain a full time series of data from the statistical bulletin or release pages:

- Select 'Data in this release';
- Select 'View datasets associated with this release';
- Select the latest release;
- Select 'Select series from this dataset';
- Select the reference table of interest;
- Select 'View series';
- Select the series of interest (Hint: for a custom download you can use SHIFT to select a range of series or CTRL to select multiple individual series);
- Select 'View selection';
- Select 'Download'.

18. Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

These National Statistics are produced to high professional standards and released according to the arrangements approved by the UK Statistics Authority.