Office for National Statistics

Article

Enhanced financial accounts (UK flow of funds) – Banking sector update

Overview of significant changes and improvements made to the banking sector statistics contribution to the experimental flow of funds.

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Table of contents

1 . Important things to note about these statistics

It is important to emphasise these are experimental statistics that have been produced in isolation of the normal national accounts production and quality assurance process. There are a number of caveats that users of the data should consider.

The data are not consistent with currently published UK financial account statistics, such as the UK Economic Accounts or the quarterly or annual national accounts, for example, and should not be used in place of the regularly published national statistics. The data have been produced outside of current processing of the national accounts, and the data will be revised prior to inclusion in any future annual national accounts. We will continue to evaluate and quality assure these experimental statistics and other new data with the aim of incorporating them into the UK National Accounts over the coming years. These experimental estimates may be subject to change as we develop, quality assure and integrate these data.

2 . Further granularity of banking sector counterparty relationships with non-banking financial sectors

In the production of the experimental flow of funds statistics, we have brought together the improved banking sector transformation statistics alongside other new data sources. This has enabled us to make further improvements to the granularity of non-banking financial sectors in several financial instruments. For this experimental enhanced financial accounts (EFA) release, the non-banking sectors have been split into seven distinct subsectors for some deposits, loans and financial derivatives. These sectors are:

- money market funds (S.123)
- non-money market fund investment funds (S.124)
- other financial intermediaries, except insurance corporations and pension funds (S.125)
- financial auxiliaries (S.126)
- captive financial institutions and money lenders (S.127)
- insurance corporations (S.128)
- pension funds (S.129)

As noted in A flow of funds approach to understanding financial crises, these non-banking sectors are particularly interconnected with the banking sector. Additionally, these subsectors undertake a wide variety of financial activities. In current national accounts, these subsectors are split into three aggregates. Insurance corporations and pensions funds are aggregated separately from the other non-banking financial subsectors with non-money market fund investment funds being reported as a subset of this. Our efforts to further separate these subsectors in this experimental release is a step toward improving granularity in future national accounts.

In both the current national accounts and the EFA experimental statistics, the Bank of England (BoE) provides data to the Office for National Statistics (ONS) that directly involve the banking sector (S.12C). This sector is otherwise known as deposit-taking corporations (DTCs). DTC positions with the seven non-banking financial sectors are recorded by the BoE as a single aggregate in most circumstances, except for financial derivatives where insurance and pensions are recorded separately from the five other sectors (S.123 to S.127). The BoE is also able to provide an industry breakdown of deposits, although not at the level of granularity needed to separate transferable deposits[1] from other deposits. There is similar detail available for loans, although not separated into short-term[2] and long-term[3] . Alongside these industry breakdowns, we have used additional sources brought in by the EFA project to estimate proportional splits of the BoE aggregates, which vary based on the underlying data.

These are primarily the ONS Financial Services Survey (FSS) and the Prudential Regulatory Authority Solvency II survey.

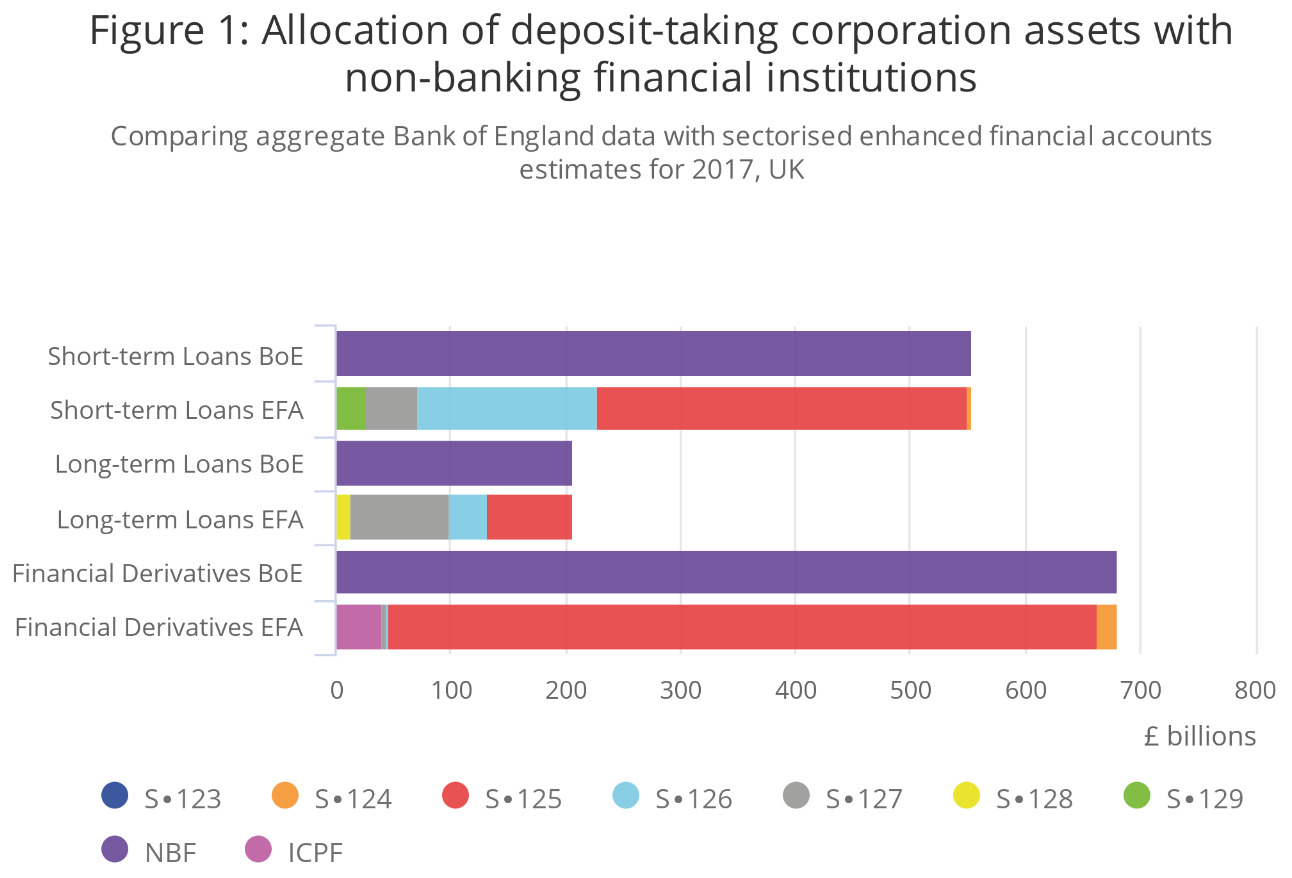
The FSS covers S.125, S.126 and S.127, with some known under coverage, such as bank holding companies. This is addressed in Update on additional sources. Details of the FSS can be found in the latest return of assets and liabilities article, which shows the proportional breakdown of S.125, S.126 and S.127 holdings across all financial instruments.

Solvency II data cover insurance corporations (S.128), with more information available in the Solvency II regulatory data article. While these are the main new sources, they do not cover all sectors mentioned earlier. We have made use of existing national accounts sources to inform our methodology for the remaining non-banking financial sectors (S.123, S.124 and S.129).

Data are constrained to the aggregate totals provided by the BoE because of the strength of this source. This work provides us with a unique view that is currently unattainable in national accounts or collected BoE data. Figures 1 and 2 (respectively) show these proportional splits when applied to DTC assets and liabilities of deposits, loans, and financial derivatives. In each case, we have maintained consistency with BoE aggregates.

Figure 1: Allocation of deposit-taking corporation assets with non-banking financial institutions

Comparing aggregate Bank of England data with sectorised enhanced financial accounts estimates for 2017, UK



Source: Bank of England; Office for National Statistics – Enhanced financial accounts

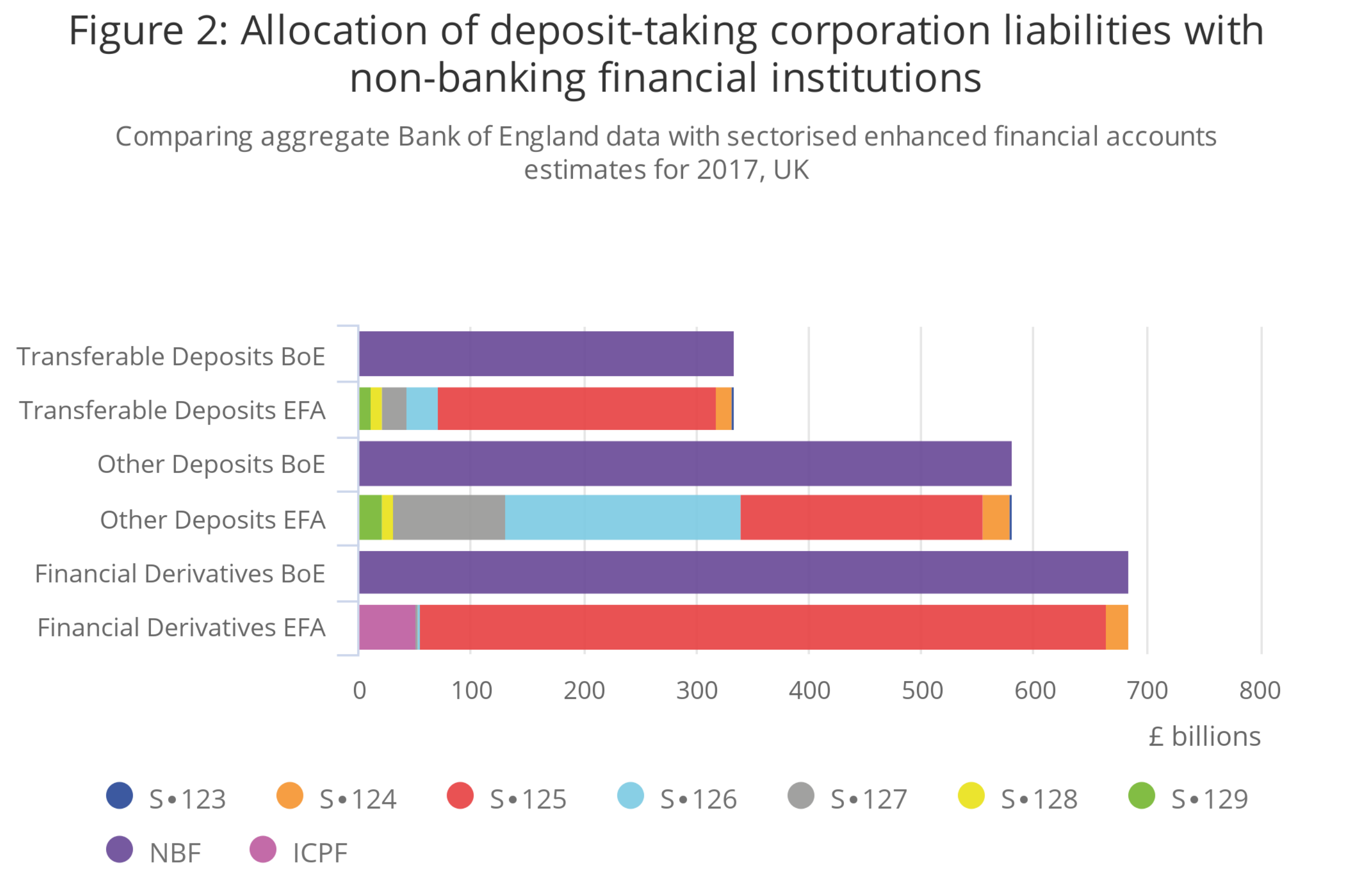
Notes:

1. NBF equals non-banking financial sectors (S.123 to S.129).

2. ICPF equals insurance corporations and pension funds (S.128 and S.129).

Figure 2: Allocation of deposit-taking corporation liabilities with non-banking financial institutions

Comparing aggregate Bank of England data with sectorised enhanced financial accounts estimates for 2017, UK



Source: Bank of England; Office for National Statistics – Enhanced financial accounts

Notes:

1. NBF equals non-banking financial sectors (S.123 to S.129).

2. ICPF equals insurance corporations and pension funds (S.128 and S.129).

Notes for: Further granularity of banking sector counterparty relationships with non-banking financial sectors

1. Transferable deposits can be exchanged for currency on demand.

2. Short-term loans refer to loans with an original maturity of one year or less or repayable on demand.

3. Long-term loans refer to loans with a maturity of more than one year or no stated maturity.

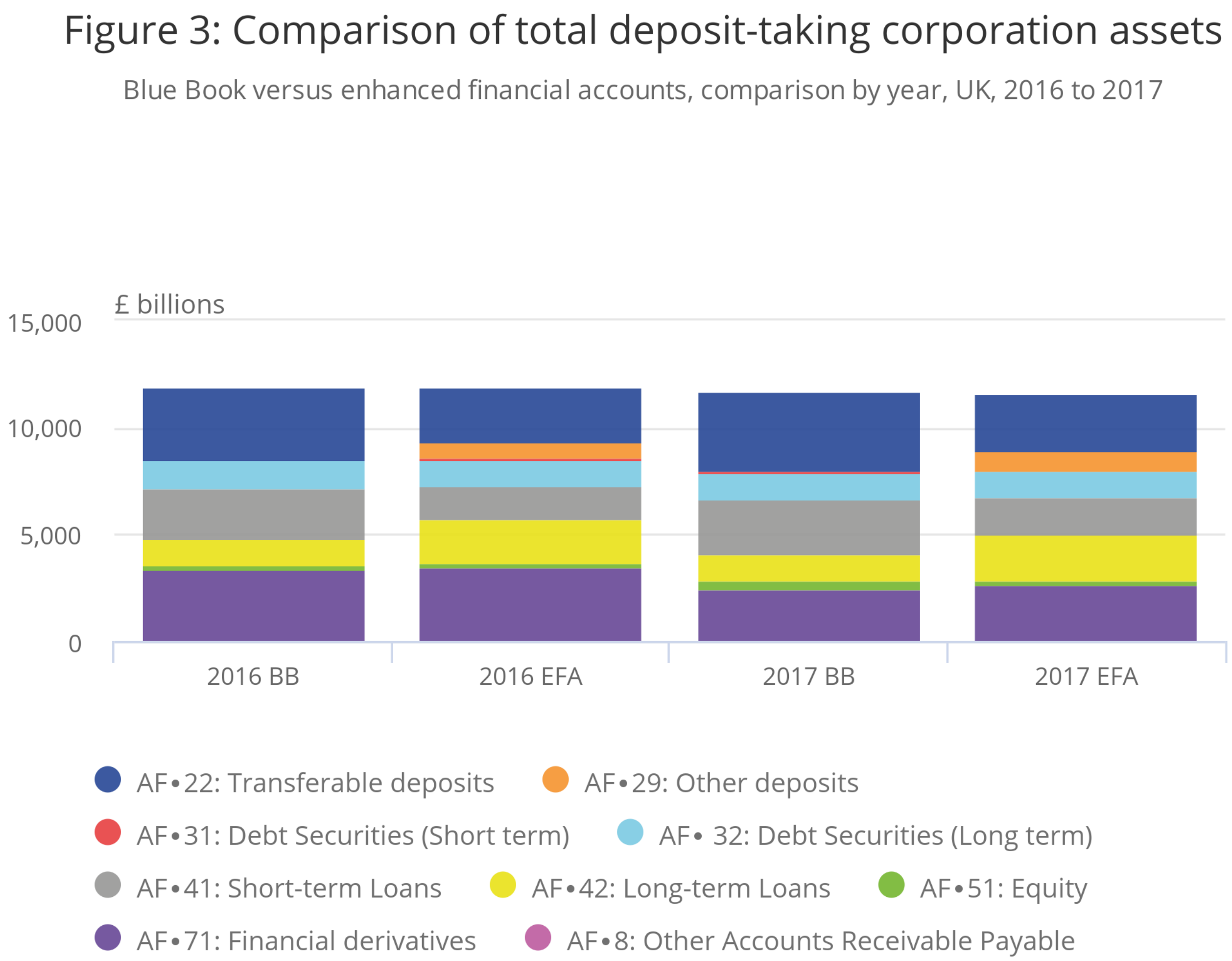
3 . Deposits and loans

A more refined separation of deposits (into transferable and other deposits) and loans (into short- and long-term) are two main improvements made in this experimental release. These improvements were made as part of the flow of funds project in collaboration with the Bank of England (BoE). While these changes are an important step towards greater statistical consistency with national accounting standards, as set out in the European System of Accounts 2010 (ESA 2010), there is significant work required before their implementation in the core national accounts.

Figure 3 shows the impact of experimental changes to the banking sector assets by instrument, comparing the data currently published in Blue Book 2019 with those in this experimental release (that is, the enhanced financial accounts, EFA). Figure 4 shows the same for banking sector liabilities.

Figure 3: Comparison of total deposit-taking corporation assets

Blue Book versus enhanced financial accounts, comparison by year, UK, 2016 to 2017



Source: Office for National Statistics – Blue Book and enhanced financial accounts

Notes:

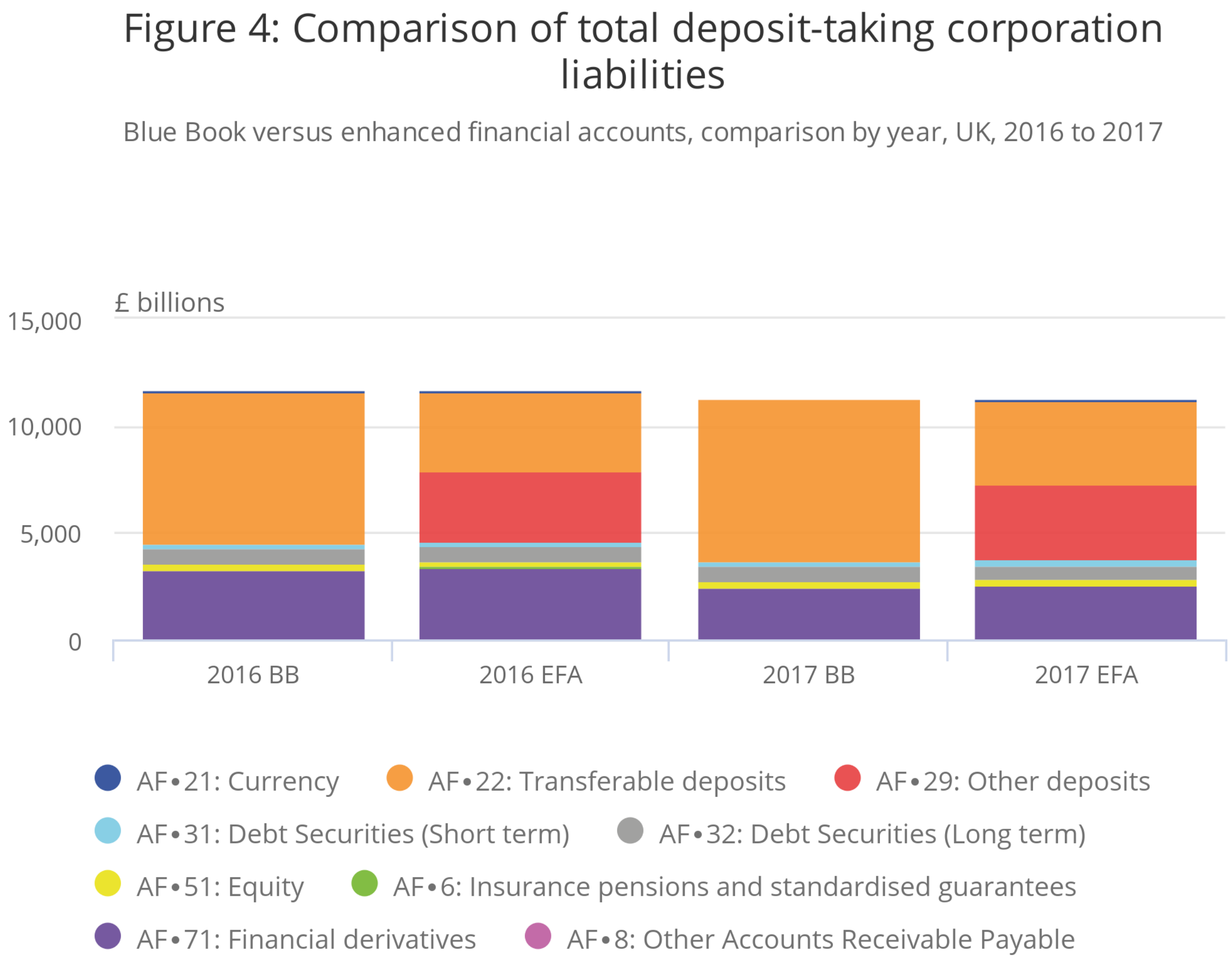
1. AF.21: Currency; AF.52: Investment fund shares or units; and AF.6: Insurance, pensions and standardised guarantees have been omitted from these charts as they are negligible in size, but they are included in the accompanying tables.

2. There is no available data for AF.1: Monetary gold and special drawing rights or AF.72: Employee stock options.

[Additional table for figure 3](#)

Figure 4: Comparison of total deposit-taking corporation liabilities

Blue Book versus enhanced financial accounts, comparison by year, UK, 2016 to 2017



Source: Office for National Statistics – Blue Book and enhanced financial accounts

Notes:

1. AF.72: Employee stock options has been omitted from these charts as it is negligible in size, but it is included in the accompanying tables.

2. There is no available data for AF.1: Monetary gold and special drawing rights and AF.52: Investment fund shares or units.

3. AF.41: Short-term loans and AF.42: Long-term loans granted to monetary financial institutions are classified, by convention, as deposits in national accounts.

[Additional table for figure 4](#)

The redistribution of deposits is shown in Figures 3 and 4 by the decrease in transferable deposits and corresponding increase in other deposits within the EFA data. This allows us greater insight into how much of the banking liability in deposits is exchangeable for currency on demand. For instance, in [Figure 6 of the banking sector transformation article](#), we highlighted the preference within the household sector (S.14) for more liquid transferable deposit assets in recent years. While trends like this are not fully visible in the EFA matrices because of limited time periods, this demonstrates the type of analysis that could be made possible by this redistribution of deposits in future national accounts.

Similarly, the loan reclassification is visible in Figure 3 through the reduction of short-term loans mirrored by an increase in long-term loans in EFA data. This change represents long-term loans other than mortgages, which have been reclassified from short-term loans to long-term loans. This provides us with a new experimental estimate of banking sector financial loan assets that includes an indication of loan maturity. For example, in Figure 8 of the banking sector transformation article, we have shown that this reclassification reveals most of private non-financial corporations' loan debt to deposit-taking corporations (DTCs) to be long term in nature.

You can read about these changes in more detail, along with supplementary analysis, in the recent banking sector transformation article.

4 . Update on additional sources

The experimental enhanced financial accounts (EFA) data have been further enhanced by including some of the additional sources referenced in the next steps for the banking sector transformation. These sources include updated Bank for International Settlements (BIS) data and new bank holding companies (BHC) balance sheet data. While the work needed to fully incorporate these sources into the financial accounts is not yet complete, we were able to provide asset and liability balances for 2016 and 2017 in this experimental release.

The BHC balance sheet data has been incorporated into the Captive financial institutions and money lenders (S. 127) sector as the Financial Services Survey (FSS) only includes holding companies of non-banks. While users will not see BHCs as a separate sector in the EFA flow of funds, this is an important step towards comprehensive coverage of captive financial institutions and money lenders. As mentioned in the banking sector transformation article, we are due to receive improved bank-owned financial vehicle corporations and specialist mortgage lenders' balance sheet data in the future and plan to incorporate them into our EFA dataset in a similar way. These are collected via Bank of England (BoE) surveys, and this greater detail will enable us to classify these elements of the non-banking financial sectors more accurately than is currently possible.

BIS data have provided a new estimate for the rest of the world banks' loan assets and deposit liabilities held with UK resident sectors. In an increasingly connected economic landscape, it is important to accurately monitor UK interactions with the rest of the world.

We will continue to evaluate and quality assure these new data and adapt methodology when new sources become available to the EFA project. We will continue to take steps towards their inclusion within the UK National Accounts.

5 . Related links

1. Enhanced financial accounts flow of funds experimental statistics 2019
2. Banking Sector Transformation
3. Financial Services Survey return of assets and liabilities
4. Solvency II regulatory data article
5. UK National Accounts, The Blue Book: 2019
6. A flow of funds approach to understanding financial crises
7. European System of Accounts 2010 (ESA 2010)
8. Bank for International Settlements (BIS)
9. Bank of England