Statistical bulletin

MQ5: Investment by Insurance Companies, Pension Funds and Trusts: Q4 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:
To be announced

Table of contents

1. Key points

- Net disinvestment of £11 billion was reported by insurance companies, pension funds and trusts in the fourth quarter of 2014. This was the first quarter of net disinvestment for this series since the fourth quarter of 2008 (£20 billion)

- In Q4 2014, net investment by unit trusts and property unit trusts (£2 billion) was the smallest by this institutional group since the fourth quarter of 2007 (net disinvestment of £1 billion)

- The 2014 provisional annual estimate of net investment by insurance companies, pension funds and trusts was £39 billion, compared with £48 billion in 2013

- The 2014 provisional annual estimate of net investment by long-term insurance companies in mutual funds (£30 billion) was the largest level of net investment since the start of this series in 2000

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).

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

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 compilation of 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 £7 billion.

The estimate of total net investment for Q3 2014 (last quarter) has been revised downwards by £7 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. Announcement: MQ5 user consultation

Over the next three years, changes to ONS surveys that cover the financial sector will be necessary to ensure compliance with the new European System of Accounts 2010 (ESA10). ESA10 introduces significant changes in the measurement and classification of financial instruments and the structure of the financial sector. This will result in wide ranging changes to the surveys used to collect the data presented in MQ5.

To ensure these statistics continue to meet user needs as far as possible, ONS would like to hear from users about how they use MQ5 data and their preferences for the future publication of these statistics. ONS would also like to engage with users on the ongoing development of these statistics.

To enable ONS to fully understand user needs, please take the time to participate in this consultation.

4. Net investment by asset type

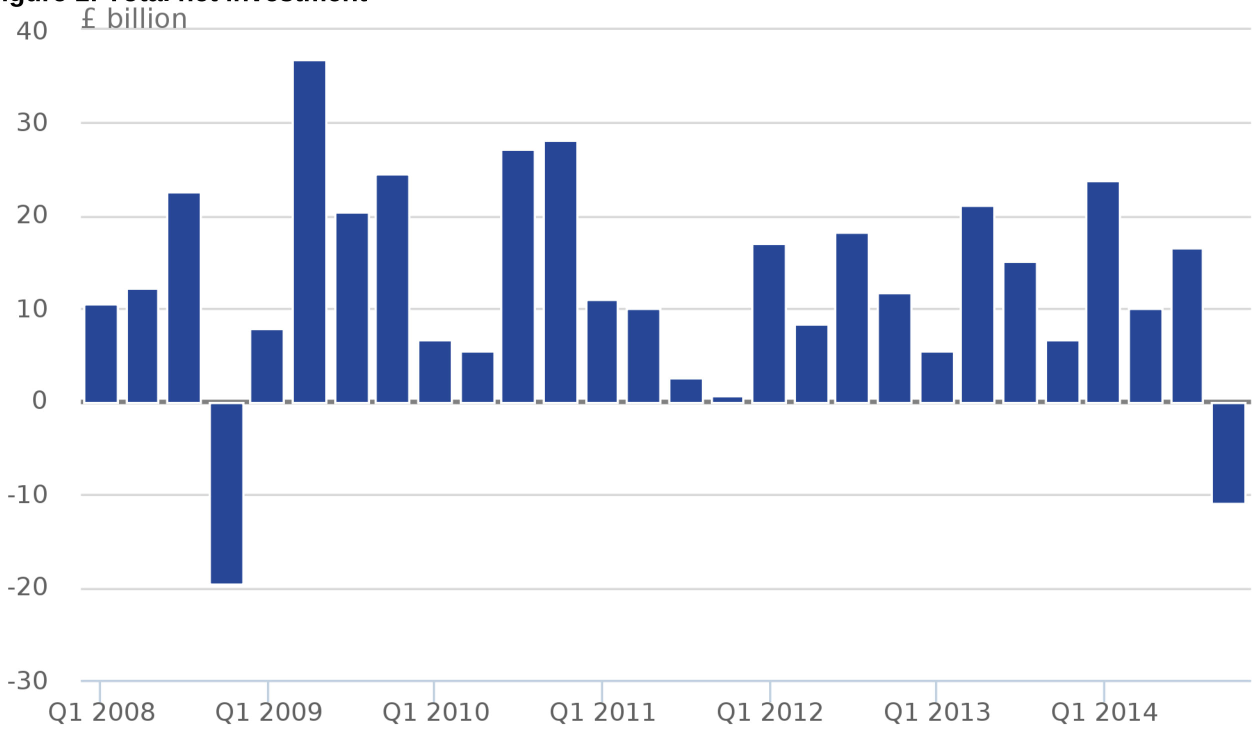
The total assets of the businesses covered by this release (insurance companies, pension funds and trusts) were valued at £3,473 billion at the end of 2013, the latest period for which annual results are available. During 2013, these businesses acquired £1,666 billion and disposed of £1,638 billion longer-term 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 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 £12 billion. The highest quarterly estimate of net investment since records began (in 1987) was £43 billion in Q3 2007.

Data for all quarters of 2014 remain provisional and subject to revision until the incorporation of the 2014 annual survey results in December 2015. In Q4 2014 there was net disinvestment of £11 billion (Figure 1). Net disinvestment was reported across short-term assets, UK government sterling securities, UK corporate securities and overseas securities. This was partly offset by net investment in other assets. Total net disinvestment last occurred in Q4 2008 (£20 billion).

For 2014 as a whole, net investment reported by the institutions covered by this release is estimated at £39 billion, compared with £48 billion and £56 billion in 2013 and 2012 respectively.

Figure 1: Total net investment



Source: Office for National Statistics

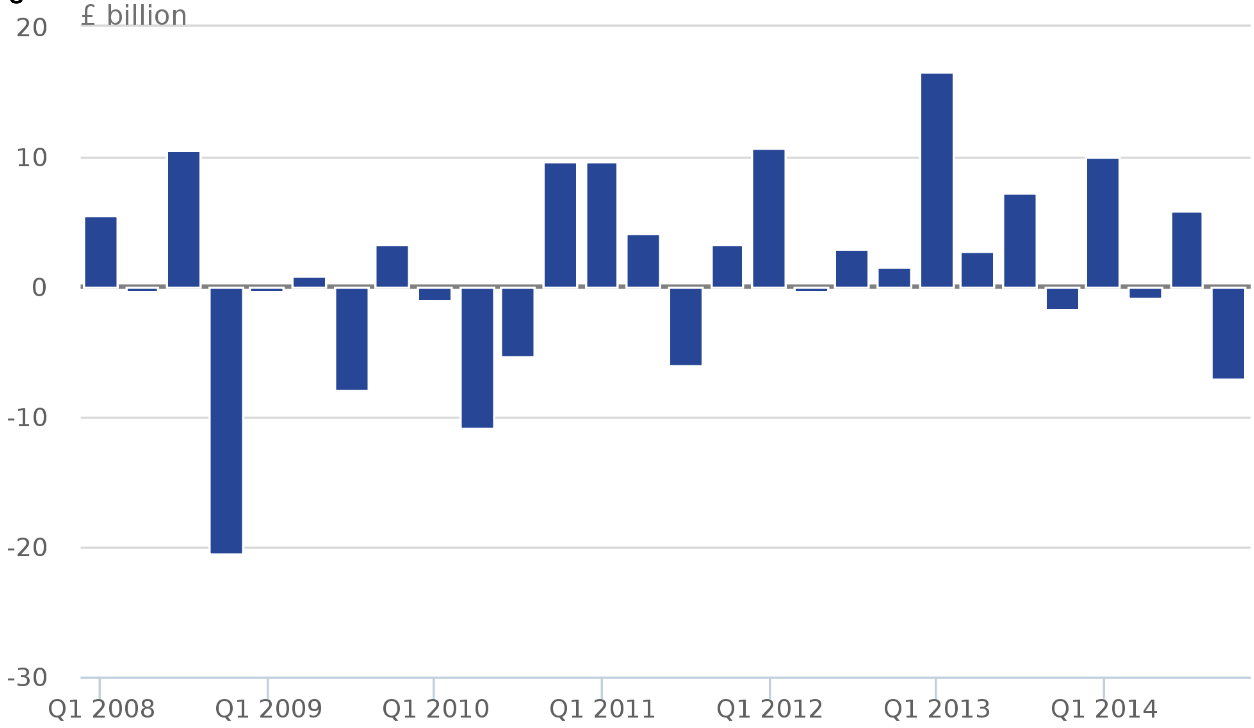
Short-term assets

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 Q4 2014 there was net disinvestment of £7 billion in short-term assets, following net investment of £6 billion last quarter (Figure 2). The five-year quarterly average for this series is net investment of £3 billion. The provisional estimate of net investment in short-term assets for 2014 as a whole (£8 billion) is the lowest annual estimate since net disinvestment of £8 billion in 2010.

The net disinvestment in short-term assets in Q4 2014 was the largest since Q2 2010 (£11 billion). While this may be a single quarter occurrence, further data would be required to confirm this potential trend.

Figure 2: Net investment in short-term assets



Source: Office for National Statistics

UK government sterling securities (Gilts)

Gilts are fixed income or index-linked bonds issued by the UK 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.

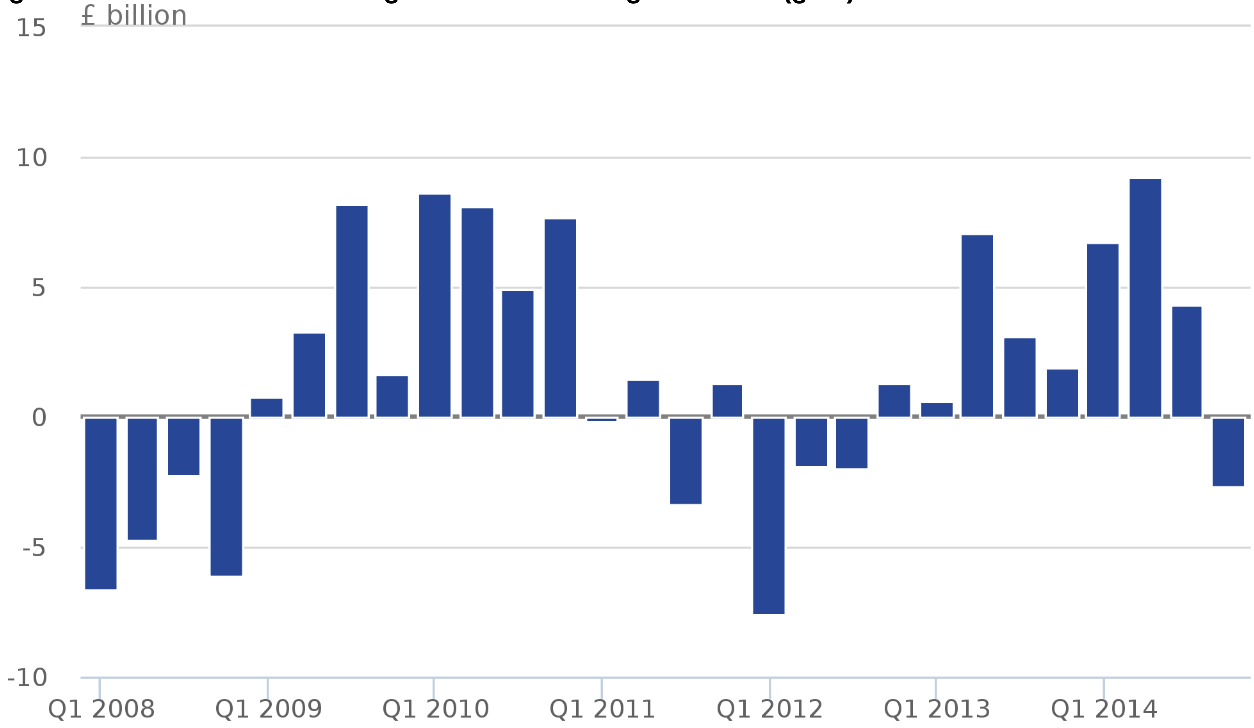
The institutions covered by this release reported net disinvestment in gilts in Q4 2014 of £3 billion (Figure 3). This was the first quarter of disinvestment since Q3 2012. The five-year quarterly average for this series is net investment of £2 billion.

Net investment in gilts is estimated to be £18 billion in 2014, following net investment of £13 billion in 2013. This was preceded by net disinvestment in 2011 and 2012. This reversal in favour of investment may reflect a change of investment strategy among some market participants (particularly pension funds). Looking at this annual picture, it would seem to suggest that investors are switching back to 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 UK government sterling securities (gilts)



Source: Office for National Statistics

UK corporate securities and overseas securities

These asset categories comprise of 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.

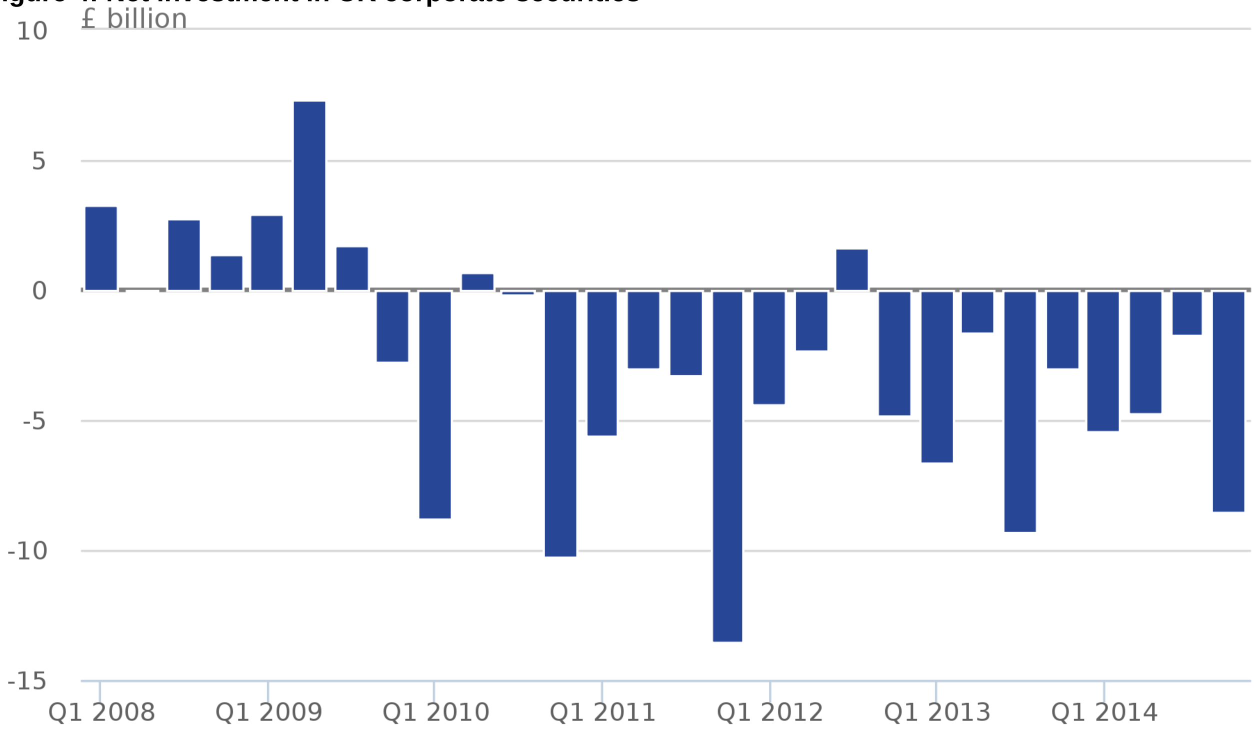
This shift in behaviour is supported by external analysis. In May 2014, The Telegraph commented on research undertaken by Capita, suggesting that dividend payments for British shares will fall during 2014 and observed "with these clouds on the horizon some experts argue income investors should instead 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."

In Q4 2014 there was net disinvestment in both UK corporate securities and overseas securities, for the first time since the first quarter of 2013.

UK corporate securities

In Q4 2014 there was net disinvestment (£9 billion) in UK corporate securities (Figure 4). This follows net disinvestment of £2 billion in Q3 2014 and continues a period of disinvestment that now extends over nine quarters. The 2014 provisional annual estimate was net disinvestment of £20 billion in UK corporate securities, the same as in 2013.

Figure 4: Net investment in UK corporate securities



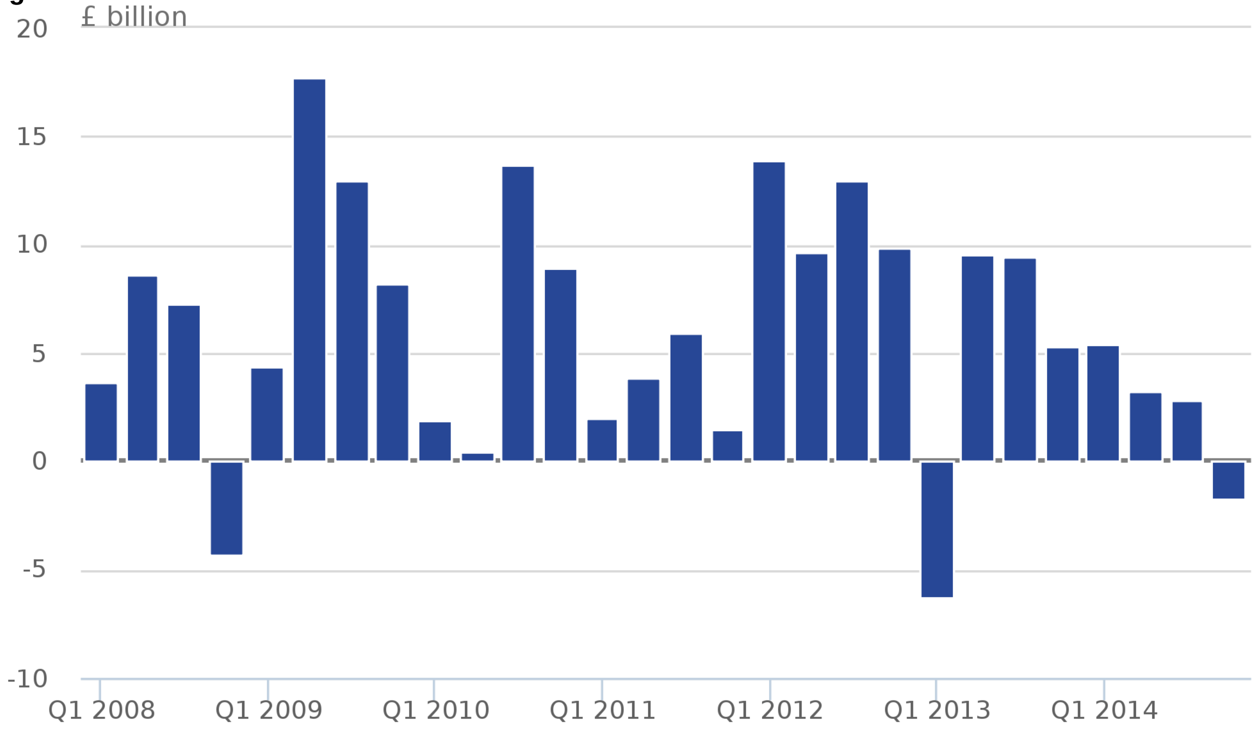
Source: Office for National Statistics

Overseas securities

In Q4 2014 the institutions covered by this release reported net disinvestment in overseas securities of £2 billion (Figure 5). This was driven by net disinvestment in overseas shares of £4 billion and was the first quarter of net disinvestment in overseas securities since Q1 2013.

Long-term insurance companies reported net disinvestment of £1 billion, the fifth consecutive period of disinvestment in overseas securities by these companies. This continuing trend is not shown in estimates provided by the other institutional groups.

Figure 5: Net investment in overseas securities



Source: Office for National Statistics

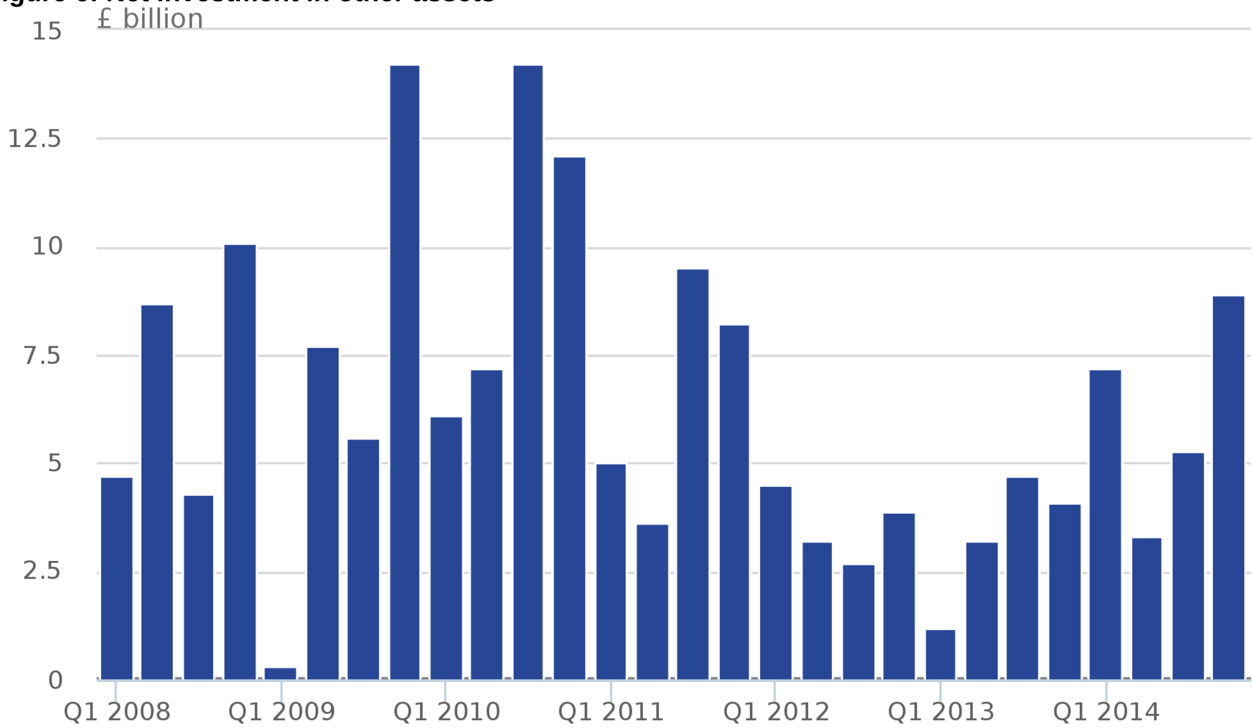
Other Assets

The category ‘other assets’ covers UK and overseas investment, and includes: UK 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 £9 billion in Q4 2014 (Figure 6) is higher than the five-year quarterly average for this series of £6 billion and is the largest net investment since the third quarter of 2011.

In Q4 2014 self-administered pension funds reported net investment in other assets of £6 billion. This was the largest net investment in other assets by this institutional group since Q4 2012 and was driven by net investment of £5 billion in mutual funds.

Figure 6: Net investment in other assets



Source: Office for National Statistics

Table 1: Net investment by asset type

£ billion

		Total	Short-term assets	UK 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
2014		39.5	7.9	17.5	-20.3	9.7	24.6
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	23.9	10.0	6.7	-5.4	5.4	7.2
	Q2	10.0	-0.9	9.2	-4.7	3.2	3.3
	Q3	16.6	5.9	4.3	-1.7	2.8	5.3
	Q4	-11.0	-7.0	-2.7	-8.5	-1.7	8.9

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

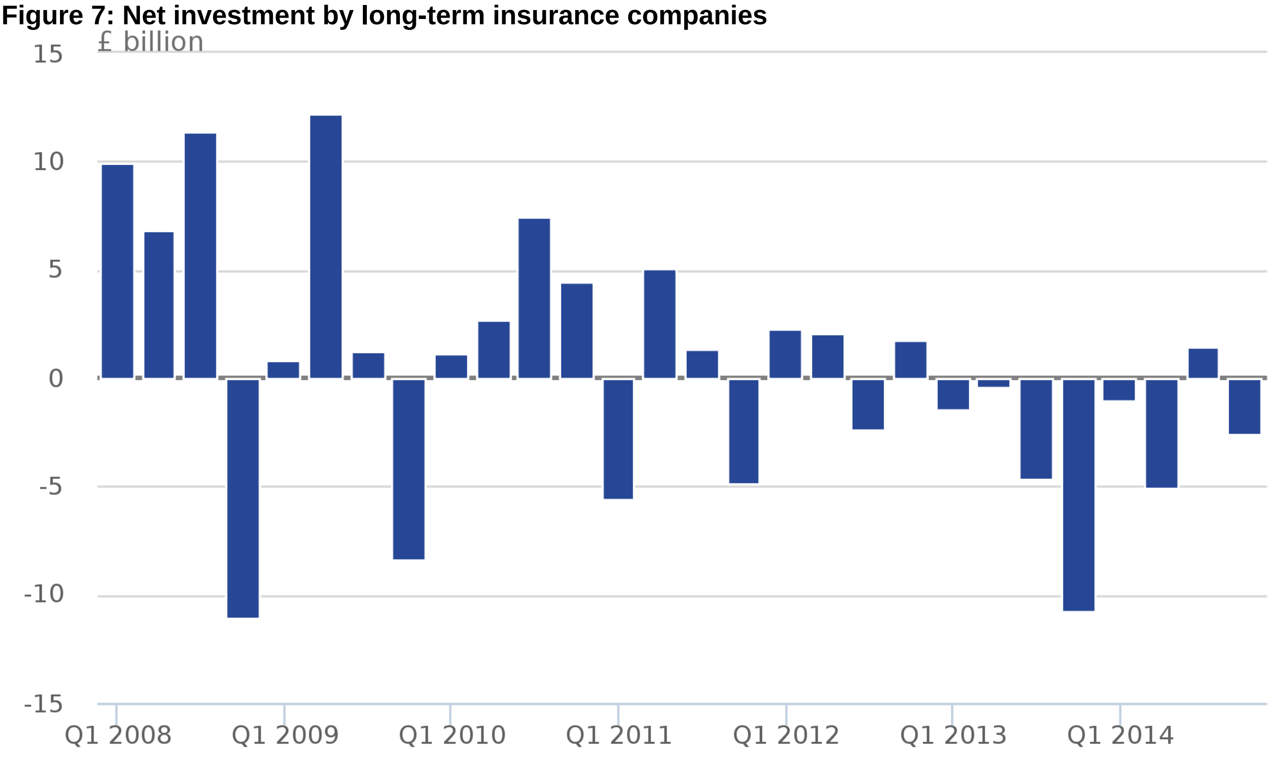
These are companies which provide either protection in the form of life assurance or critical illness policies, or investment in the form of pension provision.

Long-term insurance companies showed net disinvestment of £3 billion in the fourth quarter of 2014 (Figure 7). This was the seventh quarter of net disinvestment by these companies since Q4 2012.

The provisional estimate of net disinvestment for 2014 as a whole (£7 billion) follows net disinvestment in 2013 (£17 billion) and 2011 (£4 billion). These are the only instances of annual disinvestment recorded for this series, which dates back to 1963.

In 2014, long-term insurance companies showed net disinvestment in UK corporate securities, gilts and overseas securities of £19 billion, £13 billion and £11 billion respectively. This contrasts with the provisional 2014 estimate of net investment by long-term insurance companies in mutual funds (£30 billion), which was the largest level of net investment since the start of the series in 2000. It may be that these businesses are investing more in mutual funds in an effort to diversify and manage risk.

Figure 7: Net investment by long-term insurance companies



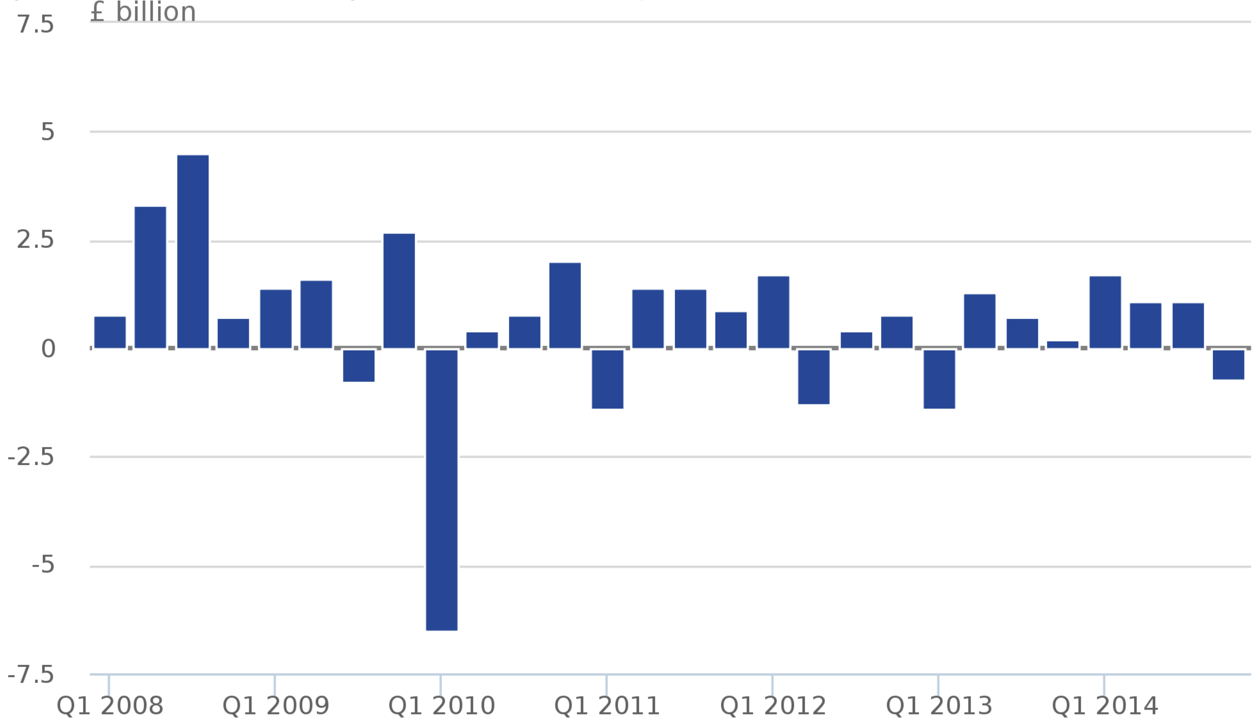
Source: Office for National Statistics

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 disinvestment in Q4 2014 of £1 billion (Figure 8), the first quarter of net disinvestment since Q1 2013. The five-year quarterly average for this series is net investment of £0.2 billion.

Figure 8: Net investment by general insurance companies



Source: Office for National Statistics

Self-administered pension funds

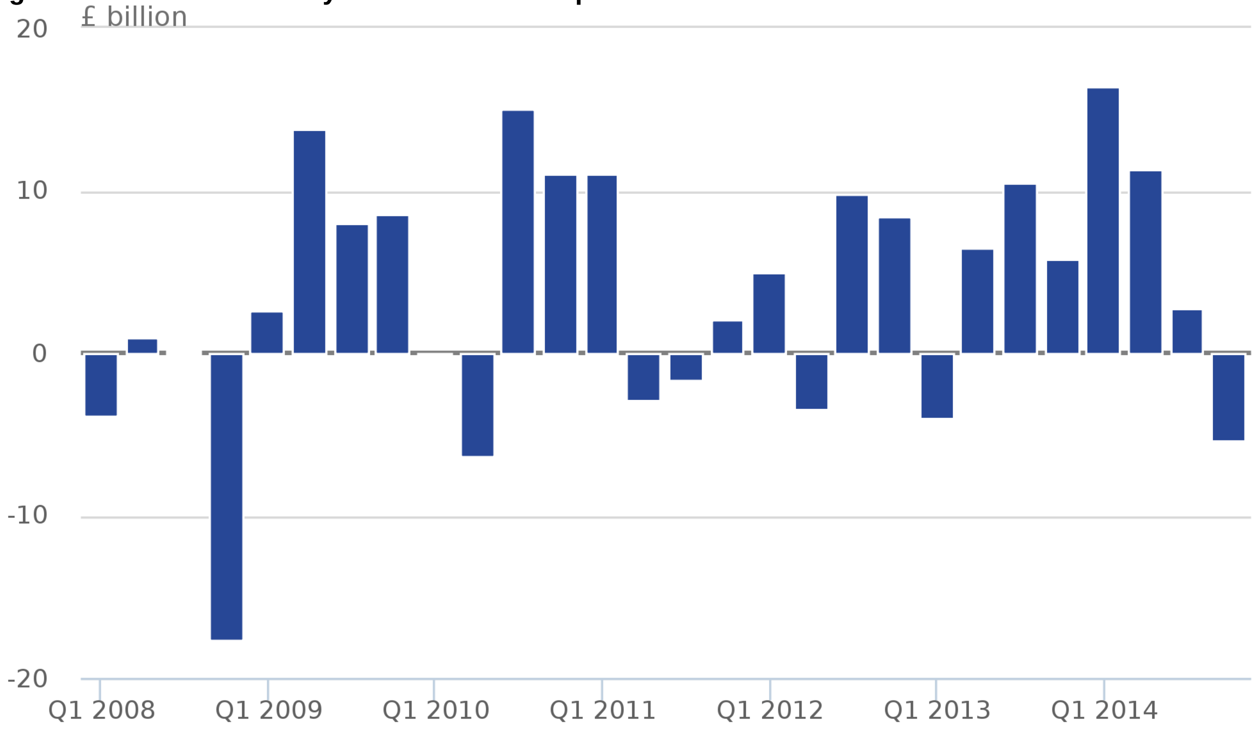
These are funds established by pension scheme trustees to facilitate and organise the investment of employees' retirement funds.

Self-administered pension funds showed net disinvestment in Q4 2014 of £5 billion (Figure 9). This was the first quarter of net disinvestment since Q1 2013.

Overall, self-administered pension funds reported strong net investment in gilts during 2014. Net investment of £9 billion reported in both the first and second quarters of 2014, were the largest quarterly net investments in gilts reported by this institutional group since the start of the time series in 1963. However, in the second half of the year the level of net investment in gilts fell to £3 billion and £0.1 billion in Q3 2014 and Q4 2014 respectively.

It is possible that pension changes announced in the March 2014 Budget may prompt 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 net investment 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 and property unit trusts

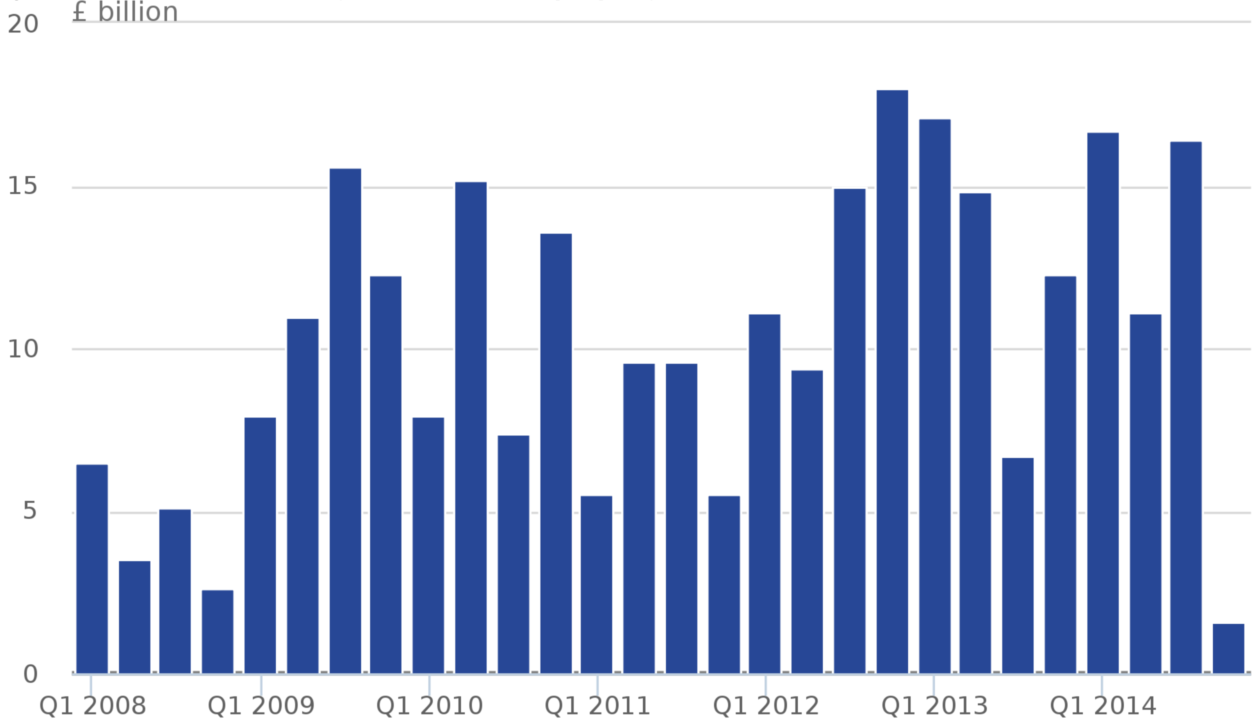
Unit trusts include open-ended investment companies (OEICs) but do not cover other unitised collective investment schemes or those based offshore. They are set up under trust deeds; the trustee usually being a bank or insurance company. The funds in the trusts are managed not by the trustees, but by 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 fourth quarter of 2014, their 28th successive quarter of net investment (Figure 10). However the level of net investment by unit trusts and property unit trusts in Q4 2014 (£2 billion) is the smallest since Q4 2007 and much lower than the five-year quarterly average for this institutional group (£11 billion).

The provisional full-year estimate of net investment by unit trusts and property unit trusts for 2014 (£46 billion) follows net investment of £53 billion in 2012 and £51 billion in 2013. These annual estimates for 2012 and 2013 are the highest annual levels of net investment ever recorded for any institutional group.

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
2014		39.5	-7.3	3.2	25.1	1.1	45.9	-28.4
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	23.9	-1.0	1.7	16.4	0.1	16.7	-10.1
	Q2	10.0	-5.1	1.1	11.3	0.4	11.1	-8.8
	Q3	16.6	1.4	1.1	2.8	0.4	16.4	-5.5
	Q4	-11.0	-2.6	-0.7	-5.4	0.2	1.6	-4.1

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.

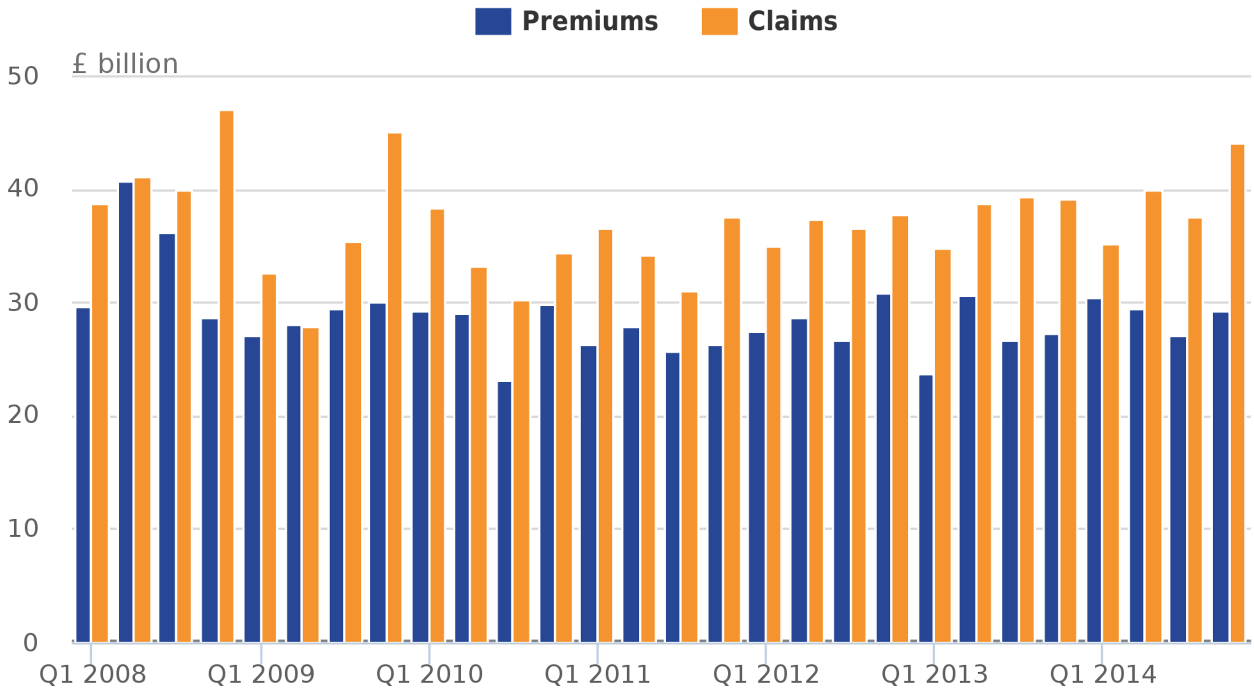
Long-term insurance companies

In the fourth quarter of 2014, the value of long-term insurance premiums was £29 billion (Figure 11), an increase from £27 billion in 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. Provisional estimates for 2014 show the value of claims to be around 35% greater than the value of premiums.

In Q4 2014, long-term insurance claims (£44 billion) were at their highest level since the fourth quarter of 2009. The difference between the level of claims and premiums (£15 billion) was greater than at any time since the fourth quarter of 2009.

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

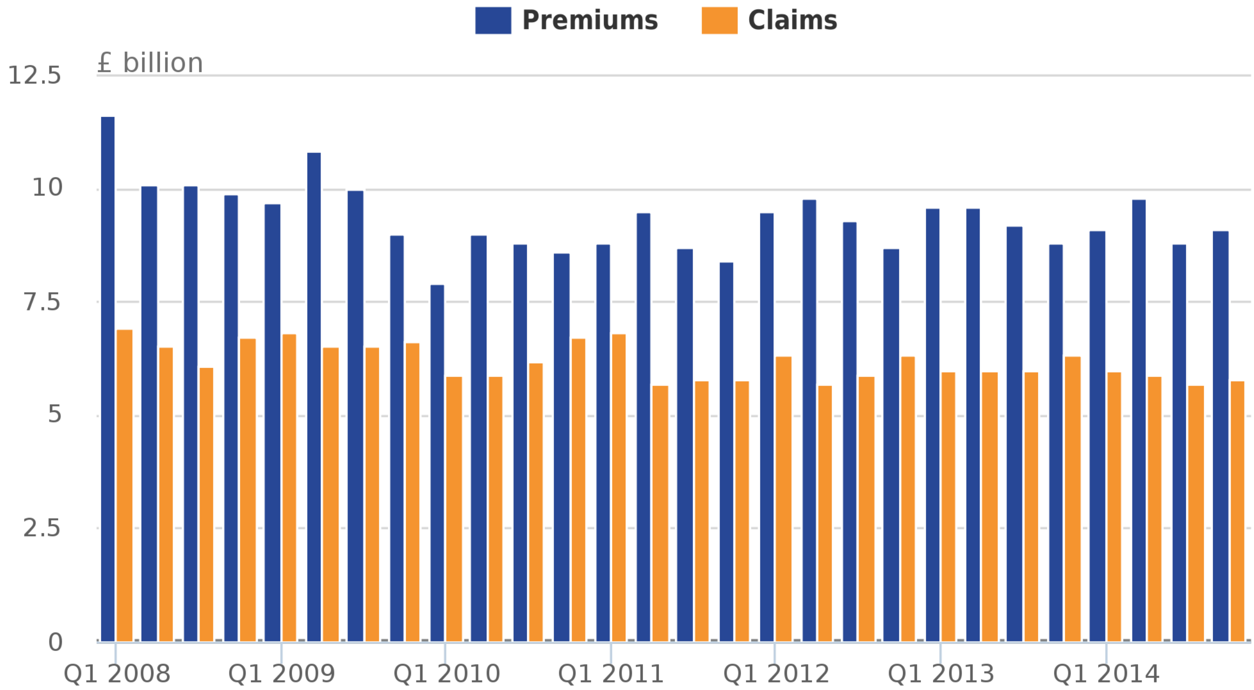


Source: Office for National Statistics

General insurance companies

For general insurance, premiums (£9 billion) were around 56% greater than the value of claims (£6 billion) in Q4 2014 (Figure 12).

Figure 12: General insurance companies’ premiums and claims



Source: Office for National Statistics

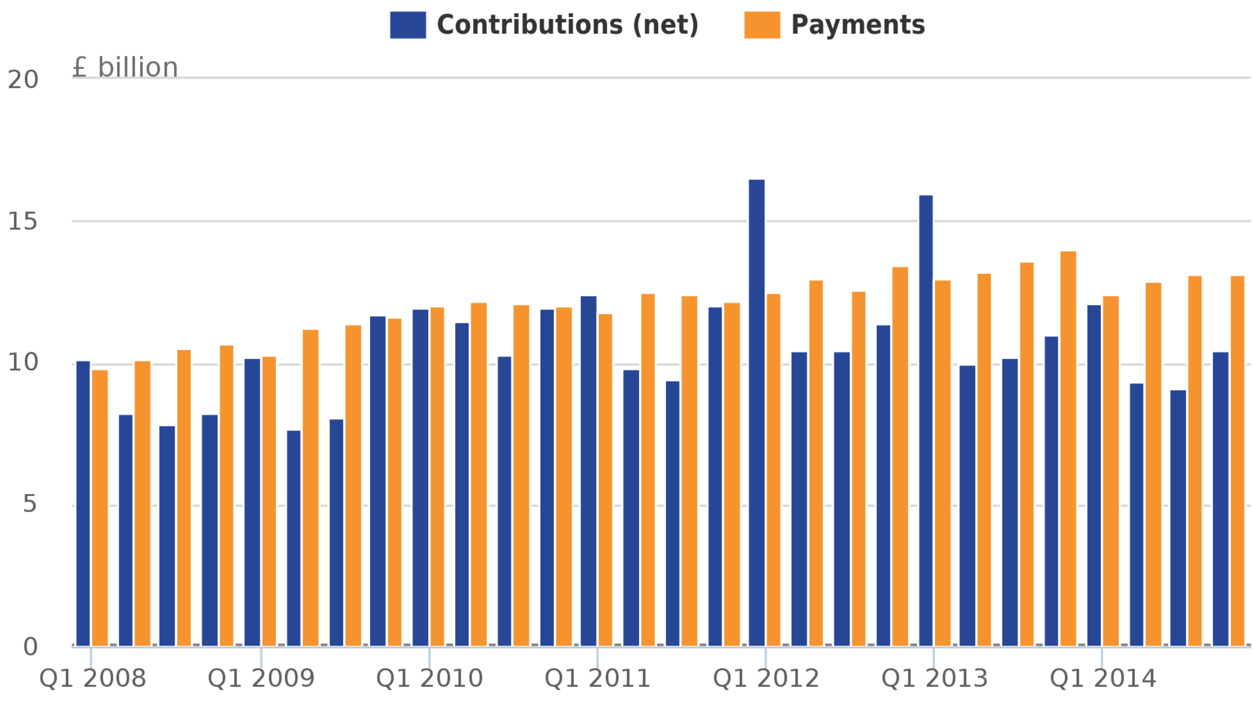
Self-administered pension funds

In Q4 2014 payments (£13 billion) exceeded net contributions (£10 billion) to self-administered pension funds.

In recent years there seems to be a pattern for pension funds to make one-off payments to reduce the deficits in their funds in Q1 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 is that companies, while compiling their end-of-year accounts, are better placed to determine by how much they are 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, third and fourth quarters of 2012, 2013 and 2014, the largest employers special contributions made by pensions funds was £4 billion.

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
2014		116.1	156.8	36.7	23.4	40.9	51.5
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	12.4
	Q3	25.6	31.1	8.7	5.8	9.4	12.3
	Q4	26.3	37.5	8.4	5.8	12.0	12.1
2012	Q1	27.4	35.0	9.5	6.3	16.5	12.4
	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	12.1	12.4
	Q2	29.4	40.0	9.8	5.9	9.3	12.9
	Q3	27.0	37.5	8.8	5.7	9.1	13.1
	Q4	29.2	44.0	9.1	5.8	10.4	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. 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 (270.2 Kb Pdf) (QMI) (268.3 Kb Pdf) 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) (367 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 these data for research or policy related purposes.

Quarterly

The first, second and third quarters of 2014 have been revised, partly as a result of late questionnaires being received and partly as a result of disaggregated data revisions. In the first quarter of 2014, net investment has been revised from £23.7 billion to £23.9 billion, and in the second quarter from £10.6 billion to £10.0 billion. The third quarter has been revised from £23.2 billion to £16.6 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 Q1 2007 (in June 2007) and compares this with the estimate for the same quarter published three years later (in June 2010). The difference between these two estimates is calculated and this process is repeated for five years of data (all quarters up to Q4 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 4: 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	-11.0	1.3	7.0

Source: Office for National Statistics

A spreadsheet is available giving a revisions triangle (393.5 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 pension funds and trusts 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. This allows 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 5: 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	20.0	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 6: Overall response rate by survey

Q4 2014	%
Transactions	
Long-term insurance companies	91
General insurance companies	92
Self-administered pension funds	86
Unit trusts	93
Investment trusts	82
Property unit trusts	100
Income and expenditure	
Long-term insurance companies	91

General insurance companies	88
Self-administered pension funds	86
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. c suppressed to avoid the disclosure of confidential data. - nil or less than £0.5 million. : not available.

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'.

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.