Office for National Statistics

Background information on the institutions covered in the MQ5 release

Things you need to know about insurance companies, self-administered pension funds, investment trusts, unit trusts and property unit trusts.

Contact:
Fred Norris
Financial.Inquiries@ons.gov.uk
+44 (0)1633 456109

Release date:
22 June 2017

Next release:
To be announced

Notice

19 March 2019

The Quarter 4 (Oct to Dec) 2018 MQ5 statistical bulletin is the last MQ5 in its current form. As initially announced in September 2018, changes to ONS surveys that cover the financial sector will be necessary over the next two years, as part of the Enhanced Financial Accounts (EFA) initiative. The ONS, in partnership with the Bank of England, plans to improve the quality, coverage and granularity of UK financial statistics. This work entails wide-ranging redesign and replacement of surveys that currently provide the data presented in this publication, making continued production of the MQ5 statistical bulletin in its current form unviable. We apologise for any inconvenience this will cause. If you have any concerns relating to this announcement please email Financial.Inquiries@ons.gov.uk.

Table of contents

1 . Introduction

Before reading the MQ5 publication we recommend that you find out more about the institutional groups covered in the release by studying the following information.

2 . Insurance companies

Active in both life assurance 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 people and organisations.

Long-term insurance companies typically hold premium income for a long time, therefore investment income is an important component of their overall income. Besides consisting of life insurance, long-term business also includes workplace and individual personal 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.

3 . Self-administered pension funds

A self-administered pension 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 oversee the investment. Insurance-managed funds are reported both by insurance companies and self-administered pension funds (see the Insurance companies section).

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.

4 . Investment trusts

The figures cover investment trusts recognised as such by HM Revenue and Customs for tax purposes and some unrecognised trusts. Investment trusts 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 directly from the company.

5 . Unit trusts

Unit trusts authorised by the Financial Conduct Authority under the terms of the Financial Services and Markets Act 2000. These statistics include open-ended investment companies (OEICs). They exclude other unitised collective investment schemes such as unauthorised funds (run on unit trust lines by securities firms and merchant banks) designed primarily for the use of institutional investors, or those based offshore 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.

6 . Property unit trusts

The statistics cover 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.

7 . General information regarding presentation of institutional groups data in the MQ5 publication

This section provides general information regarding presentation of institutional groups data in the MQ5 publication.

The consolidation adjustment is an adjustment to remove inter-sectoral flows between the different types of institution covered. The adjustment includes:

- investment in authorised unit trust units, open-ended investment companies and investment trust securities by insurance companies, pension funds and trusts
- investment by pension funds in insurance-managed funds and property unit trust units

Total pension contributions made to funded schemes cannot be derived by summing pension premiums from Table 2.4 (Insurance companies' income, long-term business – breakdown of pension business premium) and contributions from Table 4.3 (Self-administered pension funds income and expenditure). To do so would result in an overestimate as:

- a result of transfers within the long-term insurance sector
- insurance-managed pension business is reported by self-administered pension funds and insurance companies

Total net investment for long-term insurance companies includes investment by self-administered pension funds in insured funds.

8 . Further Inquiries

Should you have any questions please email us at financial.inquiries@ons.gsi.gov.uk