The financial institutions

Financial statistics have greatly improved since the Radcliffe Report of 1959.[1] With the banks and the discount houses, the improvement has been mainly in the quality of the information and in the provision of consistent figures at common quarterly dates, where previously there had been differing dates and definitions. With the other financial institutions (which, for brevity, are being called 'the financial institutions' in this article) it has been rather more a matter of compiling completely new statistics, and it is only since the end of 1962 that regular series have become available for all the various groups.

The new statistics for the financial institutions provide an opportunity for reviewing their activities and their place in the monetary system. To some extent such a review must be a re-examination of ground already explored by the Radcliffe Committee, but the new information is so much fuller than the old that some fresh analysis may none the less be worthwhile.

The groups of financial institutions discussed here—listing them in descending order of the size of their assets at the end of 1963—are as follows: insurance companies, pension (or superannuation) funds, building societies, investment trusts, hire-purchase finance companies, special investment departments of trustee savings banks, unit trusts, and special finance agencies. These groups differ quite widely from each other but share one characteristic: they are all financial intermediaries, receiving money from a variety of sources, and employing or investing it in a variety of ways. The selection of the institutions is to some extent arbitrary, since the criterion is, broadly speaking, the provision of regular quarterly information; and some kindred (but generally small) institutions, including some which take deposits and make half-yearly returns to the Board of Trade under the Protection of Depositors Act 1963, are omitted.

This article is in two parts. The first discusses the different groups in turn, examining the nature of their business and the sources of their funds, and then the way in which they invest their funds. This is in fact how most of the groups operate, though some of them—for example, the hire-purchase finance companies—may, as it were, look for assets first, and then decide how best to secure the necessary finance. Tables XV and XVI at the end of this part assemble the statistics for all the various groups. The second part of the article assesses the importance of the institutions to some of the various markets in which they operate—such as the gilt-edged market, the equity market, the market for housing finance, and so on—both as buyers and sellers, and as holders of securities. This part draws on the statistics of stock exchange turnover, which have become available only during the past nine months.

Meanwhile some preliminary comments may be helpful. In the first place the statistics used are not wholly consistent with each other; in particular, some assets are entered at market values, some at book, and some at nominal values (details are given in Table XVI). So far as possible allowance is made for these differences in Part II, but, for simplicity, not in Part I. Secondly, the annual figures given

[1] *Report of the Committee on the Working of the Monetary System*, H.M.S.O., 1959, Cmnd. 827.

in Part I are those for 1963, because that year was not only the first for which comprehensive figures exist but also the latest available when this article was being prepared. Figures for the institutions' transactions during 1964 have since become available, and are referred to in the article " Sector financing 1962-64 " on page 121; but the assets of all the institutions at the end of 1964 are not yet known. Thirdly, partly to keep this article within bounds and partly because of inadequacies in the statistics, no attempt has been made to provide a link with the situation five or so years earlier which was described in the Radcliffe Report. For reasons of space too, nothing has been said about changes in the various quarters of 1963, though this has meant omitting any discussion of seasonal movements, which can be strong.

The new statistics used in Part I are published regularly in *Financial Statistics* (H.M.S.O.). Figures for the insurance companies, private pension funds and hire-purchase finance companies are also published in the *Board of Trade Journal,* and for the investment trusts and unit trusts in this *Bulletin.*

Part I : The institutions

Insurance companies

There are some 550 insurance companies in business in the United Kingdom. Only members of the British Insurance Association with head offices in the United Kingdom, or about 260 companies (together with a small number of institutions which belong to the Association of Collecting Friendly Societies), contribute to the new series of financial statistics, but these companies handle all but a small part of the business done. In general, the new statistics relate only to the assets employed by head offices.

In its effect upon the financial system, insurance business falls into two distinct parts. First there is life assurance, where liabilities are largely long term, and financial assets are built up over the years to cover them. Secondly, there are other types of insurance—motor, other accident, fire, and marine—where the liability is essentially short term and generally renewed annually. A larger proportion of the assets held against these liabilities is short term.

Premiums written world-wide during 1963 by members of the B.I.A. were a little greater for non-life business than for life business:

Table I

Premiums written in 1963 *£ millions*

Motor	391	
Other accident	289	
Fire	322	
Marine	90	1,092
Life		983
		2,075

Some 70% of the total of £1,092 million received for non-life business is known to relate to overseas transactions. All but a small fraction of the total, and of income from earlier investments, will have been paid out within a year or so, either to cover the running expenses of the companies, or to policyholders in settlement of claims, or to shareholders as dividends, or in taxes. Judging by the statistics of insurance companies' transactions in financial assets, only about £30 million net was added to non-life funds during 1963, even after allowing for increases in the working capital of the companies' agents. Thus, although this business gave rise to very large movements of money around the banking system, it made comparatively little impact on the various financial markets to be discussed in Part II.

Life business, though not on quite the same scale as the other business, made much more impact on these markets during 1963; this was mainly because, as has happened for many years now, receipts by the companies greatly exceeded the amounts paid out. It may be noted in passing that life assurance premiums reach the companies in three ways. First, there are premiums paid direct by individuals to the offices of the companies, often by banker's order; these probably accounted for rather over 40% of the total in 1963. Secondly, there are premiums paid by individuals under industrial life policies, usually in cash to collectors who call at the policyholder's home; these probably accounted for about 25%. Thirdly, there are premiums paid by those businesses which operate pension schemes through insurance companies (the other, or 'self-administered', pension schemes are discussed in the next section); these premiums probably accounted for rather over 30%.

The life companies derive about two-thirds of their income from premiums (equal to about £16 during 1963 for every member of the population) and about one-third from investments. Out of their incomes the companies make payments to policyholders, pay taxes and dividends, meet management costs, and also accumulate financial assets on a very large scale to provide for their future commitments. The income and expenditure during 1963 of the life funds of companies which are members of the Life Offices' Association, the Industrial Life Offices Association, or the Associated Scottish Life Offices can be summarised as follows (the membership of these bodies differs slightly from the membership of the B.I.A.):

Table II

Income and expenditure of life funds during 1963

		£ *millions*
Income		
Premiums	1,023	
Investment and other income	460	1,483
Expenditure		
Management expenses, etc. ...	182	
Tax	62	
Payments to policyholders ...	548	
Payments to shareholders ...	15	807
Added to assets against future requirements		676

The disposal of this large sum between the various types of investment was determined by the insurance companies' obligations. Actuarially, these extend over a very long period, and investments therefore need to be spread over a wide range of maturity dates, from the shortest to the longest. Moreover, while some policies will entitle the holder or his representative to receive a fixed sum in money, many will also entitle the holder to a share in the company's profits. And all the time companies will be competing with each other to offer attractive terms to prospective policyholders. Thus there will be a general desire both for successful equity investments (whether ordinary shares or real estate) and also for fixed-interest investments (such as gilt-edged stocks, company debentures and loans) which provide security and yield in varying degrees. These respective considerations carry different weight from one year to another and from one company to another. The actual net investments made during 1963 by the life funds of the companies contributing to the new series of financial statistics were as shown in the next table:

Table III

Acquisition of assets by life funds during 1963

	£ *millions*	%
Cash and short-term assets	1	—
Gilt-edged stocks:		
0 to 5 years	22	*4*
Over 5 years	88	*15*
U.K. local authority securities ...	25	*4*
Overseas government, provincial and municipal securities	2	—
Company securities:		
Fixed-interest	167	*29*
Ordinary	119	*21*
Loans and mortgages	93	*16*
Land, property and ground rents	60	*10*
	577	*100*

The importance of the life funds' investments to some of the main markets concerned is discussed in Part II.

As a result of their investment during 1963 and a great many earlier years (the first fire insurance company was formed in 1680 and the first life company in 1705), the companies had massive holdings of financial assets at the end of 1963, as Table IV on the next page shows. These investments are compared with those of the other groups of financial institutions in Table XVI.

Pension funds

The pension funds not operated through the insurance companies fall into three groups. First in size of assets are the funds administered direct by industrial and commercial companies and other private businesses, and by non-profit-making bodies. Most of these concerns will be large, the smaller firms being more inclined to rely on the services of insurance companies for their pension arrangements. The funds in this first group now number several thousand, perhaps covering some three or four million people. The second group are those operated by the National Coal

Table IV

Holdings of assets by insurance companies: end-1963

	Life funds		Non-life funds		Total	
	£ millions	*%*	*£ millions*	*%*	*£ millions*	*%*
Cash and short-term assets	55	*1*	65	*7*	120	*1*
Gilt-edged stocks:						
0 to 5 years	38	*1*	22	*2*	60	*1*
Over 5 years	1,844	*25*	180	*19*	2,024	*24*
U.K. local authority securities	347	*5*	41	*4*	388	*5*
Overseas government, provincial and municipal securities	76	*1*	38	*4*	114	*1*
Company securities:						
Fixed-interest	1,414	*19*	109	*11*	1,523[a]	*18*
Ordinary	1,538	*21*	194	*20*	1,732[a]	*21*
Loans and mortgages	1,243	*17*	54	*6*	1,297	*15*
Land, property and ground rents	729	*10*	66	*7*	795	*9*
Other[b]	141	*2*	203	*21*	344	*4*
	7,425	*100*	972	*100*	8,397	*100*

[a] Includes investments in overseas companies; total such investment, both fixed-interest and ordinary, amounted to £269 million.

[b] Includes working capital of the companies' agents.

Board and the other nationalised industries, and by other public bodies such as the Bank of England and the British Council. There are some sixty funds in this group and they cover some one million people. Thirdly there are the local authorities' pension funds. These number about five hundred, and cover between one-half and three-quarters of a million people (but not the teachers, whose pensions are paid out of revenue). The main state pension scheme is not covered by these statistics. Nor are the schemes administered by the Government for their own employees, whether members of the armed forces, civil servants, Post Office workers or National Health Service staffs; such pensions are again paid out of revenue, by the Exchequer.

The three groups of schemes operate in similar ways and may conveniently be considered together. Their total annual income is not known but it will be composed of contributions from employers and employees, and investment income. For many funds, investment income is probably the most important source, and employers' contributions the next most important. The funds' annual expenditure is probably about £250 million; most of this will go to pensioners, of whom there are perhaps rather more than one million. The annual income of the funds is at present much larger than the annual expenditure; the excess, or the amount available for investment, was £362 million in 1963. This was equivalent to about 9% of the funds' holdings at the end of 1962, and so represents a slightly higher rate of growth than that of the life funds of insurance companies, whose total assets increased by about 8½% during 1963, as may be seen from Table XV.

The type of investment which a pension fund can make depends on its trust deeds and on statute. In general, most funds now have wide investment powers, and are able to make an unfettered choice of the investment best suited to the funds' obligations. No analysis of the maturity pattern of these obligations is available, and it is difficult to compare them with the insurance companies'. In one respect their obligations might seem to be longer term, since they offer no endowment policies maturing after only a comparatively few years, as the insurance companies do. On the other hand they have to be ready to repay at short notice an employee's contributions (generally with interest) whenever he moves to other employment, in the same way in which insurance companies are willing to pay cash promptly for policies surrendered.

At all events, during 1963 the pension funds took the view that they could best meet their obligations by making heavy purchases of ordinary shares, although current equity yields were substantially lower than gilt-edged yields —and this gap would not be narrowed by tax because the investment income of the funds is generally speaking not taxable. Table V shows the form which pension fund investment took in 1963.

Table V

Acquisition of assets by pension funds during 1963 *£ millions*

	Private self-admini-stered[a]	Local authorities	Nationalised industries etc.	Total	%
Cash and short-term assets	2	1	—	3	*1*
Gilt-edged stocks:					
0-5 years	– 3	4	– 2	–14	*– 4*
Over 5 years	–13				
U.K. local authority securities	16	2	3	21	*6*
Overseas government, provincial and municipal securities	—	– 1	—	– 1	—
Company securities:					
Fixed-interest	60	9	12	81	*22*
Ordinary	134	47	40	221	*61*
Other[b]	28	—	23	51	*14*
	224	62	76	362	*100*

[a] Including changes in assets of pension funds of co-operative societies; details have been provided by the Board of Trade and will be published in their *Journal* early in July 1965.

[b] Loans and mortgages, land, property, ground rents, etc.

Purchases of ordinary shares absorbed 61% of the pension funds' new money in 1963, as against only 21% for the life funds. Despite this, only 38% of the funds' portfolios at the end of the year consisted of ordinary shares—a reflection of the fact that until the Trustee Investments Act 1961 many funds were prevented by their trust deeds from buying them.

The various holdings of the different groups of funds are summarised in Table VI:

Table VI

Holdings of assets by pension funds: end-1963 *£ millions*

	Private self-admini-stered[a]	Local authorities	Nationalised industries etc.	Total	%
Cash and short-term assets	57	8	5	70	*2*
Gilt-edged stocks:					
0-5 years	23	212	215	1,055	*23*
Over 5 years	605				
U.K. local authority securities	169	57	53	279	*6*
Overseas government, provincial and municipal securities	59	12	12	83	*2*
Company securities:					
Fixed-interest	498	22	116	636	*14*
Ordinary	1,374	148	237	1,759	*38*
Other[b]	215	268	287	770	*17*
	3,000	727	925	4,652	*100*

[a] Including assets of small funds and co-operative societies; a classification of these assets has been provided by the Board of Trade and will be published in their *Journal* early in July 1965.

[b] Loans and mortgages, land, property, ground rents, etc.

Building societies

There are now about 650 building societies, some of them well over a hundred years old. They rank close to the pension funds in size of assets, and have latterly been growing at a rather faster rate. The societies' assets are much more concentrated in one particular form—house mortgages—than are either the pension funds' or the insurance companies', and whereas those institutions tend first to obtain new business (or new liabilities) and then to decide how best to invest the money, the building societies are placed rather differently, in that the initiative in increasing both liabilities and assets comes primarily from outside. The societies react to variations in the supply of, or demand for, funds, first by drawing on, or adding to, their liquid assets, and secondly by altering their rates of interest.

Mortgages held by the building societies amounted to some £3,500 million at the end of 1963, or just over four-fifths of their total assets. The mortgages were almost entirely of private houses, but by no means wholly or even mainly new houses, as the name building society might imply. Indeed probably little more than about one-third of the mortgages related to new houses. Some mortgages both of new and old houses are taken out for as long as thirty years or a little more, but the most usual period is probably twenty or twenty-five years. As a general rule, mortgages are all the while being repaid by instalments. At any point of time, therefore, some of them will have been largely repaid, so that the average remaining life of a mortgage, even if it ran its full course, would be much less than twenty years. In practice, because many mortgages are redeemed early, the average life of a mortgage is about ten years. Thus the assets of the building societies are nowhere near as long term as might be supposed. But because, as will be seen, the societies' liabilities are essentially short term, the societies have nevertheless to sustain their balance-sheets with substantial holdings of liquid assets.

Apart from mortgages, nearly all the assets of the building societies are in the form of cash and bank balances, or gilt-edged and local authority securities; all these other assets are classed as liquid in building society accounts. The type of asset and the maturity distribution is governed by statute. If the ratio of liquid assets to total assets is below 7½% (which will be uncommon, because such a low ratio would prevent a society's liabilities from being regarded as eligible investments for a trustee) then only securities of less than five years to maturity may be held. If the ratio is between 7½% and 15%, then a proportion with up to fifteen years to maturity may be held; and if over 15%, then a proportion with up to twenty-five years. The ratio for all societies taken together at the end of 1963 was around 17%, and the gilt-edged stocks were fairly evenly distributed between short and longer-dated.

The tables below show the assets acquired by the building societies during 1963, and those held at the end of that year. The dominant position which the societies have in the provision of finance for house purchase, and their less important, but not insignificant, role in the gilt-edged and other markets is examined in Part II.

Table VII

Acquisition of assets by building societies during 1963

		£ millions
Liquid assets		90
Advances on mortgage ...	852	
less Repayments of principal	430	422
Other		6
		518

Table VIII

Holdings of assets by building societies: end-1963

		£ millions	%
Cash and short-term assets ...		186	*4*
Gilt-edged stocks:			
0-5 years	130[a]		
Over 5 years	164[a]	294	*7*
U.K. local authority securities ...		248	*6*
Overseas government, provincial and municipal securities		6	—
Mortgage loans		3,578	*82*
Other		47	*1*
		4,359	*100*

[a] Estimated.

To match these assets, the societies have some loans from the Government (£75 million was outstanding at the end of 1963)[1] and hold

[1] These amounts were advanced during 1959 to 1961 under the House Purchase and Housing Act 1959.

certain reserves. But over nine-tenths of their total liabilities (over £4,000 million out of £4,359 million at the end of 1963) are liabilities to shareholders and depositors. These creditors are largely private individuals and according to Mr. J. R. S. Revell " mainly people in the middle of the wealth scale ".[1] Depositors rank first in a liquidation and therefore receive a lower rate of interest than shareholders. In practice, societies repay both shareholders and depositors at short notice, though the rules of the society must prescribe the period of notice, which for deposits has to be not less than one month. (A shareholder in a building society does not necessarily provide permanent finance like a shareholder in a company, but is really a depositor by another name) Total deposit liabilities at the end of 1963 were around £270 million, but liabilities to shareholders around £3,740 million. Societies have to restrict the ratio of their deposit liabilities to mortgage assets, but for most societies there is a comfortable margin; and deposits are comparatively low merely because they are much less popular with the public than shares, the lower yield proving a stronger deterrent than the extra safety an incentive. The total number of shareholdings (which will exceed the total number of shareholders because some people have holdings in two or more societies) was a little under five million at the end of 1963, and the average holding around £760; the total number of deposit accounts (which similarly overstates the number of depositors) was about 600,000, with an average value of about £460.

To attract these large sums, the societies have to offer rates of interest comparable with those on other forms of personal savings, in particular national savings; and over a period the various rates tend to move closely in line. Substantial amounts are all the time being withdrawn by depositors and shareholders—during 1963, for instance, gross withdrawals amounted to about one-sixth of the total of shares and deposits at the beginning of the year—and gross receipts of funds must, in all but a very short run, not only make good these withdrawals but also provide for an expansion of lending business. An attraction to shareholders and depositors is that income tax on their holdings is paid by the societies; the rate does not vary from taxpayer to taxpayer, but an average, or composite, rate, which is less than the standard rate of tax, is calculated by the Inland Revenue.

The rates charged for mortgages are seldom fixed over the life of the mortgage, but move with the costs of borrowing, with the rates of tax paid by the societies, and with their need to fortify their reserves; a society would lose trustee status if the ratio of reserves to assets fell too far. The societies are much more dominant in the market for housing finance than in the market for savings, so that, in broad terms, their borrowing rates are determined by outside competition, and their lending rates by their borrowing rates.

Investment trusts

The term investment trust is another rather misleading one, in that these trusts have no trustees, but are limited companies engaged in the investment of money borrowed from debenture-holders or other lenders, or subscribed by shareholders. Though not so old as the more venerable insurance companies or building societies, they still date from the middle of the Victorian age, and considerably precede the pension funds (and, as will be seen, the first unit trusts, though not the first hire-purchase finance companies). An interesting feature of the investment trusts is their strong Scottish strain; trusts with head offices in Scotland account for about one-third of the group's total assets.

At present about 300 trusts make statistical returns to the Bank of England. Their total assets at the end of 1963 were some £2,800 million, which places them reasonably close to the pension funds and the building societies in size. But if the assets acquired in 1963 are taken as a proportion of the holdings at the end of 1962, it will be found that the investment trusts grew more slowly in 1963 than any of the groups so far considered.

New capital issues provide much the most important source of their funds. These issues are periodic, and not continuous like issues by unit trusts (see below). In most recent years more new capital has been raised in equity

[1] *Building Societies Gazette*, April 1963.

form than in fixed-interest (but in 1964 slightly less was so raised). The choice between the two types turns partly on the state of the markets and partly on the existing capital structures of the trusts and the extent to which they wish to raise or lower their gearing (the ratio of fixed-interest capital to equity capital). No analysis is available of the type of subscriber to the new issues or the type of holder of the existing capital, but it is known that financial institutions—particularly insurance companies and pension funds, and to a smaller extent unit trusts—have substantial holdings. The remaining capital will probably be held predominantly by private individuals.

Apart from capital issues, the trusts have two other sources of new funds. The first is their undistributed income, which has amounted to up to about one-fifth of total income, and the second any profit they make when they sell investments.

The total sum obtained for investment during 1963 was £68 million. The trusts reduced their short-term assets (particularly bank balances) by £20 million, their gilt-edged stocks by £26 million, and their preference shares by £5 million, and so were able to add a total of £119 million to their other assets, particularly ordinary shares:

Table IX

Investment in ordinary shares etc. by investment trusts during 1963

	£ millions
U.K. investments:	
Ordinary shares:	
Quoted	68
Unquoted	6
Other	3
Overseas investments:	
Ordinary shares	42
	119

The trusts do not need liquid assets, except to pay dividends, but they may build up these assets if they believe that better investment opportunities will occur later. They are in the main long-term holders of securities, though they are continually reviewing their portfolios. Their investments are widely spread, and they rarely hold as much as 5% of their portfolio in a single security. Nor would they seek to hold more than a small share of the capital of any one company. At the same time they are prepared to hold unquoted securities, and so to provide capital for small companies, as do some of the special finance agencies described later. They are also institutions which provide continuing support to the new issue market.

Lastly, the investment trusts hold large amounts of overseas securities, particularly dollar securities. They certainly have larger overseas portfolios than do pension funds or unit trusts, and probably more than the insurance companies examined earlier (valuation differences inhibit a true comparison). The practice of holding dollar securities dates back to the origins of the trusts. In recent years their acquisitions have been financed either from borrowing abroad, or by purchases from U.K. residents through the investment dollar market. The trusts can claim that their skilled management of their overseas portfolios over the years has increased the investment income and external assets of the United Kingdom.

The total assets of the trusts at the end of 1963 were as follows:

Table X

Holdings of assets by investment trusts: end-1963

	£ millions	*%*
Cash and short-term assets ...	7	—
Gilt-edged stocks:		
0-5 years	7	—
Over 5 years	31	*1*
U.K. local authority securities ...	2	—
Overseas government, provincial and municipal securities	3	—
Company securities:		
U.K.:		
Fixed-interest	109	*4*
Ordinary:		
Quoted	1,748	*61*
Unquoted	59	*2*
Overseas:		
Fixed-interest	12	—
Ordinary	857	*30*
Other	13	—
	2,848	*100*

Hire-purchase finance houses The hire-purchase finance houses were examined in some detail in the December 1962 *Bulletin* and can be discussed more briefly here. The first companies were formed in the 1860's, their business being to finance the acquisition of railway wagons by colliery owners seeking to transport coal. At the end of 1963 the finance houses covered by the official statistics had assets amounting to £796 million, or between one-quarter and one-third of the assets of the investment trusts. The sixty largest houses accounted for over four-fifths of the total, the balance being made up by some hundreds of small companies. Taking their acquisitions during 1963 as a proportion of their holdings at the beginning of the year, the finance houses' rate of growth was 10%. They thus expanded less rapidly during 1963 than the building societies, but more rapidly than the other institutions so far considered. Their growth is however likely to vary much more from year to year than that of other financial institutions, because they are much more vulnerable to cyclical influences (they grew about two and a half times more rapidly in 1964 than in 1963).

In considering the finance houses it is convenient to describe their assets first, because their business is mainly determined by the demand for credit and they tend first to add to their assets, and then to secure the necessary finance. As will be seen, they have few liquid assets to bridge any gap, but rely instead on being able to attract deposits quickly and to draw on their facilities with their bankers.

Some four-fifths of their assets consists of hire-purchase agreements and other instalment credit. Two-thirds of this total relates to cars and commercial vehicles, and half of the remainder to household goods. The amount of finance they provide in this way for industrial or agricultural equipment is still comparatively small, though their industrial business has recently expanded considerably. Of the remaining one-fifth of their assets, about half consists of other advances and loans—such as loans to garages to finance stocks of vehicles or extensions of premises, loans to property companies, or short-term loans to industrial and commercial concerns—and only a very small part is in liquid form. The Industrial Bankers Association, to which some two dozen of the leading medium-sized and smaller houses belong, require their members to hold not less than a specified proportion of their assets in this form. The Finance Houses Association, to which the large companies belong, have no such requirement, but their members mostly have close links with a clearing bank or a Scottish bank, and overdraft facilities on which to draw.

The assets acquired during 1963 and the assets held at the end of that year may be summarised as follows:

Table XI

Assets of hire-purchase finance houses

	Additions during 1963	Holdings: end-1963	
	£ millions		%
Hire-purchase and other instalment credit	37	659[a]	*83*
Other advances and loans ...	19	77	*10*
Short-term assets	8	9	*1*
Other investments	7	51	*6*
	71	796	*100*

[a] Of which for:

Cars and commercial vehicles	451
Industrial and agricultural equipment	73
Household goods	102
Other goods	33

Because the finance houses mainly provide various kinds of consumer credit (their importance in the whole market for consumer credit is examined briefly in Part II), their assets are predominantly short term. Vehicles form a large proportion of the finance houses' business, and it is known that, on average, the original life of a hire-purchase contract for a vehicle is around twenty-seven months. The actual life is no more than some eighteen to twenty months, because many contracts are completed before the due date.[1] The actual life of all the finance houses' assets is also believed to be around eighteen to twenty months on average, so that at any one point of time the average remaining life of all assets is probably rather less than a year.

For this reason, the houses can rely largely on short-term borrowing in its various forms. Their capital, reserves and provisions at the end of 1963 were equivalent to about one-quarter of their total assets. For the rest, they borrowed heavily by way of deposits, which

[1] March 1964 *Bulletin*, page 22, which contains a summary of an article of the same date in *Credit*, the review of the Finance Houses Association.

totalled nearly £400 million. The most popular term of such borrowing was probably three months, though a considerable amount of borrowing is for as long as twelve months. Much of the money came from industrial and commercial companies, which are attracted by the high rates offered, and substantial sums also came from overseas, either direct or indirectly through a deposit with a London bank. Personal deposits were less important, but accounted for a large share of the deposits with the smaller companies.

The finance houses have had little difficulty in finding or keeping deposits in recent years, because they offer lenders both a high yield and a liquid asset. Their deposit rates vary with Bank rate and other short-term money rates. In contrast, the yield on their own assets can rarely be changed during the life of the asset, so that the houses suffer temporarily from a rise in their borrowing rates and benefit temporarily from a fall. The discount houses (not discussed in this article) are in a rather similar situation, but none of the other financial institutions examined here are. The investment trusts, for example, have permanent capital, not short-term debt, while the building societies can vary their charges during the life of a mortgage as changes in the cost of their own money require. It is only the comparative shortness of the finance houses' assets which shields them from serious strain when their borrowing rates rise sharply.

As well as borrowing on deposit, the finance houses have extensive facilities with their bankers. The amounts actually borrowed by way of overdraft, loan, and bill finance at the end of 1963 totalled about £160 million, or about two-fifths of borrowing by deposits.

Trustee savings banks—special investment departments

All trustee savings banks have 'ordinary departments', which provide deposit facilities for their customers similar to those offered by the Post Office Savings Bank, with some features of current accounts.(1) The monies received by these departments are passed straight to the National Debt Commissioners and invested by them wholly in government debt. For purposes of economic analysis the ordinary departments are therefore regarded as part of the public sector, and are outside the scope of an article about financial institutions. But nearly all the banks have 'special investment departments' also. These departments, which in effect operate deposit, or term, accounts for their customers, invest their monies independently (though under the supervision of the National Debt Commissioners) and only partly in government debt. The special investment departments are therefore customarily treated as financial institutions.

There are at present seventy-five trustee savings banks with special investment departments, and they have some 1,300 offices between them. With some exceptions, these departments date back to 1870 (the 1860's and 1870's were a seminal period for the financial institutions, since they saw the beginnings of the investment trusts and the hire-purchase finance houses too). They were set up primarily to meet competition from the newly-established Post Office Savings Bank, and did so by offering a higher rate of interest than the Post Office, in return for a longer period of notice before deposits could be withdrawn. In recent years they have grown very rapidly. In 1951—before the general rise in interest rates—their total assets were little more than £100 million, but by the end of 1963 the total had reached £755 million. Their rate of growth during 1963 was over 20%, a much higher rate than that of the other groups discussed in this article, save only the unit trusts (which are the next group to be examined).

The deposits in the special investment departments belong almost wholly to private individuals. Before opening such an account, a customer must have deposited at least £50 with the ordinary department of the same bank. The maximum deposit with a special investment department is at present £3,000. No one can have an account with more than one bank—a point of difference with building societies (now one of their main competitors for deposits) where no such restriction applies.

At the end of 1963 the departments had over one million accounts, with an average balance

(1) The banks have recently obtained power to provide current accounts on conventional lines, and some are starting to do so.

of around £650 (or a little less than the average share account with a building society). A usual period of notice required before a deposit can be withdrawn is one month (perhaps rather longer than is in practice required for a share account with a building society). Some banks offer a higher return for deposits at three months' notice than for deposits at one month's, and some a still higher return for deposits at six months'. In fact most deposits are fairly firmly held. In most recent years the gross amounts withdrawn have been equivalent to about one-sixth of the balances held at the beginning of the year (a very similar ratio to the building societies).

The rate of interest paid on deposits with the departments is closely related to the interest earned on the departments' assets. These earnings depend partly on astute management of the departments' portfolios, but much more on the general level of interest rates. Thus, whereas the building societies offer their investors a return high enough to attract or retain funds, and then adjust the rates they charge for mortgages so as to provide an adequate margin, the departments work the other way round. They have perforce to adopt a much more passive policy and cannot bid aggressively for deposits. In practice they have usually paid around $4\frac{1}{2}\%$ to 5% in recent years, a more attractive return than that on a building society share for those who pay little or no income tax, but less attractive for those who pay tax at the standard rate.

The choice between these two forms of investment seems, however, to turn just as much on other factors as on relative yields. For a taxpayer paying less than the standard rate, the convenience of the society paying the tax is one such consideration. More generally, regional custom often appears to play a part; for example, savings banks have been particularly successful in Scotland and the North of England. Social attitudes may also affect the choice. Thus a building society investor will frequently be a prospective house purchaser wishing to stake a prior claim for a mortgage (because societies customarily give preference to their own investors) whereas a depositor in a special investment department will frequently be someone who has first merely sought the facilities which a bank's ordinary department offers, and then later has learned of the advantages given by its special investment department. Perhaps the building societies tend to appeal rather more to salary earners, and savings banks to wage earners, but this distinction may now be outmoded and the two types of institution must, to an appreciable extent, be raising funds from the same kind of people.

The investments of the special investment departments are regulated partly by the Trustee Savings Banks Acts and partly by instructions issued by the National Debt Commissioners. Each department has to keep at least 20% of its funds in liquid assets, that is in cash, Treasury bills, local authority temporary money, certain marketable securities with less than five years to maturity, and local authority mortgages with less than one year; and not more than half the liquid assets may be in this last form. For its other investments, a department may hold gilt-edged stocks, local authority stocks and mortgages, Dominion and Colonial stocks,(1) and a few other stocks, like those issued by the Agricultural Mortgage Corporation or the Scottish Agricultural Securities Corporation. Equities may not be held. There are certain limitations on the departments' holdings of local authority stocks, and on the maturity distribution of their investments, but the departments still have a wide choice between the various forms of government and local authority debt. Their practice is to have an extensive spread of investments by maturity dates, and—so far as official regulations allow—to hold local authority securities, which customarily yield more than government debt. Table XII shows the form which the departments' investments took during 1963, and their total investments at the end of that year. As will be seen in Part II, the departments' share of local authority debt is considerable. Their contribution to the gilt-edged market is smaller, but the regulations governing the disposal of their funds cause them to provide a sure and continuing source of strength to the market so long as their deposit liabilities rise. In this they are unique among the groups of financial institutions.

(1) No new investment in these stocks has been permitted since the Trustee Investments Act 1961.

Table XII

Assets of special investment departments

	Additions during 1963		Holdings: end-1963		
		£ millions		*£ millions*	*%*
Cash		2		9	*1*
Other short-term assets		1		9	*1*
Gilt-edged stocks:					
0-5 years ...	− 3		47[a]		
Over 5 years ...	27	24	131[a]	178	*24*
Dominion and Colonial stocks		− 1		10	*1*
U.K. local authority securities:					
Quoted stocks:					
0-5 years ...	− 3		13[a]		
Over 5 years	38	35	87[a]	100	*13*
Mortgages:					
0-5 years ...	− 4		194[a]		
Over 5 years	76	72	255[a]	449	*59*
		133		755	*100*

[a] Estimated.

Unit trusts The unit trusts form the last but one group of institutions to be considered. This time the name describes the institution more correctly. Unit trusts are set up under trust deeds, the trustees being usually a bank or an insurance company. Members of the public are able to become beneficiaries under the trusts by acquiring 'units' or shares in the trusts' assets, which consist mainly of stock exchange securities (a few unquoted securities are also held). The trusts are administered not by the trustees but by independent managers, who are in fact limited companies. The trusts themselves are not companies but they none the less have to be authorised by the Board of Trade, under the Prevention of Fraud (Investments) Act 1958. The oldest dates from 1931, and there are now about a hundred of them.

The main difference between the unit trusts and the investment trusts is that the unit trusts have no fixed capital and units can be bought by the public from the managers at any time and resold to the managers at any time, whereas, though investment trusts often raise new capital, their issues are not continuous. The unit trusts therefore expand (or contract) their assets whenever members of the public acquire (or surrender) units, whereas investment trusts do so only when they make new issues or retain a proportion of their receipts of dividends. Unit trusts are thus often termed 'open-end' trusts and investment trusts 'closed-end'. Another difference is that unit trusts distribute almost all their income, while investment trusts usually plough some back.

The total assets of the unit trusts at the end of 1963 were much smaller than those of the institutions considered earlier, but their rate of growth (taking assets acquired during the year as a proportion of assets held at the beginning of the year) was generally much greater (and only matched by the special investment departments'). They have indeed been expanding much more strongly than the investment trusts, though from a much lower base.

The recent more rapid growth of the unit trusts is probably largely due to the comparative ease with which units can be bought. These are extensively advertised in the press, and buyers have only to complete a simple form from a newspaper and forward it to the managers with a cheque. Holdings can be added to at any time. Shares in investment trusts, however, can be acquired only from existing holders through a stockbroker unless the trust is offering new shares direct to the public, which is uncommon. Another likely reason for the brisker expansion of unit trusts is that they appear to appeal particularly to a large and probably growing section of the population which wishes to make a modest investment in equities for the first time or to augment an existing holding.

At the end of 1963 there were just over one million holdings of units, with a total market value of £350 million. Holders may have holdings in more than one trust, and it has been estimated that the actual number of unit-holders is of the order of three-quarters of a million. Since the end of 1963 both the number of holdings and the total invested have increased considerably, thanks in part to the launching of about forty new trusts.

The flow of new money to the unit trusts month by month was very steady during 1963, as it has generally been since. Many units are acquired under what are, in practice, contractual arrangements; such purchases are frequently linked with life assurance schemes, which carry tax concessions and so effectively reduce the cost. The resale of units to the managers during 1963 was equivalent to no more than about 6% of holdings at the beginning of the year and was also fairly evenly spread month by month. The managers were thus able to invest continuously during 1963.

In general, the unit trusts hold very few liquid assets but devote their accruing capital funds to purchases of securities (particularly ordinary shares). The type of security bought depends on the character of the trust; some specialise in the higher-yielding type of share, and some in particular markets, such as insurance shares or investment trusts' shares. A few unit trusts concentrate on overseas equities, but generally they lay much less emphasis on overseas securities than the investment trusts.

The support which the unit trusts bring to the domestic ordinary-share market is shown in Part II. Meanwhile the following table sets out their investments during 1963 and their holdings at the end of the year:

Table XIII

Assets of unit trusts

	Acquired during 1963		**Holdings: end-1963**		
	£ millions		*£ millions*		%
Cash and short-term assets		2		6	*2*
Gilt-edged stocks:					
0-5 years ...	−1		1		
Over 5 years ...	−1	−2	1	2	*1*
Other fixed-interest securities		8		15	*4*
Ordinary shares:					
U.K.		42		300	*86*
Overseas		4		27	*8*
		54		350	*100*

Special finance agencies

The so-called special finance agencies form the last group to be discussed. These agencies channel money from lenders to borrowers, but are neither banks nor members of any group described in this article. Their main role is to finance capital investment, at home or abroad, where there are difficulties in raising the finance in the ordinary capital market, because, for instance, the borrower is too small, or the project somewhat unorthodox.

The choice of institutions for this section is to some extent arbitrary, and only four have in fact been included. These are the Agricultural Mortgage Corporation (established in 1928), the Finance Corporation for Industry and the Industrial and Commercial Finance Corporation (both established in 1945), and the Commonwealth Development Finance Company (established in 1953). Several similar institutions have been omitted mainly because their business has been comparatively small: among them are the Charterhouse Industrial Development Company, the Scottish Agricultural Securities Corporation, the Ship Mortgage Finance Company, and the Insurance Export Finance Company.

The four institutions covered held assets of rather more than £200 million at 31st March 1964 (the date of all their annual balance-sheets). During the previous year they had grown by 12%, about the median rate for the groups of financial institutions. Their issued capital is largely held by banks and other financial institutions (including, in the case of the C.D.F.C., a number of Commonwealth central banks). Three of them have supplemented their capital by making issues of debentures, and all draw on short-term finance from their bankers between their capital-raising operations.

With these various sources of funds, the institutions are well placed to meet demands for medium and long-term finance. The investments of the A.M.C. and the C.D.F.C. are self-evident. The F.C.I. lend their money, in amounts of £200,000 or more, to larger companies, and the I.C.F.C., in amounts of £5,000 to £200,000, to smaller companies. The money provided for industry is sometimes in the form of loans, sometimes of loans with an option to convert to equity, and sometimes of straight equity capital; the corporations seek to avoid controlling interests.

The securities held by the four agencies are largely unquoted. Some of the other financial institutions, in particular the insurance companies, are apparently now readier to hold securities of this type than they were when the agencies were set up, but these agencies still clearly meet a definite need. They carry out collectively a function of financing which would not be possible for one section of the capital market alone, so that they are, as it were, lenders of last resort.

The agencies' investments during the year to the end of March 1964 and at that date may be summarised as follows:

Table XIV

Assets of special finance agencies

	Additions during year to end-March 1964	Holdings: end-March 1964	
	£ millions		%
Cash and short-term assets ...	1	8	*4*
Gilt-edged stocks	—	4	*2*
Fixed-interest investments in:			
U.K. agriculture	7	58	*27*
Overseas enterprises ...	2	16	*7*
U.K. industry	11	117	*54*
Ordinary shares	2	12	*6*
	23	215(a)	*100*

(a) Of which:

F.C.I.	70
I.C.F.C.	64
A.M.C.	62
C.D.F.C.	19

Summary tables

Tables XV and XVI draw together the information for the various institutions. Some items from the earlier tables have been rearranged, and here and there a little extra material has been incorporated (for example, the assets acquired by the non-life funds of the insurance companies, which are small). Table XV shows the assets acquired during 1963, and Table XVI the assets held at the end of that year. Because of differences in valuation (which are explained in the footnotes to Table XVI) the rates of growth shown at the bottom of the first table are not always comparable; book values would be generally below market values, and this would lead to an over-estimate of the rates of growth of some institutions—particularly the insurance companies, and to a lesser extent the pension funds—in relation to others. The same differences affect the comparisons in the second table.

Tables XV and XVI appear overleaf.

Table XV

Acquisition of assets during 1963

£ millions

	Insurance companies: Life funds	Insurance companies: Non-life funds	Pension funds	Building societies	Investment trusts	Hire-purchase finance companies	Trustee savings banks (special investment departments)	Unit trusts	Special finance agencies (a)	Total	%
Cash and short-term assets (partly net)(b) ...	1	6	3	14	− 20	8	3	2	1	18	*1*
Gilt-edged stocks:											
0-5 years	22	−4	− 14	− 23(c)	− 6	− 6	− 3	− 1	—	108	*6*
Over 5 years ...	88	−9		58(c)	− 20		27	− 1	—		
U.K. local authority securities:											
Quoted	25	3	20	—	− 1	—	35	—	—	194	*11*
Unquoted			1	39	—	—	72	—	—		
Overseas government, provincial and municipal securities	2	3	− 1	2	—	—	− 1	—	—	5	—
Company securities:											
Debenture and loan	146	1	76	—	2	—	—	1	6	232	*13*
Preference	21	1	5	—	− 5	—	—	7	1	30	*2*
Ordinary	119	—	221	—	116	—	—	46	2	504	*28*
Loans and mortgages ...	93	—	4	422	—	19	—	—	13	551	*30*
Land, property and ground rents	60	2	26	—	—	—	—	—	—	88	*5*
Hire-purchase debt ...	—	—	—	—	—	37	—	—	—	37	*2*
Other	—(d)	—(d)	21(e)	6	2	13(f)	—	—	—	42	*2*
Total	577(d)	3(d)	362	518	68	71	133	54	23	1,809	*100*
Rate of growth % during 1963(g)	*8½*	*½*	*9*	*13½*	*3*	*10*	*21½*	*21*	*12*		

(a) Year ended March 1964.

(b) Includes local authority temporary money.

(c) Partly estimated.

(d) Not including changes in the working capital of the companies' agents.

(e) Includes loans to parent bodies.

(f) Unclassified but probably mostly ordinary shares.

(g) Calculated on assets held at the beginning of the year. If the change in market values during the year was taken, the investment trusts and the unit trusts would have a much larger rate of growth than is shown here.

Table XVI

Assets held : end-1963

£ millions

	Insurance companies										
	Life funds	Non-life funds	Pension funds[a]	Building societies	Investment trusts	Hire-purchase finance companies	Trustee savings banks (special investment departments)	Unit trusts	Special finance agencies [b]	Total	
Values	*book*[c]	*book*[c]	*book or market*[d]	*book*	*market*	*book*[c]	*market*	*market*	*book*		%
Cash and short-term assets (partly net)[e]...	55	65	70	186	7	9	18	6	8	424	*2*
Gilt-edged stocks:											
0-5 years	38[f]	22[f]	1,055	130[g]	7	—	47[g]	1	4	3,655	*16*
Over 5 years ...	1,844[f]	180[f]		164[g]	31	—	131[g]	1			
U.K. local authority securities:											
Quoted	347[f]	41[f]	170	7	2	—	100	—	—	1,466	*7*
Unquoted			109	241	—	—	449	—	—		
Overseas government, provincial and municipal securities	76	38	83	6	3	—	10	—	—	216	*1*
Company securities:											
Debenture and loan	1,057	72	532	—	36	—	—	3	50	1,750	*8*
Preference	357	37	104	—	85	—	—	12	15	610	*3*
Ordinary	1,538	194	1,759	—	2,664	—	—	327	12	6,494	*29*
Loans and mortgages ...	1,243	54	32	3,578	—	77	—	—	126	5,110	*23*
Land, property and ground rents	729	66	125[h]	—	—	—	—	—	—	920	*4*
Hire-purchase debt ...	—	—	—	—	—	659	—	—	—	659	*3*
Other	141[i]	203[i]	613[j]	47	13	51[k]	—	—	—	1,068	*5*
Total	7,425	972	4,652	4,359	2,848	796	755	350	215	22,372	*100*

(a) Figures for some funds are for dates near to 31st December 1963.

(b) At end-March 1964.

(c) Except as shown.

(d) About half of the total is at book value, and half at market value.

(e) Includes local authority temporary money. The figure of 9 shown for hire-purchase finance companies is incomplete.

(f) Nominal values.

(g) Partly estimated.

(h) Information on holdings of " land, property and ground rents " by local authorities' funds is not available; any figure (which will not exceed 3) is included in " other ".

(i) Includes the working capital of the companies' agents.

(j) Of which 603 represents loans to parent bodies.

(k) Probably mostly ordinary shares, partly at market value.

Part II: The institutions and the financial markets

The second part of this article seeks to assess the importance of the institutions as a whole to the various financial markets in the United Kingdom. There are two ways of doing this. The first is to compare, at a particular point of time, the institutions' holdings of the securities traded in a financial market with total holdings. The second is to compare, for a particular period, the institutions' purchases and sales of the securities with total purchases and sales. Where possible, both standards—the share of holdings and the share of turnover—are used here, though it is unfortunately impracticable as yet to take adjoining dates for the two comparisons. The most convenient date for holdings of quoted securities is 31st March 1964; this is the latest available date for the Bank of England's annual estimates of the distribution of the national debt,(1) and also a date at which the London stock exchange provides an annual market valuation. The only suitable period for examining turnover in quoted securities is the fourth quarter of 1964, because stock exchange statistics of total turnover are available for no earlier quarter, and institutional figures for no later; this quarter may prove to be abnormal for turnover, because it contained the exchange crisis. No attempt is made in this article to assess the possible effects on turnover of the tax changes introduced in the April 1965 Budget, and the article describes the position before then.

The institutions' holdings at 31st March 1964 have been calculated in the following way. First, from their total holdings at 31st December 1963 (Table XVI) unquoted securities and overseas securities have been eliminated. Secondly, the remaining holdings have been converted to a common valuation, either nominal or market. Thirdly, the cash values of the institutions' transactions in U.K. quoted securities during the first quarter of 1964 have been added. For want of information, the first two processes cannot always be properly done, and some of the figures used are therefore estimates only, and shown in brackets in the tables which follow. In making these adjustments the Bank have been helped by Mr. J. R. S. Revell of the Department of Applied Economics at Cambridge University, who has kindly made available an analysis of information obtained by him from a sample of institutions. The Bank are also indebted to the London stock exchange for the total market values of holdings shown in Tables XXII to XXIV.

Some earlier estimates of the institutions' share of holdings in certain markets have been published—for example by Dr. C. H. Feinstein and Mr. J. R. S. Revell in *The Times* of 23rd June 1960, and by Mr. J. G. Blease in the *District Bank Review* of September 1964.

Short-term markets The institutions have no great need for short-term assets, as has been seen, and they play only a small part in the short-term markets. Table XVI showed that their total holdings of cash and short-term assets at the end of 1963 were little more than £400 million (or about 2% of their total assets). These holdings were in some cases net of short-term liabilities but a fully gross total would not be very appreciably higher. About one-half of the total of £400 million consisted of bank balances, and most of the remainder of Treasury bills and local authority temporary money (which is repayable in twelve months or less).

The institutions' gross banking position is set out in Table 9 (ii) of the statistical annex. This shows that their deposits usually range between £350 million and £400 million, which is equivalent to no more than about 4% of total domestic deposits with banks. The institutions' bank advances are broadly equal to their bank deposits, and equivalent to about 6% of total domestic advances by banks.

The institutions have only very small holdings of Treasury bills: £21 million at the end of

(1) March 1965 *Bulletin*, page 46.

March 1964, compared with total market holdings of £2,595 million and total bills outstanding of £4,418 million. They hold considerably larger amounts of local authority temporary money, which customarily yields more but may not be quite so liquid; it is estimated that such holdings amounted to £184 million at the end of March 1964, or some 13% of the total.

There are no figures of turnover in these securities, but the institutions are probably a steadying element in the temporary money market. Their holdings are, for example, not likely to be as volatile as the much larger holdings of the accepting houses and overseas banks.

Table XVII

Institutional share of short-term securities : holdings at 31st March 1964

	Treasury bills		Local authority temporary money	
	£ millions nominal	*%*	*£ millions nominal*	*%*
Insurance companies ...	5	—	43	*3*
Pension funds	4	—	30	*2*
Building societies ...	11	—	86	*6*
Investment trusts ...	1	—	15	*1*
Trustee savings banks (special investment departments)	—	—	9	*1*
Unit trusts	—	—	1	—
Total institutions ...	21	—	184	*13*
Other non-official holdings	2,574	*58*	1,196	*87*
Official holdings ...	1,823	*41*	—	—
Total	4,418	*100*	1,380	*100*

Gilt-edged market The institutions hold a similarly modest share of the total of short-dated gilt-edged stocks outstanding; it was just over 5% at 31st March 1964. In contrast, they have a substantial share of the much larger total of over five-year stocks outstanding; it was 24% at the same date.

Table XVIII

Institutional share of gilt-edged market : holdings at 31st March 1964[a]

	0-5 year stocks		Over 5 year stocks	
	£ millions nominal	*%*	*£ millions nominal*	*%*
Insurance companies...	61	*1*	2,029	*14*
Pension funds:				
Private	(20)	(—)	(700)	(*5*)
Local authorities ...	2	—	225	*2*
Nationalised industries, etc. ...	6	—	229	*2*
Building societies ...	134	*2*	167	*1*
Investment trusts ...	7	—	31	—
Hire-purchase finance companies	3	—	—	—
Trustee savings banks (special investment departments) ...	50	*1*	150	*1*
Unit trusts	1	—	2	—
Special finance agencies	—	—	4	—
Total institutions ...	(284)	(*5*)	(3,537)	(*24*)
Other non-official holdings	(3,734)	(*69*)	(6,871)	(*47*)
Official holdings ...	1,384	*26*	4,183	*29*
Total	5,402	*100*	14,591	*100*

[a] Some of these figures have been revised since the table was published in the March *Bulletin*.

Thanks to the new figures of total turnover provided by the London stock exchange,[1] it has recently become possible to judge how active the institutions are in the stock markets. Such a judgment must be very tentative, because it relates to only one, perhaps untypical, quarter. But it is attempted for gilt-edged stocks in the next table, which shows transactions by the leading institutional holders during the fourth quarter of 1964 beside total transactions (including official transactions). Both in this and in later tables the institutional share of the total is approximate only, because some groups give no figures of their turnover, and others include, indistinguishably, transactions on the London stock exchange and those elsewhere (though these are no doubt comparatively small).

[1] Table 16 (i) of the annex. Turnover is defined as the sum of brokers' purchases on behalf of clients plus the sum of their sales on behalf of clients. The value of securities traded is thus about half the turnover.

Table XIX

Institutional share of gilt-edged turnover: 4th quarter 1964

	0-5 year stocks		Over 5 year stocks	
	£ millions	*%*	*£ millions*	*%*
Insurance companies ...	54	*2*	455	*26*
Pension funds:				
Private	6	—	90	*5*
Local authorities ...	—	—	11	*1*
Nationalised industries, etc.[a] ...	(—)	(—)	(11)	(*1*)
Building societies ...	14	*1*	1	—
Investment trusts ...	3	—	3	—
Trustee savings banks (special investment departments)	1	—	7	—
Unit trusts	1	—	1	—
Total institutions ...	(79)	(*3*)	(579)	(*33*)
Other (including official)	(2,345)	(*97*)	(1,194)	(*67*)
Total turnover on the London stock exchange	2,424	*100*	1,773	*100*

[a] It has been assumed that these funds buy and sell on the same scale as local authority pension funds, because the holdings of the two groups at end-1963 were about equal.

A comparison of the last two tables shows that the institutions have had a larger share of the turnover in over five-year stocks than of the holdings. The insurance companies, for example, held 14% of the outstanding total at 31st March 1964, but carried out 26% of the transactions in the fourth quarter of last year.

The institutions' transactions represented pre-eminently an exchange of one gilt-edged stock for another, rather than a change in their total holdings. Little of this switching appears to have been done because of a shortening or lengthening in the institutions' commitments; such a change would have been only gradual, and handled easily by the appropriate investment of new money. But the institutions will have switched to take advantage of temporary quirks in the yield pattern, the intention being to exchange into the stock which was unusually cheap and to return to the original investment as soon as the anomaly disappeared. They also quite noticeably lengthened their portfolios in the fourth quarter, to secure for as long as possible the high yields then being offered. Switching for whatever motive has helped to make the longer-term gilt-edged market broad and efficient in recent years, thereby allowing the Government to raise funds more easily, and perhaps more cheaply, than it otherwise could have done.

Local authority markets

Leaving aside temporary money, which has already been mentioned, borrowing by local authorities from the market has taken two main forms: borrowing on mortgages, and by the issue of stocks. At the end of March 1964 mortgages of some £2,600 million were outstanding, and stock issues of some £1,000 million. Stock issues have been restricted in recent years, lest too large a flow should hamper the Government's own borrowing, and mortgages, which are unquoted, have increased the more rapidly.

The institutions are believed to have held between one-third and one-half of mortgages outstanding at the end of March 1964, and a very similar proportion of stocks outstanding. Mortgages were particularly popular with the special investment departments of the trustee savings banks, and stocks with the pension funds. Stock issues usually have a longer original life than mortgages and are more easily realised, but they usually yield a little less. The different characteristics naturally carry varying weight with the different groups.

Table XX

Institutional share of local authority securities: holdings at 31st March 1964

	Mortgages		Stocks	
	£ millions nominal	*%*	*£ millions nominal*	*%*
Insurance companies[a]	(275)	(*10*)	(120)	(*11*)
Pension funds:				
Private	52	*2*	(130)	(*12*)
Local authorities ...	36	*1*	(23)	(*2*)
Nationalised industries, etc. ...	22	*1*	(33)	(*3*)
Building societies ...	248	*9*	(6)	(*1*)
Investment trusts ...	—	—	2	—
Trustee savings banks (special investment departments) ...	471	*18*	111	*11*
Total institutions ...	(1,104)	(*42*)	(425)	(*41*)
Other holdings ...	(1,519)	(*58*)	(621)	(*59*)
Total market ...	2,623	*100*	1,046	*100*

[a] Division between mortgages and stocks estimated.

Mortgages can be transferred from one holder to another, but this happens only rarely and 'turnover in mortgages' must consist almost entirely of new issues together with redemptions of existing issues. The official figures in fact relate wholly to transactions of this kind; they give a total of just under £300 million for the fourth quarter of 1964, or rather less than one-eighth of mortgages outstanding at 31st March 1964. It is difficult to estimate the institutions' share of this total, because the insurance companies provide only a combined figure for their turnover in mortgages and stocks, and there is no very satisfactory way of dividing it. Stocks indeed change hands more often than mortgages, but the average mortgage matures and is renewed more frequently than the average stock issue, and the insurance companies have a much larger holding of mortgages than of stocks. Perhaps it would not be too far from the mark to divide the combined figure equally between stocks and mortgages. Working from this assumption the institutions' share of the total turnover in mortgages comes to around one-quarter, or much less than their share of holdings. This is only another way of saying that the mortgages held by the institutions—particularly the insurance companies and the pension funds—have a longer than average life.

The institutions' figures of turnover in local authority stocks relate not only to transactions on the London stock exchange but also to subscriptions to new issues and surrenders of maturing issues, where the transaction is direct with the borrower and not through the market. It is not possible to eliminate these direct transactions and, so that a proper comparison can be made, it is necessary to add the grand total of new issues and redemptions of local authority stocks to the stock exchange's figures of turnover. This is done for the fourth quarter in the table which follows. A similar addition will be made for the other security markets discussed, though it is in fact small except for company fixed-interest securities (and there were no issues or redemptions of gilt-edged stocks in the fourth quarter). Worked out in this way, the institutions' share of turnover in local authority stocks in the fourth quarter comes to 36%, or rather less than their share of stocks outstanding at 31st March 1964.

Table XXI

Institutional share of turnover in local authority securities: 4th quarter 1964

	Mortgages		Stocks	
	£ millions	%	*£ millions*	%
Insurance companies[a] ...	(10)	*(3)*	(10)	*(13)*
Pension funds:				
Private	3	*1*	8	*10*
Local authorities ...	1	—	1	*1*
Nationalised industries, etc. ...	(—)	(—)	(1)	*(1)*
Building societies ...	27	*9*	—	—
Investment trusts ...	—	—	—	—
Trustee savings banks (special investment departments) ...	29	*10*	8	*10*
Total institutions ...	(70)	*(24)*	(28)	*(36)*
Other	(223)	*(76)*	(50)	*(64)*
Total market ...	293	*100*	78[b]	*100*

[a] Division between mortgages and stocks estimated (see text).

[b] Of which transactions on the London stock exchange £64 million, new issues plus redemptions £14 million.

Market in stocks of overseas authorities The London stock exchange deals extensively in the stocks of overseas authorities—governments, local authorities and other official bodies—both within the Commonwealth and outside. Australia and New Zealand are the leading borrowers. Judging by the amount of stock outstanding, the market is roughly as large as the market in U.K. local authority stocks, but is usually rather less active. Over two-fifths of the stocks are believed to be held abroad and about one-fifth by the financial institutions, particularly the insurance companies and the pension funds. Statistics of turnover in these overseas stocks show that the institutions had a larger share of turnover in the fourth quarter than of holdings at 31st March 1964.

Table XXII

Institutional share of the market in stocks of overseas authorities

	Holdings: 31st March 1964 market value £ millions	%	Turnover: 4th quarter 1964 £ millions	%
Insurance companies ...	(105)	(*10*)	11	*19*
Pension funds ...	(75)	(*7*)	5	*8*
Building societies ...	(5)	(—)	—	—
Investment trusts ...	4	—	3	*5*
Trustee savings banks (special investment departments) ...	9	*1*	—	—
Total institutions ...	(198)	(*20*)	19	*32*
Other	(808)	(*80*)	40	*68*
Total	1,006	*100*	59[a]	*100*

[a] Of which transactions on the London stock exchange £46 million, new issues plus redemptions £13 million.

Market in U.K. company securities 1. *Fixed-interest* Companies issue both fixed-interest securities and ordinary shares, and the two types can best be considered separately. The fixed-interest securities consist of debenture and loan stocks, and preference (and preferred ordinary) shares. At 31st March 1964 the market value of debenture and loan stocks issued by U.K. companies and quoted on the London stock exchange was just under £2,000 million, or roughly twice the value of stock issued by U.K. local authorities. The market value of preference shares was about £1,250 million. The institutions held just over two-thirds of the debenture and loan stocks by value, but little more than one-third of the preference shares. Stocks usually have definite redemption dates, which preference shares rarely do, and they offer an extra degree of security; and it seems that the institutions generally attach more importance to these considerations than to the benefits which preference shares offer—a somewhat higher yield and an income which is regarded as ' franked ' and so not liable to profits tax. The investment trusts are a striking exception. Because their obligations consist to a considerable extent of permanent capital, they can place yield and tax advantage above the attraction of a fixed redemption date.

The institutions clearly had a larger share of the market in fixed-interest securities at the end of 1963 than at the beginning, for they acquired over £200 million of them during the year while total new issues, less redemptions, were less than £250 million. The institutions obtain many of their securities by underwriting or subscribing to these new issues (some being placed direct with them); but their total take-up of new issues is not known.

Turnover on the London stock exchange cannot be divided between debenture and loan stocks on the one hand and preference shares on the other, but the combined total in the fourth quarter of 1964 was under £100 million. This makes the market less active for its size than either the local authority stock market or

Table XXIII

Institutional share of market in quoted fixed-interest securities of U.K. companies

	Holdings: 31st March 1964 market value: Debenture and loan stocks £ millions	%	Preference shares £ millions	%	Total fixed-interest £ millions	%	Turnover: 4th quarter 1964 Total fixed-interest £ millions	%
Insurance companies	(835)	(*42*)	(305)	(*24*)	(1,140)	(*35*)	(70)	(*43*)
Pension funds	(485)	(*24*)	(95)	(*8*)	(580)	(*18*)	(20)	(*12*)
Investment trusts	19	*1*	79	*6*	98	*3*	4	*2*
Unit trusts	(2)	(—)	(13)	(1)	(15)	(—)	(2)	(*1*)
Total financial institutions ...	(1,341)	(*67*)	(492)	(*39*)	(1,833)	(*56*)	(96)	(*59*)
Other	(655)	(*33*)	(767)	(*61*)	(1,422)	(*44*)	(68)	(*41*)
Total market	1,996	*100*	1,259	*100*	3,255	*100*	164[a]	*100*

[a] Of which transactions on the London stock exchange £92 million, new issues plus redemptions £72 million. The total for the stock exchange includes, indistinguishably, transactions in overseas securities, but these are believed to be small. Such transactions are excluded from the turnover of the institutions.

the market in stocks of overseas authorities. If new issues and redemptions are added to stock exchange transactions, the total comes to nearly £165 million; the institutions were responsible for nearly three-fifths of this total, or a little more than their holdings of all quoted company fixed-interest stocks in issue.

2. Ordinary shares Ordinary shares of U.K. companies were valued at some £27,500 million on the London stock exchange at 31st March 1964. The equity market, which covers about four thousand securities, is thus larger by value of holdings than any other single market here considered, though not, as will be seen, by value of turnover.

The institutions generally hold more of their assets in ordinary shares than in any other single form of security, and their share of the market, though not as dominant as with company fixed-interest securities, is substantial—about one-quarter. Of the institutions' total, the insurance companies account for rather more than one-third, the rest being divided almost equally between the pension funds on the one hand and the investment and unit trusts on the other.

The institutions' share of the total has clearly been increasing for a long time, and is still growing. In 1963, for example, new issues of quoted ordinary shares by U.K. companies totalled less than £200 million, but the institutions added some £400 million to their portfolios, partly by taking up a large part of these new issues (as with fixed-interest securities) and partly by buying existing issues, no doubt largely from private individuals or their estates.

The movement of ownership into institutional hands raises wide issues which can be only touched on here. Very briefly, it seems that the institutions generally (though not the special finance agencies) are perhaps less disposed to invest in the newer and riskier projects than private investors are, and this may have disadvantages for the economy. On the other hand, they are able to exercise the responsibilities of share-ownership more effectively than some private investors and, if grievances arise, they can more readily exert an influence upon boards of directors than a widely scattered body of private individuals can.

Total turnover in equities on the London stock exchange amounted to a little less than £1,000 million in the fourth quarter of 1964. This total includes transactions in both U.K. and overseas securities. Turnover in the latter is believed to be comparatively small, but cannot be distinguished. Total institutional turnover in U.K. equities is estimated at £220 million. Thus the institutional share of turnover in U.K. equities certainly approached 25%, and may have been rather more. This is of much the same order as their share of equity holdings, and it seems that for their size the institutions are less active in this market than in some of the others.

Table XXIV
Institutional share of market in U.K. quoted ordinary shares

	Holdings: 31st March 1964 market value *£ millions*	*%*	Turnover: 4th quarter 1964 *£ millions*	*%*[a]
Insurance companies ...	(2,410)	*(9)*	(75)	*(8)*
Pension funds ...	(2,290)	*(8)*	(75)	*(8)*
Investment trusts	1,756	*6*	49	*5*
Unit trusts ...	(310)	*(1)*	(21)	*(2)*
Total institutions ...	(6,766)	*(25)*	(220)	*(23)*
Other	(20,742)	*(75)*	(753)	*(77)*
Total market ...	27,508	*100*	973[b]	*100*

[a] The percentages for the institutions may be underestimated (see text).

[b] Of which transactions on the London stock exchange £957 million, new issues £16 million. The total for the stock exchange includes, indistinguishably, transactions in overseas equities (see text).

Other markets

1. Finance for private house purchase The institutions provide finance in a variety of other ways but only two will be considered here. Both are credit to private individuals, the first for house purchase and the second for consumption.

The total amount of debt outstanding for house purchase, unlike the forms of debt already discussed, is not precisely known. But it is clear that there are four main lenders. Two of them—the building societies and the insurance companies—are financial institutions as here defined. The others are the local authorities and the banks. The total amount of finance provided by lenders outside these four groups—especially by industrial and commercial companies, for their staffs—is believed to be comparatively small. In the great majority of cases loans will be secured by a mortgage of the property.

As might be supposed, the building societies predominate in this market. Their loans outstanding for private house purchase are believed to have amounted to £3,530 million at the end of 1963 (out of a total of £3,578 million for loans and mortgages in Table XVI). The insurance companies were the next largest lenders at this date, with £749 million (out of a total of £1,297 million for loans and mortgages). The local authorities had loans of £560 million outstanding, the banks under £300 million, and all other lenders probably no more than £100 million. This means that the financial institutions (as here defined) provided about 82% of the credit outstanding.

It is impossible to measure total turnover in house mortgages but there is no reason to suppose that it would have been divided between the main lenders in proportions significantly different from those just given.

Table XXV

Institutional share of private debt for house purchase : end-1963

	£ millions	%
Insurance companies	749	*(14)*
Pension funds	12	(—)
Building societies	(3,530)[a]	*(68)*
Total institutions	(4,291)	*(82)*
Local authorities	560	*(11)*
Banks	274[b]	*(5)*
Other[c]	(100)	*(2)*
Total debt	(5,225)	*100*

[a] An estimate of advances on non-residential property has been excluded. The estimate is based on a sample survey, conducted by the Chief Registrar of Friendly Societies, analysing mortgage loans granted during 1963 (*Report of the Chief Registrar of Friendly Societies for the year 1963*, Part 5, page 22).

[b] Advances for house purchase by the London clearing banks at mid-November 1963; the Bank are indebted to the banks for permission to publish this figure.

[c] Employers not included elsewhere, friendly societies, private lenders, etc. Housing societies are not included because they do not finance house purchase by private individuals.

2. *Consumer credit* Consumer credit is provided by many different lenders, financial and other, in a variety of formal and informal ways, and the total outstanding can be estimated only very broadly. The amount provided by the finance houses under hire-purchase agreements or in other ways is known approximately, but not the amount provided by the insurance companies (because their ' loans against policies ' and their ' other loans and mortgages ' cannot be classified by purpose). The total amounts advanced by the banks to ' personal and professional ' borrowers are known, but not the part devoted strictly to personal consumption (as distinct from, say, the finance of new capital works such as a bathroom or a garage). To turn to other types of lender, the total made available by shops under hire-purchase or credit sale agreements is known, but there are no very recent figures for the amounts provided under a wide range of less formal arrangements, such as ' check trading schemes ' (where retailers accept payment for goods in the form of ' checks ', or vouchers) or the simplest form like a weekly account with a milkman.

Table XXVI sets out the amounts of credit provided at the end of 1963 which can be identified, and points to the possible size of the other forms; it is impracticable to calculate the total turnover in credit during the year, if indeed there would be much point in trying to do so.

Table XXVI

Institutional share of consumer credit : end-1963

	£ millions	%
Insurance companies[a] ...	(75)	*(5)*
Hire-purchase finance companies[b]	(411)	*(25)*
Total institutions	(486)	*(30)*
Banks[c]	(300)	*(18)*
Shops: hire-purchase and other instalment credit arrangements	345	*(21)*
Shops, mail order companies, etc.: arrangements not included elsewhere[d]	(500)	*(31)*
Total of above	(1,631)	*100*

[a] Based on an analysis of the balance-sheets of certain large companies.

[b] Estimated by the Board of Trade from the figure of total debt owed to finance houses.

[c] It has been arbitrarily assumed that, after excluding housing loans and mortgages, about one-half of the ' personal and professional ' advances outstanding at mid-November 1963 was owed by consumers.

[d] Estimate, based on the Census of Distribution for 1961, published by the Credit Protection Association in *The Financial Times* of 1st January 1965.

The institutional share of the total is of no particular significance since the market is an extremely diverse one, in which various lenders compete with one another to only a limited extent. Finance houses, for example, specialise in car business; in recent years this has become steadily more important to them and now accounts for rather more than half of their total business. In this more restricted market their share is undoubtedly very much higher than the 25% shown in the table. In 1963 they lent £303 million on new and used cars; some of this amount must have gone to commercial borrowers but it seems likely that they financed between one-third and one-half of all cars purchased by private individuals during the year.

Conclusion The various groups of financial institutions discussed in this article differ considerably from each other both in their liabilities and in their assets. For example, the building societies, the trustee savings banks, and the hire-purchase finance houses have largely short-term liabilities, and the other institutions largely long-term. On the assets side, some of the institutions concentrate almost entirely on a single security market—the investment and unit trusts, for instance, hold little but equities, and the building societies and hire-purchase finance houses little but house mortgages and hire-purchase paper respectively—while others range over all, or nearly all, the different markets.

Because the institutions vary so much it is difficult to generalise about them, but perhaps two points can be made. First, because their liabilities are generally more liquid than their assets, the institutions enable long and medium-term investment to be financed with less strain on the liquidity of the ultimate lenders than direct finance would entail; this probably allows long and medium-term interest rates to be lower than they would otherwise be. Secondly, because these institutions are important in the credit structure, their activities in the various security markets are of considerable significance. The new statistics allow this significance to be assessed continuously.