The financial institutions: Part 3

This article completes a short series reviewing the business of financial institutions other than banks in recent years. The development of the various groups of institutions during the period 1964-69 was described in the December 1970 and March 1971 issues of the *Bulletin;* and the present article assesses their importance in the main security markets, extending the period covered to 1970 to take advantage of the latest available figures.

The methods of making this assessment are the same as were used in an article on the same subject in June 1965. First, the institutions' holdings of different types of securities at 31st March 1970 are compared with total market holdings;[1] secondly, their share of turnover in the various markets is estimated for each of the six years 1965 to 1970. Both comparisons suffer from statistical shortcomings which will be described in the sections dealing with the particular markets, but it is unlikely that these invalidate the broad assessments made in this article.

The article is confined to the four major security markets – government securities, local authority securities, company fixed interest securities and ordinary shares. The market in sterling securities of overseas authorities was also considered in the 1965 article, but is omitted this time because of its minor importance in recent years. So also are the short-term money markets; generally speaking, the financial institutions play only a very small role in these markets, although building societies invest sizable amounts in local authority temporary debt, and held 11% of the total outstanding at end-March 1970. Institutional shares in the financing of house purchase and of consumer credit have already been discussed in the sections dealing with building societies and finance houses respectively in the March 1971 article.

Gilt-edged market

The institutions' holdings of medium and long-dated gilt-edged stocks – those with over five years to run to maturity – continue to be much more important than their holdings of shorter-dated stocks. But their share of both kinds of holdings increased over the six years to end-March 1970 – from 7% to 18% for short-dated stocks and from 34% to 44% for longer-dated stocks – as the following table shows:

1 For most types of institution, it has been necessary to add cash transactions during the first quarter of 1970 to assets at end-1969 in order to arrive at estimates of holdings at 31st March: this is the date for which estimates of market holdings of the different assets are available. End-1969 holdings of preference and ordinary shares have been revalued to take account of share price movements in the first quarter of 1970.

Table IIIA

Institutional share of holdings of British government stocks at 31 March[a]

£ millions (nominal): *percentage of total holdings in italics*

	Up to 5 years to maturity				Over 5 years to maturity			
	1964		1970		1964		1970	
Insurance companies	61	*2*	90	*2*	2,029	*19*	3,108	*27*
Pension funds	28	*1*	74	*2*	1,154	*11*	1,243	*11*
Building societies	134	*3*	508	*11*	167	*2*	244	*2*
National Savings Bank, investment account and trustee savings banks, special investment departments	50	*1*	175	*4*	150	*1*	317	*3*
Investment and unit trusts	8	—	22	—	33	—	120	*1*
Total institutions	281	*7*	869	*18*	3,533	*34*	5,032	*44*
Banks	1,031	*26*	1,050	*22*	917	*9*	730	*6*
Discount market	429	*11*	282	*6*	8	—	48	—
Other holders, except official (residual)	2,277	*57*	2,617	*54*	5,950	*57*	5,628	*49*
Total market holdings	**4,018**	*100*	**4,818**	*100*	**10,408**	*100*	**11,438**	*100*

a Some of these figures have been revised since they were published in the article on the distribution of the national debt in the March issue.

The growth in the institutional share of short-term holdings during these six years is mainly attributable to the building societies, whose share rose from 3% to 11%. As the societies increased their total assets from year to year they also increased their holdings of short-term gilt-edged stocks in order to maintain their liquidity ratios. Similarly the special investment departments of the savings banks (and, from June 1966, the investment account of the National Savings Bank) added to their liquid reserves and increased their share in the short-dated gilt-edged market from 1% to 4%.

The insurance companies account for by far the largest part of the rise in the institutional share of longer-term gilt-edged holdings. Their share rose from 19% to 27%, mainly in the last three years of the period. The life funds continued to invest part of their increasing income in gilts for a variety of reasons, including the desire to match the term of their assets to their liabilities. The pension funds however, which follow somewhat different investment policies, kept their share of holdings at about 11%.[1]

The institutions also increased their share of turnover of short-dated issues during the period, as can be seen from the following figures of transactions in each of the six years 1965 to 1970:

1 The factors influencing the investment behaviour of the insurance companies and the pension funds were discussed on pages 424-9 of the December 1970 *Bulletin*.

Table IIIB
Institutional share of turnover in British government securities of up to 5 years
(excluding transactions by official holders)

£ millions: *percentage of total turnover in italics*

	1965		1966		1967		1968		1969		1970	
Insurance companies	195	*3*	179	*2*	461	*4*	541	*5*	558	*6*	401	*4*
Pension funds	104	*1*	116	*1*	332	*3*	288	*3*	258	*3*	246	2
Building societies	63	*1*	189	*2*	409	*3*	231	*2*	249	*3*	568	*6*
National Savings Bank, investment account and trustee savings banks, special investment departments	37	—	111	*1*	95	*1*	77	*1*	43	—	128	*1*
Investment and unit trusts	51	*1*	54	*1*	107	*1*	71	*1*	83	*1*	84	*1*
Total institutions	450	*6*	649	*8*	1,404	*11*	1,207	*11*	1,191	*13*	1,427	*14*
Banks	. .	. .	510[a]	*6*	980	*8*	815	*7*	610	*7*	930	*9*
Discount market	. .	. .	4,305[a]	*53*	6,115	*48*	5,671	*51*	4,492	*49*	5,170	*52*
Other holders, except official (residual)	. .	. .	2,711	*33*	4,279	*34*	3,460	*31*	2,797	*31*	2,375	*24*
Total turnover	**7,734**	*100*	**8,175**	*100*	**12,778**	*100*	**11,153**	*100*	**9,090**	*100*	**9,902**	*100*

a Estimated. Figures for the first quarter of 1966 are not available and have been assumed to be similar to those for the later quarters of that year.
. . not available.

The rise in the institutions' share of turnover in short-dated issues from 6% to 14% was similar to the rise in their share of holdings. Within the total, the insurance companies' share of turnover increased much more than their share of holdings up to 1969, but declined in 1970, whereas their share of holdings changed little. The building societies' shares of turnover and holdings, on the other hand, followed similar paths; in particular, both showed pronounced rises between 1969 and 1970.

Table IIIC
Institutional share of turnover in British government securities of over 5 years
(excluding transactions by official holders)

£ millions: *percentage of total turnover in italics*

	1965		1966		1967		1968		1969		1970	
Insurance companies	854	*21*	865	*21*	1,453	*18*	1,801	*37*	2,481	*41*	2,528	*23*
Pension funds	548	*14*	778	*19*	1,168	*14*	703	*15*	1,063	*17*	1,788	*17*
Building societies	33	*1*	50	*1*	176	2	44	*1*	34	*1*	178	2
National Savings Bank, investment account and trustee savings banks, special investment departments	31	*1*	46	*1*	92	*1*	33	*1*	18	—	125	*1*
Investment and unit trusts	30	*1*	40	*1*	139	2	53	*1*	197	*3*	236	2
Total institutions	1,496	*37*	1,779	*43*	3,028	*38*	2,633	*54*	3,793	*62*	4,855	*45*
Banks	. .	. .	280[a]	*7*	655	*8*	280	*6*	180	*3*	715	*7*
Other holders, except official (residual)	. .	. .	2,126	*51*	4,387	*54*	1,924	*40*	2,107	*35*	5,240	*48*
Total turnover	**4,046**	*100*	**4,185**	*100*	**8,070**	*100*	**4,837**	*100*	**6,080**	*100*	**10,810**	*100*

a See note to Table IIIB.
. . not available.

The institutions' share of turnover in longer-term stocks went up much more than their share of holdings up to 1969, when it was 62%, almost twice as large as the share four years previously, whereas their share of holdings rose by a third, to 45%. The insurance companies were mainly responsible for this difference, their share of total turnover almost doubling to 41%. However, the contrast between 1965 and 1969 cannot be interpreted as evidence of a definite trend, as the entire increase took place in 1968 and 1969, and the share of both the insurance companies and the institutions as a whole fell sharply in 1970.

It is difficult to assess the relative importance of the various factors which affected the activity of the institutions in the gilt-edged market over the six years considered. Nevertheless, the introduction of long-term capital gains tax in 1965 was clearly a major influence. The life funds became liable to pay tax on all gains realised from their gilt-edged transactions, except to the extent that they fell within the 'neutral (tax-free) zone' on stocks issued at less than par. It seemed likely that this would reduce their activity in the gilt-edged market. The absence of earlier figures for stock exchange turnover makes any opinion hazardous, but the tax does appear to have had some initial impact. The gross purchases and sales combined of the insurance companies – of which the life funds' transactions account for by far the greater part – averaged only about £260 million a quarter in the two years 1965 and 1966, compared with quarterly averages of approaching £350 million in each of the previous two years. Moreover, in 1965 and 1966 their share of turnover, at about 9%, was smaller than their share of holdings (about 15%), which contrasted with their previous reputation as investors ready to switch holdings to take advantage of changes in yield patterns. It contrasted, too, with the behaviour of the pension funds, which were exempt from tax and which, in spite of being smaller holders of gilt-edged stocks, increased their activity in each of the years 1964-66; in 1966 their share of turnover had grown to little less than their share of holdings.

Nevertheless, from 1967 to 1969 the insurance companies reasserted themselves in the market, increasing their gross transactions first in absolute and then in relative terms. Other factors besides tax considerations obviously played a part in this resurgence and again cannot be distinguished easily. But it looks as if by then the insurance companies had come to terms with capital gains taxation. Indeed, the tax had created variations in yields between stocks of different coupons and different issue prices which themselves offered new opportunities of profitable switching to the sophisticated investor. Alternatively switching might be done not for direct profit but to establish losses which could be offset, for tax purposes, against the gains made in other transactions. In this context, the pattern of insurance companies' activity in 1969 and 1970 is interesting. Their purchases and sales of gilt-edged stocks totalled over £1,000 million in the first quarter of 1969, as they sold stocks to establish tax losses and then replenished their portfolios by purchasing stocks with similar yields and maturities. In the Budget of that year, gilt-edged stocks were exempted from capital gains taxation if held for over twelve months; and the insurance companies' turnover then declined steadily for a year. It revived in the second quarter of 1970, but for that year as a whole was slightly lower than in 1969; thus in a market which was generally much more active, the insurance companies' share declined considerably.

Local authority markets

This section confines itself to measuring the share of the institutions in the markets for local authority stocks and mortgages. The temporary money and bill markets are not considered because they are short-term markets; nor is the market in local authority bonds. The latter (largely in bonds with original maturities of about one year) expanded very quickly in the five years under review, but so far as can be judged the institutions discussed here have not played much part in its growth; although the building societies and savings banks no doubt hold some bonds, the discount houses, banks and commercial companies have all been more prominent. Moreover, although turnover statistics are lacking, it seems that this is not an active market: purchasers are likely to hold to maturity.

The figures of local authority securities reported by most of the institutions are classified as either 'quoted' securities (stocks or quoted bonds) or 'unquoted' securities (mortgages or unquoted bonds). For the reasons already mentioned, quoted securities have been taken in the tables which follow to refer only to stocks, and unquoted securities have been treated wholly as mortgages.

However, the insurance companies report only aggregate figures of their holdings and acquisitions of local authority securities, making no distinction between quoted and unquoted securities. In arriving at an estimate of market shares, it has been assumed that the insurance companies have held one quarter of their total local authority debt in stocks, and the remainder in mortgages; and the turnover of the insurance companies has been divided between stocks and mortgages in the proportion 2:3. These estimates tilt the balance towards the share of mortgages a little more strongly than the estimates made (with the help of J. R. S. Revell, then of the Department of Applied Economics at Cambridge) at the time of the 1965 article; it has been assumed that, as local authorities have subsequently increased their mortgage borrowing as against their stock issues, so the insurance companies will have accumulated a larger proportion of mortgages.

According to these estimates, the institutions hold more than two fifths of local authority stocks and more than one third of mortgages. Their share of holdings of stocks may be a little more than in 1964, although the distribution among the holders differs considerably. The institutions' share of the market in mortgages, however, has fallen more than the table suggests, because the estimates for 1970 include loans to parent authorities by local authority pension funds, which were not in the figures for 1964. The main institutional holders of both kinds of security are now the savings banks – especially the special investment departments of the trustee savings banks, which held over £280 million of quoted securities (probably including some bonds) and about £720 million of mortgages at the end of March 1970. The building societies hold much larger amounts of mortgages than of stocks, mainly because mortgages can be obtained in the amounts and with the comparatively short-term maturities which the societies require to help to maintain their liquidity ratios.

Table IIID
Institutional share of holdings of local authority securities at 31 March
£ millions (nominal): *percentage of total holdings in italics*

	Stocks				Mortgages			
	1964		1970		1964		1970	
Insurance companies[a]	120	*11*	106	*6*	275	*10*	320	*6*
Pension funds	186	*18*	234	*14*	110	*4*	319[b]	*6*
Building societies	6	*1*	33	*2*	248	*9*	431	*8*
National Savings Bank, investment account and trustee savings banks, special investment departments	111	*11*	355	22	471	*18*	775	*15*
Investment and unit trusts	2	—	1	—	—	—	—	—
Total institutions	425	*41*	729	*44*	1,104	*42*	1,845	*36*
Other holders (residual)	621	59	912	*56*	1,519	*58*	3,320	*64*
Total market holdings	**1,046**	*100*	**1,641**	*100*	**2,623**	*100*	**5,165**	*100*

a Estimates. See text.
b Partly at market value; includes 233 of loans to parent local authorities by local authority pension funds.

As explained above, the turnover figures include the rather arbitrary division of insurance company transactions in the ratio 2:3 between stocks and mortgages. For the other institutions the division is available from reported statistics and is therefore more reliable. Turnover of stocks comprises stock exchange turnover in local authority securities together with figures for new issues and redemptions of stocks, which escape the stock exchange statistics but which the institutions include in their figures. For mortgages, in which transfers between holders are rare, turnover has been taken simply as the sum of new borrowings plus repayments.

Table IIIE
Institutional share of turnover in local authority stocks
£ millions: *percentage of total turnover in italics*

	1965		1966		1967		1968		1969		1970	
Insurance companies[a]	40	*8*	30	*3*	34	2	35	*4*	36	*4*	32	2
Pension funds	89	*17*	114	*13*	119	*9*	89	*10*	86	*9*	106	*7*
Building societies	14	*3*	7	*1*	16	*1*	15	*2*	24	*3*	67	5
Savings banks	32	*6*	51	*6*	77	*6*	52	*6*	52	*6*	114	*8*
Investment and unit trusts	4	*1*	7	*1*	8	*1*	2	—	3	—	2	—
Total institutions	179	*34*	209	*24*	254	*19*	193	22	201	22	321	22
Other holders (residual)	349	*66*	649	*76*	1,115	*81*	698	*78*	720	*78*	1,144	*78*
Total turnover	**528**	*100*	**858**	*100*	**1,369**	*100*	**891**	*100*	**921**	*100*	**1,465**	*100*
Of which, issues and redemptions	197		164		167		160		82		155	

a Estimates. See text.

According to this table, the institutional share in turnover of stocks fell from 34% in 1965 to 22% in 1970. It seems unlikely that this fall is attributable to any great extent to the inclusion of transactions in bonds in total turnover. Within the total for the institutions, the savings banks appear to emerge as relatively inactive traders, preferring to hold stocks to maturity.

Table IIIF
Institutional share of turnover in local authority mortgages
£ millions: *percentage of total turnover in italics*

	1965		1966		1967		1968		1969		1970	
Insurance companies[a]	60	*4*	46	*3*	50	*3*	53	*3*	54	2	48	2
Pension funds	72	*5*	60	*4*	63	*4*	70	*3*	59	2	48	2
Building societies	189	*12*	156	*9*	234	*14*	155	*8*	234	*8*	282	*9*
Savings banks	103	*7*	172	*10*	153	*9*	176	*9*	197	*7*	208	*7*
Investment and unit trusts	4	—	1	—	—	—	2	—	1	—	1	—
Total institutions	428	*28*	435	*26*	500	*31*	456	22	545	*19*	587	*19*
Other holders (residual)	1,126	*72*	1,221	*74*	1,124	*69*	1,601	*78*	2,390	*81*	2,555	*81*
Total turnover	**1,554**	*100*	**1,656**	*100*	**1,624**	*100*	**2,057**	*100*	**2,935**	*100*	**3,142**	*100*

a Estimates. See text.

The institutions' share of turnover in mortgages also seems to have fallen over the five years. The same conclusion emerges from figures which many local authorities themselves supply to the Central Statistical Office. Among other things, they report their gross borrowing from, and repayments to, financial institutions other than banks.[1] This source suggests that the institutions' share of total turnover in mortgages was as follows: 1965, 24%; 1966, 26%; 1967, 28%; 1968, 20%; 1969, 22%; and 1970, 21%. The differences between these proportions and those shown in Table IIIF are no doubt partly attributable to the arbitrary division of insurance companies' transactions between mortgages and stocks used in the table, but may also arise from differences in the coverage of local authorities and from the inclusion by local authorities of borrowing from institutions not considered here. The comparison suggests that the fall in share over the period may have been less marked than appears from the table, but both estimates agree that the institutional share generally varied between 20% and 30%. Another common feature is that both estimates show a significant fall in 1968. This appears to reflect variations in the building societies' activity, which is determined in any single year by their liquidity needs; in 1968 the societies sharply reduced their gross acquisitions of local authority mortgages in order to maintain their lending in face of a decline in the rate of inflow of deposits. The institutions continue to have a lower share of turnover than of holdings of local authority mortgages, mainly because the insurance companies and pension funds, as long-term investors, acquire mortgages of longer than average life, and rarely, if ever, sell them.

1 These figures are published in *Financial Statistics* in the table recording long-term borrowing by local authorities.

Market in U.K. quoted company securities

In order to assess the institutional share of the market in U.K. company securities, some adjustments have again been made to the published figures. In particular, unquoted and overseas securities have been removed from the figures for the pension funds and, as far as possible, from the figures for insurance companies.

1 Fixed interest securities

Figures for unquoted and overseas securities are available for the holdings of private and public sector pension funds (but not for local authority funds) and have been deducted. Adjustments have been made to the turnover figures in the same proportion as to holdings. For the insurance companies, figures for overseas securities are available, and so can be excluded, but there are no comprehensive estimates of unquoted U.K. securities – and holdings of unquoted debentures can be substantial: J. R. S. Revell and his associates found that in 1964 as much as 17% of the debenture holdings of a sample of insurance companies were unquoted,[1] these being mainly debentures issued to finance property companies and oil tankers. This ratio is assumed to have fallen slightly to 15% since then, on the grounds that the increase in new issues of quoted debentures and loan stocks over the period has been proportionately greater than increases in unquoted issues. Although this and the other adjustments are undoubtedly somewhat arbitrary, the broad conclusions to be drawn about the share of the financial institutions as a whole do not depend critically on the assumptions which have been made.

Table IIIG

Institutional share of holdings of quoted fixed interest securities of U.K. companies at 31 March

£ millions (market value): *percentage of total holdings in italics*

	Debenture and loan stocks				Preference shares				Total fixed interest			
	1964		1970		1964		1970		1964		1970	
Insurance companies	875[a]	*44*	1,490	*35*	325[a]	*26*	260	*40*	1,200[a]	*37*	1,750	*35*
Pension funds	485	*24*	850	*20*	95	*8*	41	*6*	580	*18*	890	*18*
Investment trusts	19	*1*	71	*2*	79	*6*	93	*14*	98	*3*	164	*3*
Unit trusts	2	—	25	*1*	13	*1*	21	*3*	15	—	46	*1*
Total institutions	1,381	*69*	2,436	*57*	512	*41*	415	*64*	1,893	*58*	2,850	*58*
Others (residual)	615	*31*	1,855	*43*	747	*59*	234	*36*	1,362	*42*	2,090	*42*
Total market holdings[b]	**1,996**	*100*	**4,291**	*100*	**1,259**	*100*	**649**	*100*	**3,255**	*100*	**4,940**	*100*

a Revised estimate.
b Includes sterling securities of overseas companies.

The table confirms the dominant position of the institutions among holders of company fixed interest securities. They hold over half of quoted debenture and loan stocks outstanding,[2] although their share – and particularly that of the insurance companies – has fallen since 1964; and their holdings of preference shares have risen to over three fifths of the total outstanding (compared with two

1 *The Wealth of the Nation*, published by Cambridge University Press, 1967.
2 Including stocks convertible into ordinary shares.

fifths in 1964), because they have not greatly reduced their holdings in a sharply contracting market.[1] The insurance companies alone still hold over one third of quoted debenture and loan stocks outstanding and about 40% of preference shares. This reflects the value which they have placed, especially in the past, upon the fixed redemption dates of debentures and the known, usually high, yields obtainable from both preference shares and debentures. The pension funds take second place among the holders of debenture and loan stocks, and the investment trusts, with their need for franked income,[2] have become the second largest holders of preference shares.

In calculating shares of turnover, it is only possible to construct a table which combines both types of fixed interest securities, because the London stock exchange turnover figures do not separate transactions in preference shares from those in debenture and loan stocks.

Table IIIH
Institutional share of turnover in quoted fixed interest securities of U.K. companies
£ millions: *percentage of total turnover in italics*

	1965		1966		1967		1968		1969		1970	
Insurance companies	321	*35*	368	*32*	387	*31*	427	*33*	509	*30*	418	*28*
Pension funds	190	*21*	226	*19*	202	*16*	212	*16*	320	*19*	316	*21*
Investment trusts	27	*3*	53	*5*	68	*5*	75	*6*	152	*9*	94	*6*
Unit trusts	8	*1*	14	*1*	19	2	39	*3*	41	2	42	*3*
Total institutions	546	*60*	661	*57*	676	*54*	753	*58*	1,022	*61*	870	*58*
Other holders (residual)	367	*40*	503	*43*	585	*46*	537	*42*	656	*39*	622	*42*
Total turnover	**913**	*100*	**1,164**	*100*	**1,261**	*100*	**1,290**	*100*	**1,678**	*100*	**1,492**	*100*
Of which, new issues and redemptions	434		579		475		346		440		335	

It seems that the institutions have accounted for about the same proportion of turnover throughout the last six years. The share of the insurance companies has diminished, probably in part because – as is suggested by the figures for holdings – they have taken up a decreasing share of new issues of debenture and loan stocks. The investment trusts and unit trusts on the other hand have increased their activity in this market considerably.

2 Ordinary shares

In arriving at the estimates in Table IIIJ, the published pension fund figures have been adjusted in the same way as for fixed interest securities. For insurance companies, the known holdings of overseas shares have been deducted from the published figures for ordinary shares, and an estimated adjustment has been made to take account of their small investments in unquoted U.K. shares. The formula

1 Since the introduction of corporation tax in 1965, many companies have converted their issues of preference shares into debentures, as debenture interest is deductible from profits for corporation tax purposes, whereas preference dividends are not.

2 Dividends received on ordinary or preference shares count as franked income. An investment trust can set off the income tax already paid on franked income against the amounts due to the Inland Revenue on its own dividends. Franked income is not liable to corporation tax.

by which the book value of the insurance company holdings has been converted to market value was explained on page 430 of the December 1970 *Bulletin.*

Table IIIJ
Institutional share of holdings of U.K. quoted ordinary shares as at 31 March

£ millions (market value): *percentage of total holdings in italics*

	1964		1970	
Insurance companies	2,565[a]	*9*	4,600	*12*
Pension funds	2,290	*8*	3,524	*9*
Investment trusts	1,756	*6*	2,617	*7*
Unit trusts	310	*1*	1,098	*3*
Total institutions	6,921	*25*	11,839	*31*
Other	20,587	*75*	25,954	*69*
Total market holdings[b]	**27,508**	*100*	**37,793**	*100*

a Revised estimate.
b Includes sterling securities of overseas companies.

The June 1965 article estimated that the institutions held about 25% of U.K. ordinary shares at end-March 1964; the proportion is calculated to have risen to 31% six years later. This expansion was to have been expected, because net purchases of ordinary shares by the institutions throughout the period were considerably higher than net new issues of shares: in 1969, for example, they invested roughly £450 million in net acquisitions of U.K. quoted ordinary shares, whilst new issues amounted to little more than £200 million. The balance became available from the personal sector, which sold equities in order, for example, to meet death duty liabilities or to purchase annuities, and possibly also to avoid the technical difficulties introduced into portfolio management by capital gains taxation. The employment of funds becoming available for the last of these reasons no doubt contributed to the rapid growth of the unit trusts, which is one of the main features in Table IIIJ. The expansion of the insurance companies' share must to some extent have been the counterpart of their smaller proportion of holdings of debenture and loan stocks, suggesting a strengthening of the view that equity holdings are not incompatible with a steady flow of income.

Once again, there are statistical difficulties in measuring the institutions' share of turnover in U.K. ordinary shares. The main problems are that the figures of total stock exchange turnover include indistinguishably transactions in overseas securities in London, and that insurance company and pension fund transactions include some deals in overseas and unquoted U.K. securities. An attempt to allow for the second difficulty, but not for the first, has been made in the table below. The estimates are thus uncertain, but probably indicate the broad trends over the five years surveyed.

Table IIIK

Institutional share of turnover in U.K. quoted ordinary shares

£ millions: *percentage of total turnover in italics*

	1965		1966		1967		1968		1969		1970	
Insurance companies	280	*8*	292	*8*	458	*8*	834	*9*	777	*9*	842	*9*
Pension funds	343	*10*	363	*10*	546	*9*	848	*9*	888	*10*	1,009	*11*
Investment trusts	266	*7*	288	*8*	487	*8*	714	*8*	678	*7*	629	*7*
Unit trusts	120	*3*	160	*4*	291	*5*	672	*7*	762	*9*	774	*9*
Total institutions	1,009	*28*	1,103	*30*	1,782	*30*	3,068	*32*	3,105	*35*	3,254	*37*
Others (residual)	2,556	*72*	2,622	*70*	4,099	*70*	6,424	*68*	5,817	*65*	5,634	*63*
Total turnover	**3,565**	*100*	**3,725**	*100*	**5,881**	*100*	**9,492**	*100*	**8,922**	*100*	**8,888**	*100*
Of which new issues	86		159		77		374		209		76	

It will be seen that the share of turnover of the insurance companies, pension funds and investment trusts has been remarkably constant from year to year. In each case, moreover, their share of turnover has diverged very little from their share of holdings, though the insurance companies appear to have been somewhat less active than the other groups of institutions. Nevertheless, the share of the institutions as a whole rose over the period from 28% to 37%. This rise was almost entirely due to the unit trusts, which increased their share of turnover from 3% to 9%. Although they were able to gain ground partly through the faster growth of their receipts from subscriptions, the comparison with their 3% share of holdings at end-March 1970 clearly suggests that the unit trusts were relatively the most active institutions in the ordinary share market. In consequence, the differences in the shares of market turnover attributable to the four kinds of institution had been reduced by the end of the period.

Conclusions

The financial institutions have become more popular channels for personal savings over the period surveyed. Not only have they continued to attract new savings, but there has also been effectively some transfer of securities (especially ordinary shares) from the personal sector. Both these developments may be said to owe something to the initiatives taken by the institutions in expanding their range of investment media and services. In addition, the insurance companies and pension funds in particular have benefited from the growth of their investment income. As a result of these processes, the financial institutions as a whole have increased their weight in both the major U.K. security markets – those for gilt-edged stocks and ordinary shares.

The continued strengthening of the role of institutional investors in the security markets does however bring problems in its wake. It has been argued on the one hand that the institutions, by becoming large shareholders in, and lenders to, industrial and commercial companies, have acquired a potentially excessive influence over the policies and conduct of British industry and that they should therefore be careful to avoid too much intervention in the management of companies. Others take the opposite view – that in these circumstances the institutions have a responsibility to concern themselves more closely with the affairs of the companies in which they invest; and that they should do so not merely on the more publicised occasions when they find themselves in a decisive position in take-over situations, or when a company gets into difficulties, but rather by maintaining a continuing interest behind the scenes.