

# The Reserve Bank's managed funds survey

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*This article describes the Reserve Bank's new Managed Funds Survey (MFS) and presents the first statistics from the survey.*

## I Introduction

There have been substantial changes in financial sector activity in New Zealand over the last several years. One important development has been that investment fund managers have been providing an increasingly important channel of intermediation between household savers and businesses requiring equity and debt finance. It is important for statistical surveys to be extended to capture such new developments. The Reserve Bank's (RBNZ's) new Managed Funds Survey (MFS) has been designed to help provide a significantly improved overview of financial intermediation in New Zealand. The MFS provides, for the first time, statistics on New Zealanders' investments in wholesale as well as retail superannuation, life insurance products and direct investments in Australian unit trusts.

This article explains why the survey was developed and the consultations undertaken with other organisations. It also describes the MFS's linkages to the Reserve Bank's M3 survey, IMF statistical concepts and statistics published by the Australian Bureau of Statistics. It presents the first statistics from the MFS and comments on their significance, relating them to statistics from other sources where appropriate.

## II Background to the survey

The RBNZ has been compiling and publishing monthly statistics for registered banks and other M3 financial institutions (M3FIs) on the current basis since 1987.<sup>1</sup> These statistics were designed in line with the recommendations of the Review Committee on New Zealand Finance Statistics which were published in December 1983.

Since then, of course, there has been extensive deregulation of the financial sector and considerable innovation in financial products. Banks increasingly compete with other, non-M3, financial institutions both in traditional banking areas and in non-traditional forms of intermediation. As a result, the M3 survey provides important statistics on banking sector activity, but a less complete picture of wider financial intermediation.

<sup>1</sup> M3 financial institutions include registered banks, finance companies, building societies and stock and station agents.

A number of government and private organisations collect data on broader financial sector activity but these statistics are rather fragmentary. Users of such statistics face difficulties due to:

- gaps in the coverage of some groups of financial institutions;
- gaps in the coverage of some financial instruments or forms of intermediation; and
- different classifications of data so that figures from different sources are not directly comparable.

To address such problems the RBNZ prepared a proposal for a new survey that would provide a more comprehensive and consistent overview of financial intermediation in New Zealand. In December 1994, the RBNZ circulated this proposal to a number of interested parties including the Life Offices Association, the Investment Funds Association, Statistics New Zealand, the Office of the Retirement Commissioner and the Government Actuary's Office. All these organisations supported the proposal and gave valuable advice and support in its development. The RBNZ also had discussions with the Investment Funds Association of Australia (IFAA) and some individual Australian investment managers regarding the collection of data on New Zealanders' direct investments in Australian unit trusts. The IFAA's assistance in this process was very valuable.

After consultations with these organisations the final form of the MFS was agreed. In July 1995 FPG Research Ltd was contracted to collect and process data for the survey. The first statistics collected were those for September 1995.

## III Coverage of the survey

The financial products, or forms of intermediation, which the survey has been designed to cover are as follows:

- unit trusts and group investment funds;
- investment linked and non-investment linked life insurance products;

- wholesale and retail superannuation schemes;
- Australian investment products marketed directly in New Zealand; and
- other wholesale investment funds.

All these products fall under the generic term of managed funds.

A range of financial institutions market these products. These include:

- life offices;
- registered banks' investment management subsidiaries;
- trustee companies;
- other "independent" investment management companies; and
- Australian fund managers that have exemption to offer Australian investment products directly in New Zealand.

The MFS has been designed to include all these financial products and institutions.

#### **IV Relationship of the MFS to the M3 survey and IMF concepts**

The Reserve Bank's M3 survey collects monthly data on the assets and liabilities of registered banks. It also includes "Other M3 Financial Institutions", such as building societies and finance companies, that offer similar deposit-accepting services to banks. This survey corresponds to the "broad money" survey of "depository corporations" which the International Monetary Fund (IMF) recommends should be the principal accounting framework for monetary statistics in each country.

The MFS collects data on financial products such as unit trusts that are generally less liquid than deposits at M3FIs. MFS products cannot always be converted to cash immediately and in most cases their future value is uncertain. They are also different to bank deposits as they are often subject to exit fees.

The IMF recommends that countries develop a "financial sector survey" that covers "Other Financial Intermediaries excluding Life Offices and Pension Funds". This should cover pooled investment schemes and similar products. It notes that such a survey should reflect each coun-

try's institutional arrangements as these vary considerably.

The MFS corresponds in most respects to such a survey. It is rather broader because it includes life insurance business and superannuation schemes. This is appropriate in New Zealand because life insurance products with a large investment component and a small insurance component have become increasingly important. There has also been a substantial increase in the accessibility to funds in many existing and new superannuation schemes. It was therefore judged desirable to include such products in the MFS.

The classification of assets in the MFS is very similar to that used in the quarterly Managed Funds report of the Australian Bureau of Statistics. This will facilitate comparisons between trends in Australia and New Zealand.

#### **V Total managed funds and financial institutions' shares**

The MFS found that New Zealanders' investments in managed funds were almost \$32 billion at the end of September 1995. Table 1 shows the values invested with various groups of financial institutions and the broad product breakdown of these funds. The shares of various groups of financial institutions are illustrated in figure 1.

Life offices' managed funds were valued at \$18.1 billion. This represented more than half of all New Zealanders' investments in managed funds (on the basis that, for the purposes of these statistics, non-investment linked life insurance policy funds, eg, whole of life and endowment policies, have been classified as "managed funds"). This is more than figures previously reported in the Reserve Bank's quarterly survey of life office assets because it includes some funds not on life office balance sheets such as unit trusts and some managed superannuation schemes.

The investment management subsidiaries of registered banks managed \$6.1 billion on behalf of clients. More than half these funds, \$3.5 billion, were attributable to wholesale superannuation funds, while \$1.1 billion were invested in unit trusts. Life offices owned by banks managed an additional \$700 million, these funds being included in the figures for life offices.

A further \$6.5 billion was held by other New Zealand investment managers. These included trustee companies and "independent" fund managers. These funds were mainly invested in unit trusts, retail superannuation and "other wholesale" investments.

**Table 1**

|                        | Total managed funds (\$m)            |                |            |                    |                       |                | Total    |
|------------------------|--------------------------------------|----------------|------------|--------------------|-----------------------|----------------|----------|
|                        | Unit Trusts<br>& Group<br>Inv. Funds | Life Insurance |            | Retail<br>Superan. | Wholesale<br>Superan. | Other<br>Funds |          |
|                        |                                      | Inv. Linked    | Non Linked |                    |                       |                |          |
| Life offices           | 1,039.7                              | 2,545.6        | 7,777.7    | 2,282.6            | 3,750.9               | 678.2          | 18,074.7 |
| Registered banks       | 1,060.1                              | -              | 24.8       | 395.7              | 3,536.7               | 1,132.0        | 6,149.3  |
| Other NZ<br>managers   | 1,845.5                              | -              | 312.0      | 1,439.3            | 590.1                 | 2,327.9        | 6,514.8  |
| Australian<br>managers | 1,259.3                              | -              | -          | -                  | -                     | -              | 1,259.3  |
| Total                  | 5,204.5                              | 2,545.6        | 8,114.6    | 4,117.6            | 7,877.7               | 4,138.1        | 31,998.1 |

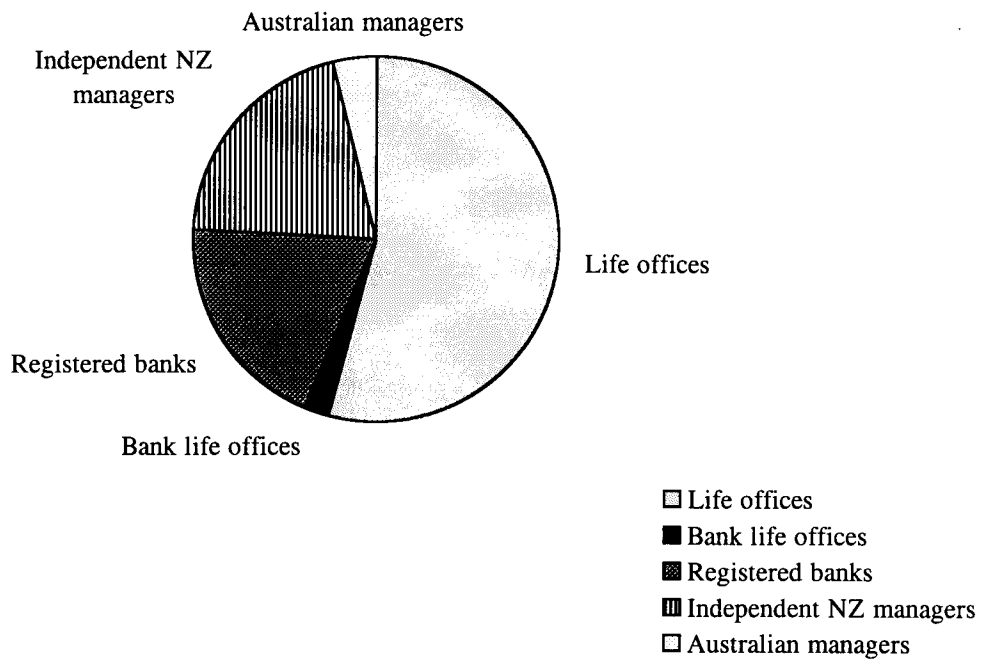
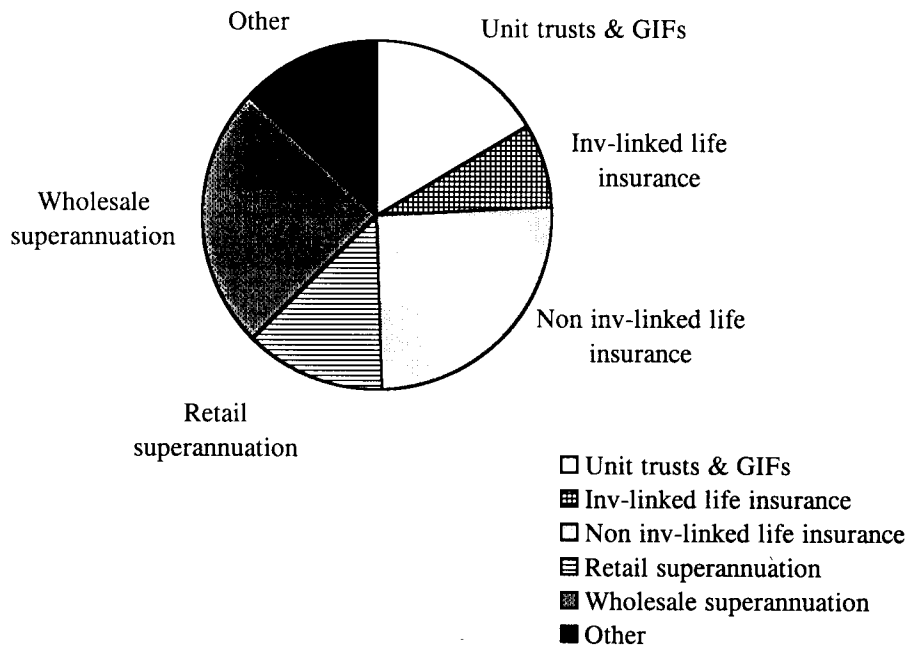
**Figure 1****Financial institutions' shares of managed funds**

Figure 2

### Managed funds by product



The New Zealand Securities Commission has granted exemptions to 34 Australian investment managers to sell investment products directly in New Zealand. At the end of September, New Zealanders had invested \$1.3 billion in these Australian unit trusts. No figures on the values of these investments have previously been available. Some New Zealanders will have other off-shore investments such as deposits in overseas banks and investments in unit trusts or mutual funds outside Australasia. However, these instruments are not sold directly in New Zealand and it is not possible to collect data on them at present.

## VI Managed funds by product

The breakdown of managed funds by product is shown table 1 and in figure 2.

### (a) Unit trusts and group investment funds

Unit trusts and group investment funds are products in which savers pool their money in a fund managed by a

professional manager<sup>2</sup>. The money may be invested in a single asset class or in a wide range of assets, eg fixed interest securities, shares and commercial property.

Table 1 shows that the value of funds invested in unit trusts (including Australian ones) and group investment funds was \$5.2 billion at the end of September. Data collected by FPG Research indicate that investments in New Zealand unit trusts have grown substantially over the last several years. They rose from \$830 million in September 1989 to over \$3.5 billion in September 1995.

As noted above, \$1.3 billion has been invested in Australian unit trusts that have been exempted to be marketed directly in New Zealand. No earlier data are available but anecdotal evidence suggests that these investments

2 Group investment funds and unit trusts are broadly similar. Unit trusts are subject to the Unit Trusts Act 1960, which requires the manager to be independent of the trustee. Group investment funds, by contrast, are subject to the Trustee Companies Act 1967, which provides that a trustee company authorised under the Act can be both trustee and manager of the fund.

grew strongly from about 1992 to 1994. More recently, as some Australian managers have established or expanded New Zealand-based funds, growth in Australian products may have slowed.

### **(b) Life insurance products**

MFS results show that the value of investments in life insurance products was \$10.7 billion at the end of September. These can be divided into investment-linked and non-investment-linked policies.

Investment-linked policies are those where the return to the policy holder depends solely on the current market value of the investment assets. Their value was \$2.5 billion. No precisely comparable data have been collected on these policies previously but it appears clear they have been growing strongly over the last five years. Life insurance bonds make up the major part of these investments. They are single premium policies in which the cost of the life insurance is generally a small component of the premium. Most of the premium is invested in a pooled fund, much like in a unit trust. Data collected by FPG Research show that the value of life insurance bonds rose from \$1.2 billion in September 1989 to \$2.3 billion in September 1995.

Non-investment-linked policies are those where the return to the policy holder depends at least to some extent on factors other than the current market value of the investment assets, eg, on the sum assured, or the declared bonus or surrender value. The value of investments in such policies was \$8.1 billion in September. No broadly similar data have been collected on these policies previously so it is difficult to make accurate estimates of trends over time. However, data from the Reserve Bank's quarterly survey of life office assets suggest that investments in these products have grown only slowly in recent years.

### **(c) Superannuation**

Table 1 shows that there was \$7.9 billion invested in wholesale managed superannuation funds and \$4.1 billion held in retail superannuation schemes at the end of September. The value of all managed superannuation funds was \$12 billion.<sup>3</sup>

<sup>3</sup> For the purposes of the MFS, superannuation funds are those funds which have been established in terms of, and are registered under, the Superannuation Schemes Act 1989. Of course, these form only part of the public's retirement savings, with large amounts likely to be held in other forms of managed funds, bank deposits or invested directly in property and businesses.

Retail superannuation products have been growing strongly for several years. These are schemes that are available to the general public. They might be offered by life offices, banks or independent investment managers. Either regular contributions or lump sums may be paid. Retail schemes are different to employer schemes where employment by a particular company is a requirement for membership and employers often match employee contributions. Data collected by FPG Research Ltd show that the value of retail superannuation schemes has risen from \$240 million in September 1989 to their current level of \$4.1 billion.

MFS figures are the first regular statistics collected on the value of wholesale superannuation funds (principally employer sponsored schemes). Evidence from other sources suggests that the value of these funds has been static or declining over the last several years. For example, statistics collected by the Life Offices Association show that the annual value of contributions to employer-sponsored schemes fell from \$241 million in September 1989 to \$195 million in September 1995.

Statistics published by the Government Actuary in his 1995 annual report show that the value of funds invested in all registered superannuation schemes (retail and wholesale) rose from \$12.3 billion in 1993 to \$14.2 billion in 1994. The Government Actuary's figures relate to the annual balance date of each scheme in 1994 rather than for one common date, so they are not directly comparable to statistics from the MFS. They also include self-managed company superannuation schemes which are not captured in the MFS.

### **(d) Other managed funds**

Survey respondents reported that they managed a further \$4.1 billion of "other wholesale funds". This money comes from a variety of sources including corporate funds, private clients, family trusts and overseas sources. It also includes some funds that respondents were unable to break down into component products.

## **VII Managed funds assets**

Table 2 shows the assets in which managed funds have been invested. This is illustrated in figure 3.

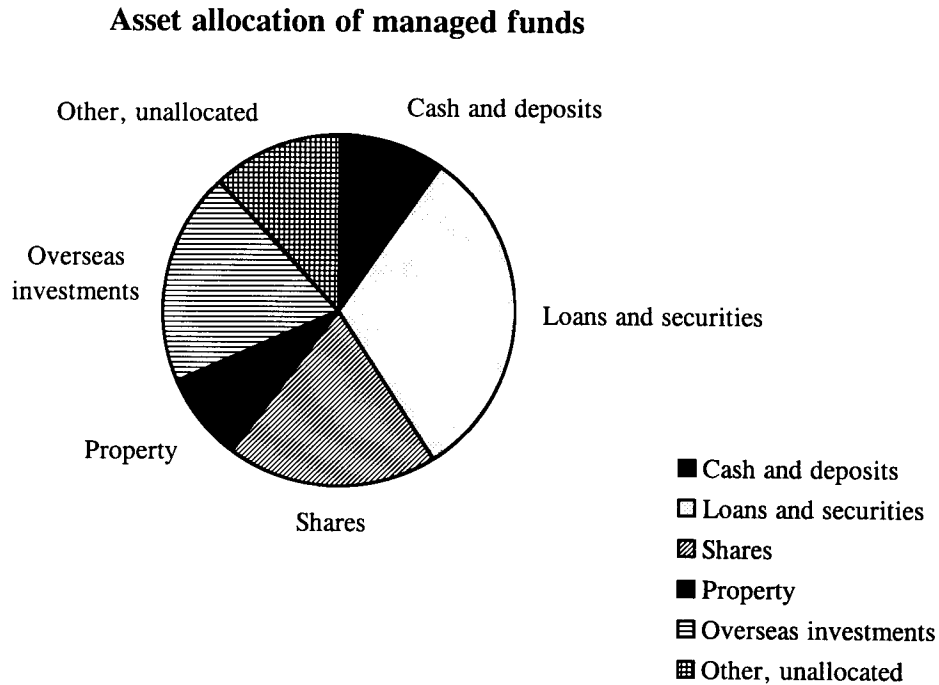
About \$10 billion, or 31 percent of managed funds, were invested in New Zealand interest-bearing securities and loans. This was equivalent to about 10 percent of Private Sector Credit and Domestic Credit, the main measures of banking sector lending. In table 3, short-term securities are those with an original term to maturity of one year or

Table 2

## Managed fund assets for the quarter ending 30 September 1995 (\$m)

|                                       | Unit trusts<br>& GIFs | Life insurance<br>Investment linked | Non-Investment<br>linked | Retail<br>super-<br>annuation | Wholesale<br>super-<br>annuation | Other funds | Total    |
|---------------------------------------|-----------------------|-------------------------------------|--------------------------|-------------------------------|----------------------------------|-------------|----------|
| <b>New Zealand investments</b>        |                       |                                     |                          |                               |                                  |             |          |
| Cash deposits                         | 331.6                 | 438.0                               | 362.8                    | 725.9                         | 1,048.3                          | 165.5       | 3,072.1  |
| Interest bearing securities           |                       |                                     |                          |                               |                                  |             |          |
| Central Govt - Short-term (< 12 mths) | 396.7                 | 14.8                                | 64.1                     | 28.3                          | 160.2                            | 140.0       | 804.1    |
| - Long-term                           | 175.4                 | 300.5                               | 473.6                    | 225.6                         | 805.7                            | 292.0       | 2,272.7  |
| - Short-term                          | 84.0                  | 106.6                               | 24.2                     | 376.8                         | 5.7                              | 39.2        | 636.6    |
| - Long-term                           | 328.2                 | 342.9                               | 1,268.5                  | 739.1                         | 1,677.4                          | 451.8       | 4,808.0  |
| Loans                                 | 346.5                 | 158.3                               | 773.4                    | 94.0                          | 80.6                             | 29.5        | 1,482.3  |
| Stocks and shares                     | 1,243.9               | 518.6                               | 1,557.9                  | 548.2                         | 1,920.5                          | 403.0       | 6,192.0  |
| Property and other fixed assets       | 248.3                 | 156.0                               | 1,037.2                  | 496.8                         | 571.5                            | 96.5        | 2,606.4  |
| Other New Zealand investments         | 109.2                 | 57.6                                | 421.8                    | 35.6                          | 5.4                              | 0.2         | 629.8    |
| New Zealand investments sub-total     | 3,263.8               | 2,093.4                             | 5,983.5                  | 3,270.4                       | 6,275.2                          | 1,617.7     | 22,504.0 |
| <b>Overseas investments</b>           |                       |                                     |                          |                               |                                  |             |          |
| Cash and deposits                     | 116.1                 | 3.7                                 | 28.5                     | 12.0                          | 20.3                             | 0.3         | 180.9    |
| Interest bearing securities           |                       |                                     |                          |                               |                                  |             |          |
| Central Govt - Short-term             | 2.1                   | -                                   | -                        | 0.5                           | 2.0                              | 6.0         | 10.6     |
| - Long-term                           | 50.3                  | 11.6                                | 177.4                    | 78.3                          | 41.8                             | 44.1        | 403.4    |
| - Short-term                          | 4.7                   | -                                   | -                        | -                             | -                                | -           | 4.7      |
| - Long-term                           | 200.9                 | 38.2                                | 140.2                    | 40.5                          | 231.8                            | 64.7        | 716.3    |
| Loans                                 | 0.3                   | 5.6                                 | -                        | -                             | -                                | -           | 6.0      |
| Stocks and shares                     | 1,544.0               | 230.8                               | 854.8                    | 508.6                         | 1,299.4                          | 246.3       | 4,613.9  |
| Property and other fixed assets       | 8.0                   | 4.5                                 | 31.9                     | 53.3                          | -                                | -           | 97.7     |
| Other investments                     | 14.4                  | 28.5                                | 45.8                     | 114.4                         | 22.6                             | -           | 225.7    |
| Overseas investments sub-total        | 1,940.8               | 323.0                               | 1,278.7                  | 807.5                         | 1,547.8                          | 361.3       | 6,259.1  |
| Unallocated                           | -                     | 129.2                               | 852.3                    | 39.7                          | 54.7                             | 2,159.1     | 3,325.0  |
| <b>Total investments</b>              | 5,204.5               | 2,545.6                             | 8,114.6                  | 4,117.6                       | 7,877.7                          | 4,138.1     | 31,998.1 |
| Investments from non-residents        | -                     | -                                   | 224.6                    | -                             | -                                | 67.0        | 291.6    |

Figure 3



less. Long-term securities are those with an original term to maturity of more than one year.

A further \$3.1 billion was held as cash or deposits. New Zealand shares and property accounted for \$6.2 billion and \$2.6 billion respectively. Total New Zealand investments were \$22.5 billion.

Funds managers had invested \$6.3 billion in overseas assets at the end of September. This made up 20 percent of all funds invested. Almost three-quarters of overseas investments, \$4.6 billion, were in foreign stocks and shares.

The allocation of funds across asset classes is generally similar for different investment products. However, a significantly higher proportion of unit trust funds, 37 percent, are invested overseas.

### VIII Total household financial assets

Statistics from the MFS can be used in conjunction with data from other sources to develop more comprehensive estimates of financial investments held by New Zealanders. Table 3 shows that a total of financial assets surveyed by the Reserve Bank was \$72.1 billion at the end of September. The breakdown of surveyed financial assets is illustrated in figure 4.

The largest single item is household funding to M3 financial institutions, principally registered banks. This was \$36.8 billion at the end of September, or just over half of all surveyed household investments. Investments in life insurance products and in superannuation schemes represented 15 percent and 17 percent of surveyed assets respectively. Other categories of investments were all much smaller.

From 1989 to early 1994, investments in retail pooled funds such as unit trusts, life insurance bonds and retail superannuation schemes grew by about 40 percent per annum. Over the same period, bank deposits rose by only 2 or 3 percent each year. However, low and negative investment returns in 1994 appear to have subsequently caused many investors to place additional savings in less volatile products. In the year to September 1995 household funding to M3 institutions increased by 8.3 percent while retail investment products rose by only 5.5 percent.

Financial assets are shown in table 3 in broadly descending order of liquidity. The assets on the top of the list can normally be converted to cash quickly and for a known value. Advance notice may be required to cash up assets lower on the list and their future value may be uncertain.

Financial institutions' share of these surveyed financial assets are illustrated in figure 5.

**Table 3**

**Surveyed financial assets, September 1995**

|  | Value<br>(\$m) | Percentage<br>(%) |
|--|----------------|-------------------|
| Household funding to M3 institutions         | 36,787         | 51.0              |
| - Registered Banks                           | 32,586         |                   |
| - Other M3 institutions                      | 4,201          |                   |
| Private Government Stock holdings            | 1,451          | 2.0               |
| Solicitors' trust accounts                   | 1,906          | 2.6               |
| NZ unit trusts and<br>group investment funds | 3,945          | 5.5               |
| Australian unit trusts                       | 1,259          | 1.7               |
| Life insurance policies                      | 10,660         | 14.8              |
| - Investment linked                          | 2,546          |                   |
| - Non-investment linked                      | 8,115          |                   |
| Managed superannuation funds                 | 11,995         | 16.6              |
| - Retail schemes                             | 4,118          |                   |
| - Wholesale schemes                          | 7,878          |                   |
| "Other" managed funds                        | 4,138          | 5.7               |
| <b>TOTAL</b>                                 | <b>72,141</b>  | <b>100.0</b>      |

**Figure 4**

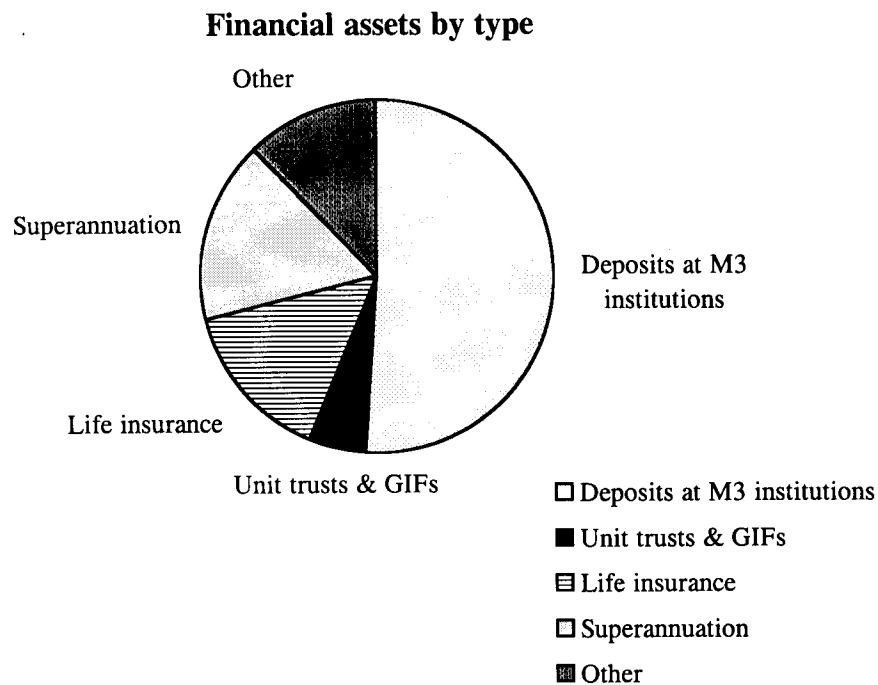
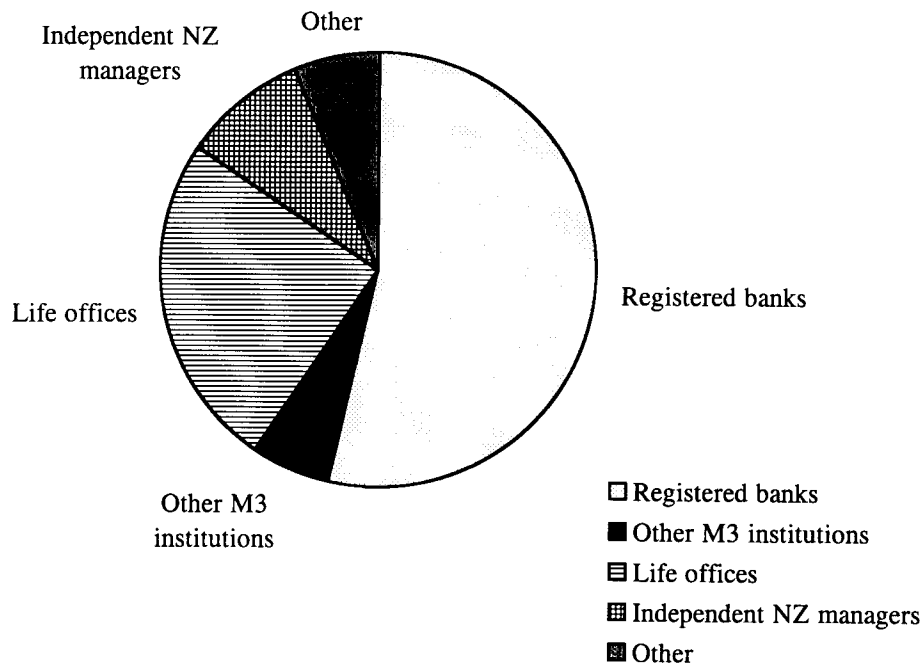




Figure 5

Financial institutions' shares of financial assets



IX Future MFS statistics

Almost all MFS respondents completed the main part of the questionnaire thoroughly and accurately. However, a significant number had difficulties in providing some of the disaggregated information in later parts of the questionnaire. This is very similar to the Reserve Bank's experience in introducing the M3 sector survey some years ago.

The Bank has decided not to publish statistics from some sections of the questionnaire until it is confident it has a high coverage and reliable figures. The Bank and FPG Research Ltd, who collected and processed the data, will work with respondents so that additional detail can be published in the future. Consultations have been held with users and providers of statistics to establish priorities, while keeping in mind the costs imposed on providers of data. In the meantime, the Bank intends to publish managed funds statistics on a quarterly basis.

