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Financial corporations

Measuring Financial Services –
theoretical presentation

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Financial corporations - measuring financial services

References

- **2008 SNA**
 - Chapter 4, Institutional units and sectors
 - Chapter 6, The production account
 - Chapter 17, Cross-cutting and other special issues
- **ESA 2010**
 - Chapter 2, Units and groupings of units
 - Chapter 3, Transactions in products and non-produced assets
 - Chapter 14, Financial intermediation services indirectly measured (FISIM)
- **Handbook on National Accounting: Financial production, flows and stocks in the System of National Accounts**
 - Chapter 3, Financial production and income

Financial corporations - as providers of financial services

- **Financial corporations**
 - consist of all resident corporations
 - are principally engaged in providing **financial services**, including insurance and pension funding services, to other institutional units
 - **Financial services** are the result of
 - financial intermediation,
 - financial risk management,
 - liquidity transformation or
 - auxiliary financial activities
 - As the provision of financial services is typically subject to strict regulation, it is usually the case that units providing financial services do not produce other goods and services and financial services are not provided as secondary production

Measuring financial services

- **Financial intermediation services (1)**
 - Are provided by **financial intermediaries** (all units except units of subsectors S126 to S129)
 - Typically comprise a major part of the services provided by the financial corporations sector
 - Are measured directly or indirectly
 - Also involve financial risk management and liquidity transformation
- Corporations engaged in these activities
 - Obtain funds, not only by taking deposits but also by issuing bills, bonds or other securities
 - Use these funds as well as their own funds to acquire mainly financial assets, not only by making advances or loans to others but also by purchasing bills, bonds or other securities

Measuring financial services

- **Financial intermediation services (2)**

- Associated with insurance and pension schemes (S128 and S129)
- By redistributing funds between different units in the same period or between different periods for a single client
- Involve risk management and liquidity transformation

Measuring financial services

- **Auxiliary financial activities**
 - Facilitate financial intermediation, risk management and liquidity transformation activities
- **Financial auxiliaries (S126)**
 - Typically act on behalf of other units and do not put themselves at risk by incurring financial liabilities or by acquiring financial assets as part of an intermediation service

Measuring financial services

- **Other financial services**

- Comprise services provided by institutional units where most of their assets or liabilities are not available on open financial markets (S127).
- Tend to take place between entities transacting within only a limited group of units (such as with subsidiaries) or subsidiaries of the same holding corporation, or are undertaken by entities providing loans from own funds provided by only one sponsor

Measuring financial services

- Financial services may be paid for **explicitly or implicitly**.
- Some transactions in financial assets may involve **both explicit and implicit charges**.
- **Four main** ways in which financial services are provided and charged for may be considered:
 - Financial services provided in return for explicit charges
 - Financial services provided in association with interest charges on loans and deposits
 - Financial services associated with the acquisition and disposal of financial assets and liabilities in financial markets
 - Financial services associated with insurance and pension schemes

Measuring financial services

- **Financial services provided in return for explicit charges**
(*ESA 2010 3.69*)
 - These financial services are provided for explicit charges, covering a wide range of services that may be provided by different types of financial institutions. The following examples illustrate the nature of the services charged for directly:
 - (a) Banks charge households to arrange a mortgage, manage an investment portfolio, and administer an estate;
 - (b) Specialised institutions charge non-financial corporations for organising a takeover or for administering a restructuring of a group of corporations;
 - (c) Credit card companies charge units that accept credit cards usually a percentage of each sale;
 - (d) A card holder is charged an explicit fee, usually each year, for holding the card.

Measuring financial services

- **Financial services provided in association with interest charges on loans and deposits**

(ESA 2010 3.70 bis 3.72)

- In financial intermediation, a financial institution like a bank accepts deposits from units wishing to receive interest on funds for which the unit has no immediate use and lends them to other units whose funds are insufficient to meet their needs.
- The bank thus provides a mechanism to allow the first unit to lend to the second.
- Each of the two parties pays a fee to the bank for the service provided: the unit lending funds pays by accepting a rate of interest lower than the 'reference' rate of interest, while the unit borrowing funds pays by accepting a rate of interest higher than the 'reference' rate of interest.
- The difference between the interest rate paid to banks by borrowers and the interest rate actually paid to depositors is a charge for FISIM.

Measuring financial services

- **Financial services associated with the acquisition and disposal of financial assets and liabilities in financial markets**
(*ESA 2010 3.73*)
 - When a financial institution offers a security (e.g. bill or bond) for sale, a service charge is levied. The purchase price (the ask price) is equal to the estimated market value of the security plus a margin.
 - Another charge is levied when a security is sold, the price offered to the seller (the bid price) being equal to the market value minus a margin.
 - Margins between buying and selling prices apply also to equities, investment fund shares and foreign currencies. These margins are for the provision of financial services.

Measuring financial services

- **Financial services associated with insurance and pension schemes** (*ESA 2010 3.74*)
 - a. Non-life insurance: Non-life insurance output is calculated as:
Total premiums earned *plus* implicit premium supplements (equal to the property income earned on technical reserves) *less* adjusted claims incurred
 - b. Life insurance: A life insurance policy is a type of saving scheme. The output of life insurance is calculated as: Premiums earned *plus* premium supplements, *less* benefits due *less* increases (plus decreases) in life insurance technical reserves
 - c. The output of reinsurance is to be determined in exactly the same way as for non-life insurance, whether it is life or non-life policies that are being reinsured
 - d. The output of running a social insurance scheme depends on the way in which it is organized (e.g, social security scheme, own employer or multi-employer scheme, or insurance corporation on behalf of an employer)
 - e. Measuring the output of standardised loan guarantee schemes depends on the type of producer involved (market or non-market)

Measuring financial services – an overview

- The following table provides an overview of the methods how to compile the output of the various financial corporations. Given that the nature of financial corporations may differ from country to country, the methods as described in the tables are neither exhaustive nor prescriptive.
- The compiling agency may need to investigate the nature of the financial services provided by a financial corporation before deciding how to compile its output.
- The method applied depends on various components like:
 - Whether the output is market or non-market output
 - Whether the output is for own final use
 - The type of subsector the institutional unit is in
 - Data availability

Measuring financial services – an overview

Sub-sector of financial corporations	Market				Non market
	Fees	Margins	FISIM	Premiums minus claims / benefits	Sum of costs
The central bank	x		x		x
Deposit-taking corporations except the central bank	x	x	x		
Money market funds (MMF)	x				
Non-MMF investment funds	x				
Other financial intermediaries, except insurance corporations and pension funds	x	x	x		
Financial auxiliaries	x	x			
Captive financial institutions and money lenders	x		x		x
Insurance corporations	x			x	x
Non-life insurance				x	x
Life insurance	x			x	x
Reinsurance	x			x	
Pension funds					x

Measuring financial services

- **Two presentations**
 - Measuring the Output, Import and Export of Financial Services ([Statistical Committee and Central Bank of Azerbaijan](#))
 - Measuring Financial Services in the National Accounts ([CBS of Israel](#))
- **Financial services of**
 - Central bank
 - Financial intermediaries
 - Insurance

Measuring the Output, Import and Export of Financial Services (**Statistical Committee** and **Central Bank of Azerbaijan**)

- The paper is devoted to the recording of banking and insurance services in the national accounts and the balance of payments statistics of **Azerbaijan**.
- The first part of the presentation provides information on the
 - The subsectors and units of the financial corporations sector,
 - The methods and sources of information used to calculate the output of financial intermediation, central bank and insurance services.
- The second part describes
 - The fundamentals and organizational structure of balance of payments statistics,
 - information sources and basic principles for compiling data on the import and export of financial and insurance services.

Measuring Financial Services in the National Accounts (CBS of Israel)

- The **CBS of Israel** will introduce the methods and data sources for
 - Compiling banking
 - Insurance
 - Central bank outputin Israel