ABS Development of a PPI for Other Financiers

Non deposit taking institutions

- Finance companies
- General financiers

Relationship to ISIC / CPC

- ISIC classes 6591 & 6592: Financial Leasing / Other Credit Granting
- CPC class 71100: Financial intermediation services, except investment banking, insurance services & pension services

Core difference is that the type of financial intermediary is not relevant to the ISIC/CPC.

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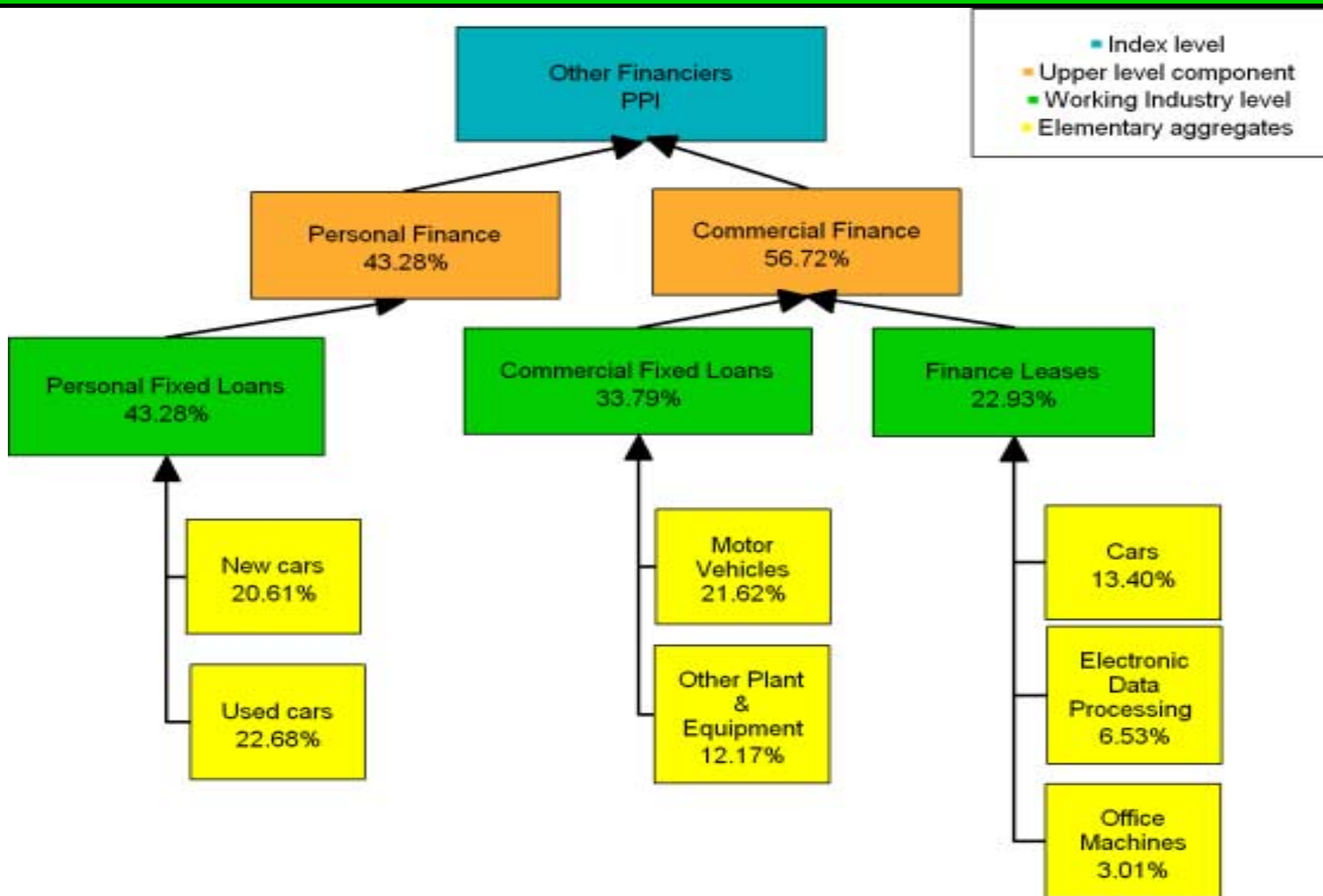**Australian Bureau of Statistics**

Categorising by type of institution, rather than type of finance provided, means we only need to concentrate on income earned from providing finance (e.g. loans).

That is, in estimating the financial intermediation services indirectly measured (FISIM), which is regarded as the 'price' of the service, we only need to consider the interest rate of items financed to customers and the cost of funds (reference rate) for the financier.

Cost of funds (reference rate) less ambiguous e.g. bank swap rates, bonds, treasury notes.

Proposed index structure for Other Financiers PPI

Pricing methodology: model pricing

Hold constant items which define a loan contract for representative customers (e.g. home owner) on representative items (e.g. family motor vehicle).

- loan amount; trade channel; customer credit rating;
- contract life (including probability of early termination);
- residual value;payment schedule.

Reprice the contract quarterly, collecting:

- - quarterly average customer interest rate;
- - quarterly average for cost of funds benchmark;
- - fee schedule applicable.

Pricing methodology: what is the final price?

By matching a fixed term interest rate to fixed term cost of funds and fee schedule, we can estimate the total service charge (i.e. FISIM + fees) over the life of a contract struck in the particular quarter.

- might be an OK inflation measure, but would not be appropriate for deflating a current value.

- need to index the cost of the item being financed, should this be with a relevant constant quality or nominal value price index?