Office for National Statistics

24th Voorburg Group

Mini-paper: SPPI for Banking

ISIC 6419 Other Monetary Intermediation

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Outline of presentation

- Classification
- Concept of FISIM
- Changing asset values
- Data sources and scope
- Aggregation structure and results
- Challenges for the future

Classification

- **Class 64.19 Other monetary intermediation**
- This class includes the receiving of deposits and/or close substitutes for deposits and extending of credit or lending funds. The granting of credit can take a variety of forms, such as loans, mortgages, credit cards etc. These activities are generally carried out by monetary institutions other than central banks, such as:
  - Banks
  - savings banks
  - credit unions

- This class also includes:
  - postal giro and postal savings bank activities
  - credit granting for house purchase by specialized deposit-taking institutions
  - money order activities
- This class ***excludes***:
  - credit granting for house purchase by specialized non-depository institutions, see 64.92
  - credit card transaction processing and settlement activities, see 66.19

- ***Subclass 64.19/1 Banks***
- This subclass includes only:
  - Monetary intermediation by those institutions other than the Bank of England, authorised by the Financial Services Authority under the Banking Act of 1987 to accept deposits in the UK
  - Monetary intermediation by those European authorised institutions which are entitled to accept deposits through a branch in the UK on the basis of their home state authorisation
  - Monetary intermediation of the National Savings Bank
  - Monetary intermediation of the Savings Certificate Office

Monetary intermediation

- Some units have no immediate use for their funds
- Other units have insufficient funds to meet their needs
- Banks provide a mechanism to allow the first unit to lend to the second
- Units pay the bank fee for this service
  - Implicit and indirect; and
  - Direct

Financial Intermediation Services Indirectly Measured (FISIM)

- ***User cost*** approach to financial intermediations

Loan Price

$$= \left[\left(\frac{\text{Earned interest income} + \text{Loan fees}}{\text{Average loan balance over the period}} \right) - \text{Reference rate} \right] \times £1000$$

Deposit Price

$$= \left[\text{Reference rate} - \left(\frac{\text{Interest Payments} - \text{Deposit fees}}{\text{Average deposit balance over the period}} \right) \right] \times £1000$$

Financial Intermediation Services Indirectly Measured (FISIM)

- Choice of reference rate?
- London Interbank Offered Rate (LIBOR)
- Aligns with 2008 SNA
  - “The rate prevailing for inter-bank borrowing and lending may be a suitable choice as a reference rate”

Changing asset values

- SPPI prices the same service from period to period
  - User cost approach
- Service of “investing £1000” changes over time
  - Inflation erodes the value of the asset
    - Less goods and services may be consumed in later periods
  - The user cost approach suggests that ***deflation*** of assets is a cost to the user

Changing asset values

- How to include the cost of change in asset value
  - Deflate the balances in the formula for the price by some “suitable measure of change in purchasing power”?
  - Assume that the evolution of balances reflects a response to erosion of assets
    - Replace the nominal £1000 with ***average balances*** from each period

Price measurement for UK Banking SPPI

- Resulting price measurement is an ***average unit value***
  - And can be considered as separate Fees and FISIM components

$$\text{Loan price} = \frac{\text{Interest Earned Income} - (\text{Reference rate} \times \text{Average daily loan balance})}{\text{Number of loans}} + \frac{\text{Loan Fees}}{\text{Number of loans}}$$

$$\text{Deposit price} = \frac{(\text{Reference rate} \times \text{Average daily deposit balance}) - \text{Interest payments}}{\text{Number of deposits}} + \frac{\text{Deposit Fees}}{\text{Number of deposits}}$$

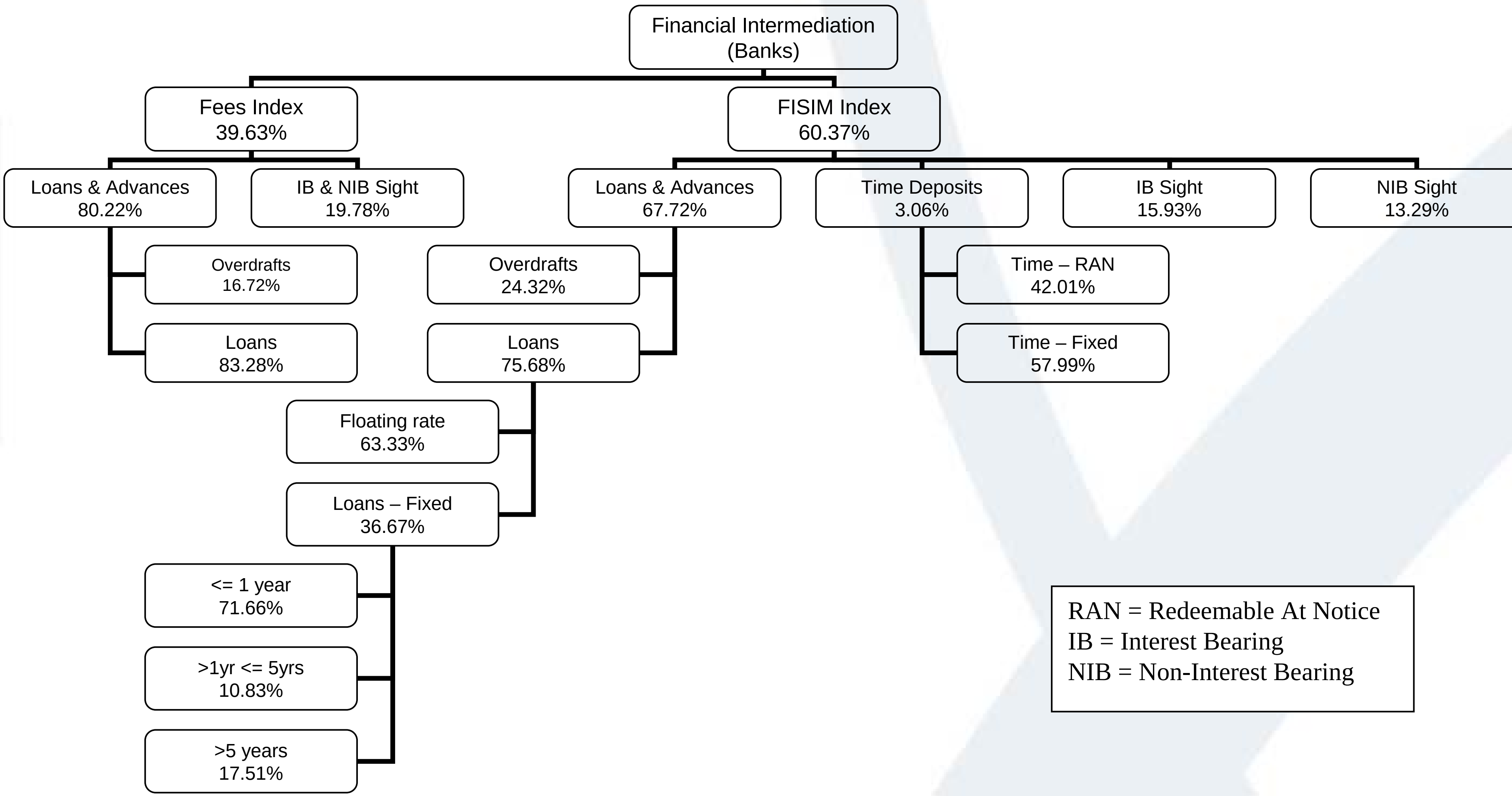
Data sources

- Bank of England surveys
  - Regulatory
  - Used in national accounts
- Effective Rate (ER)
- Profit and Loss (PL)

Data sources

- ***Aggregate*** data only
- Data in use currently restricted to Private Non-financial Corporations (PNFC's)
  - Net business-to-business
- FISIM aggregates classified by broad duration of loan or deposit
- Fees data only available at less detailed level
- Allow construction of broad level average unit value indices for each component

Aggregation structure of the UK Banking SPPI

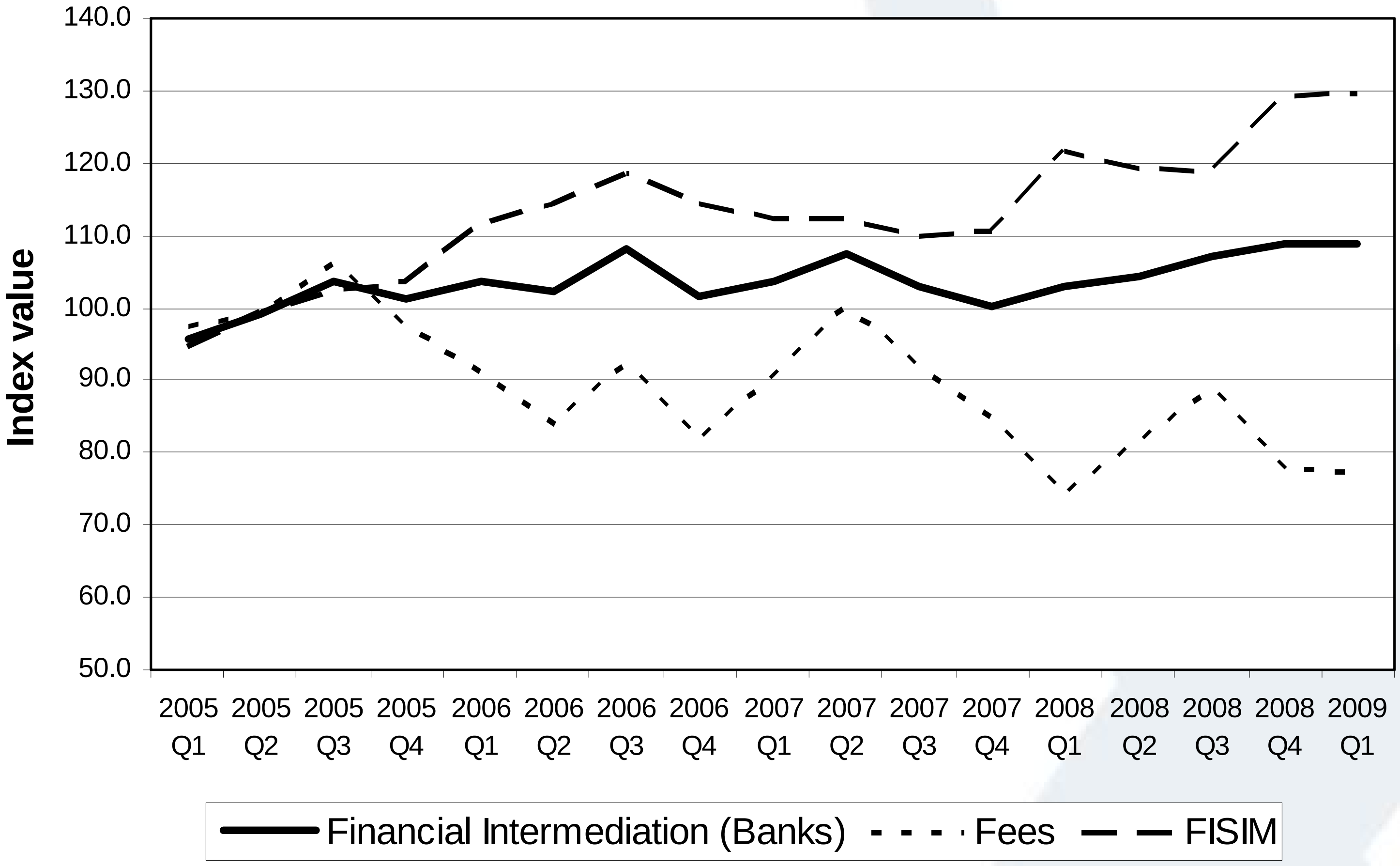


Results

- Original series started in 2004
- Concerns regarding quality resulted in cessation of index in 2007
- New series from November 2008
  - Introduction of detailed data on Fees
  - Finer levels of disaggregation
    - 2005=100.0 basis

Results

UK Banking SPPI (2005=100.0)



Future challenges

- Inclusion in “Top level” SPPI
- Coverage (Net B2B vs. B2A)
- Average unit value vs. heterogeneous products
- Proxy data for number of loans and deposits
- Negative prices?
- FISIM

Summary

- Quarterly SPPI for “Other monetary intermediation 64.19”
  - Banking subclass
    - Deposits & Loans only
    - Net Sector, Business to business
- User cost (FISIM plus Fees)
- LIBOR as reference rate
- Broad level average unit values
  - Aggregate data from Bank of England survey
  - Proxy data for quantities
- Response to “deflation” issue uses changes in average balance

Questions?

- Thank you