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

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

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

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

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

- Financial Intermediation (Banks)
  - Fees Index 39.63%
    - Loans & Advances 80.22%
      - Overdrafts 16.72%
      - Loans 83.28%
        - Floating rate 63.33%
        - Loans – Fixed 36.67%
      - <= 1 year 71.66%
      - >1yr <= 5ys 10.83%
      - >5 years 17.51%
  - FISIM Index 60.37%
    - Loans & Advances 67.72%
      - Overdrafts 24.32%
      - Loans 75.68%
    - Time Deposits 3.06%
    - IB Sight 15.93%
    - NIB Sight 13.29%

RAN = Redeemable At Notice
IB = Interest Bearing
NIB = Non-Interest Bearing
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