25th Voorburg Group

An introduction to FISIM: Concepts and measurement difficulties

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Outline of presentation

• Why are we doing this?

• Financial intermediation
  – And an example that makes it clear

• National accounts concepts

• Measurement difficulties

• Yet more challenges on the horizon
Banking and Credit Services

- “Internationally comparable methodology for measuring the constant dollar outputs of the service industries”

- National accountants highlighted importance of this sector at 22\textsuperscript{nd} VG (Seoul, 2007)

- Mini-presentations at 24\textsuperscript{th} VG (Oslo, 2009)
  - Issues, particularly for SPPI

- Level of engagement of Group?
  - New area
  - Very different concepts
What is Financial Intermediation?

I’m in need of funds to expand my business

I have funds that are surplus to my current requirements
What is Financial Intermediation?

If you lend me €100, I will pay you back €110

I will lend you €100, if you pay me back €110
What is Financial Intermediation?

€100
What is Financial Intermediation?

€110
What is Financial Intermediation?

€100 for 1 year at 10%

€100 for 1 year at 10%
What is Financial Intermediation?

€200 for 6 months?

???
What is Financial Intermediation?
What is Financial Intermediation?

I can help you all
What is Financial Intermediation?

€100

€100
What is Financial Intermediation?

€5

€113

€108
Financial Intermediation Services

- Intermediary between borrowers and lenders
  – Useful service

- Neither borrower nor lender is explicitly charged for this service

- Both borrower and lender implicitly pay for the service

- National accounts partition these transactions and impute the service charge so that it is explicit
  – FISIM
The Borrower

• Borrows €100

• Bank **charges** 13% **bank interest**

• SNA partitions this transaction into
  – 10% **SNA interest received**
  – 3% Service Charge received

• **Borrower’s Service charge** is the difference between
  – Bank Interest received
  – SNA Interest received
The Lender

- Lends €100
- Bank pays 8% *bank interest*
- SNA partitions this transaction into
  - 10% *SNA interest paid*
  - 2% Service Charge received
- *Lender’s service charge* is the difference between
  - SNA interest
  - Bank interest paid
Financial Intermediation Services
Indirectly Measured

• FISIM is the sum of
  – The service charge paid by
    the borrower
  – The service charge paid by
    the lender

• We usually think of this as the gap between the interest rates on loans and deposits

• SNA breaks it up into two bits
  – And SPPI measures prices for Deposits and Loans
Measurement difficulties

• The basis for this concept is some underlying Reference Rate
  – Which then determines SNA interest
  – “should contain no service elements and should also reflect the risk and maturity structure of deposits and loans”
    • 2008 SNA 6.166

• Choice of Reference Rate?

• What happens if the data observed and the reference rate give a negative price?
  – Aggregation issues, timing, data sources
The horizon – loans and the treatment of risk

• Much debate in the national accountant’s community over measurement of FISIM

• 2008 SNA proposes single reference rate
  – Meaning that the service charge incorporates an assessment on behalf of the institution on the likelihood of the borrower defaulting
  • Risk mitigation is then part of intermediate consumption
  – “Risk management is part of FISIM”

• Alternative proposals suggest greater range of reference rates to properly reflect huge variety of deposit and loan instruments
  – “Risk management is not part of FISIM and instead part of interest”

• The jury is out …
Questions?

• Thank you