



Office for
National Statistics

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 22nd VG (Seoul, 2007)
- Mini-presentations at 24th 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



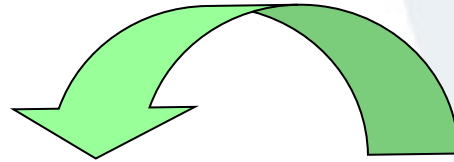
I will lend you €100, if
you pay me back €110



What is Financial Intermediation?



€100



What is Financial Intermediation?



What is Financial Intermediation?

€100 for
1 year at
10%



€100 for
1 year at
10%



What is Financial Intermediation?

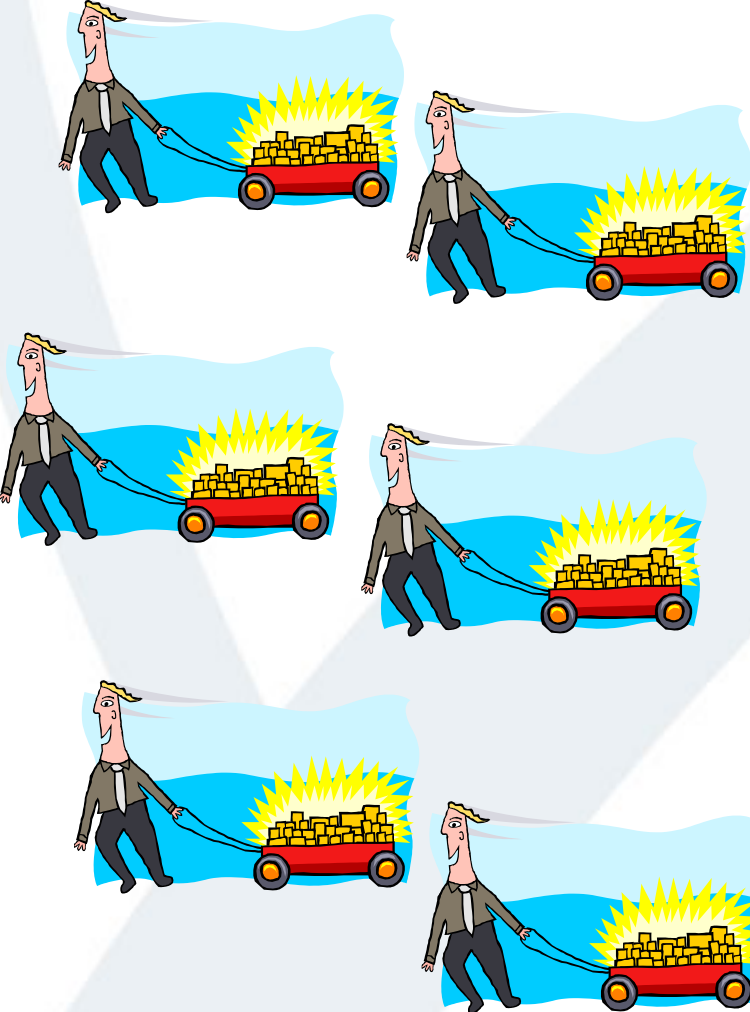
€200 for 6 months?



???



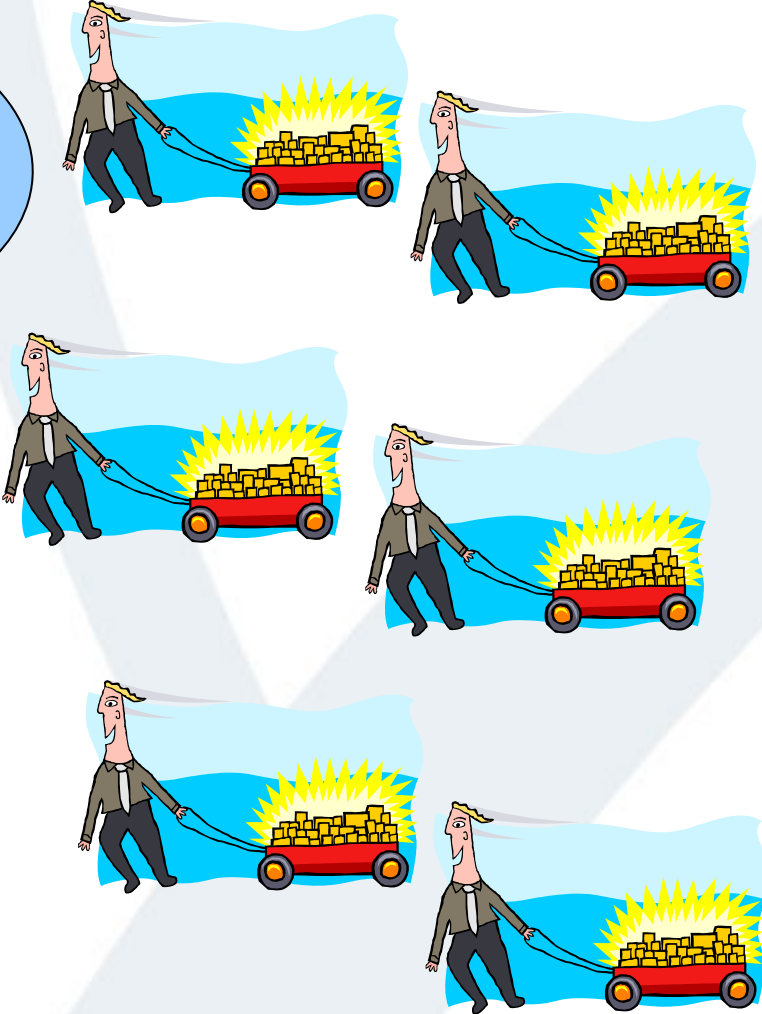
What is Financial Intermediation?



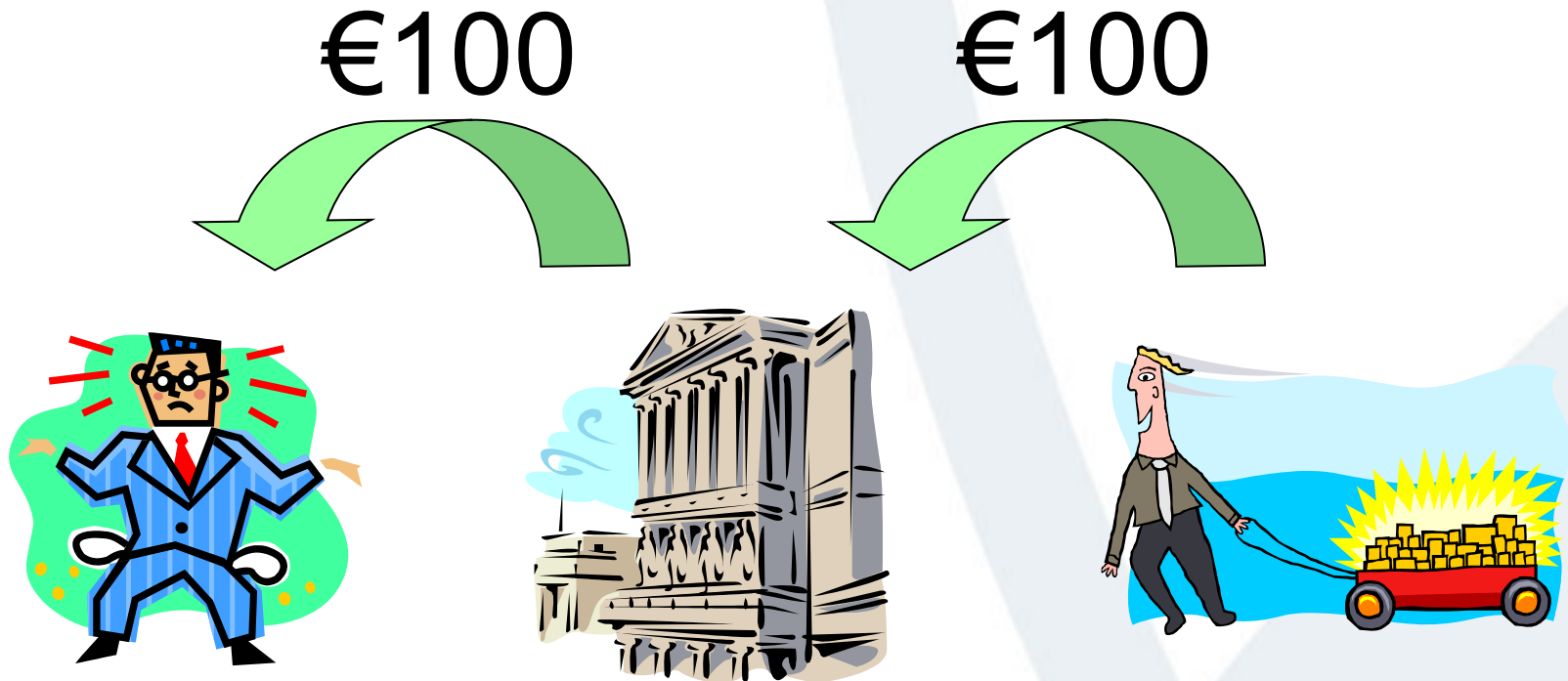
What is Financial Intermediation?



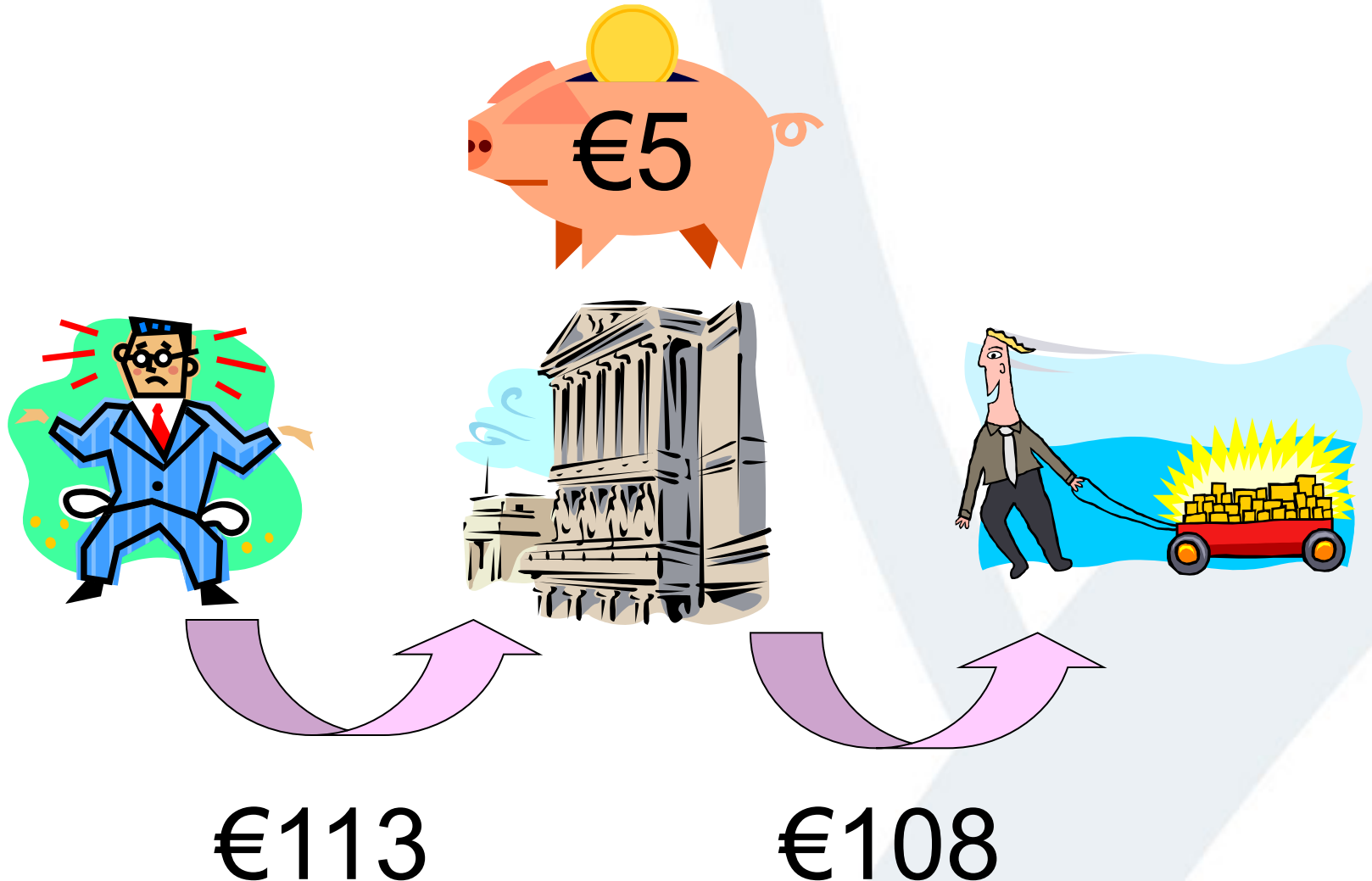
I can help you all



What is Financial Intermediation?



What is Financial Intermediation?



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



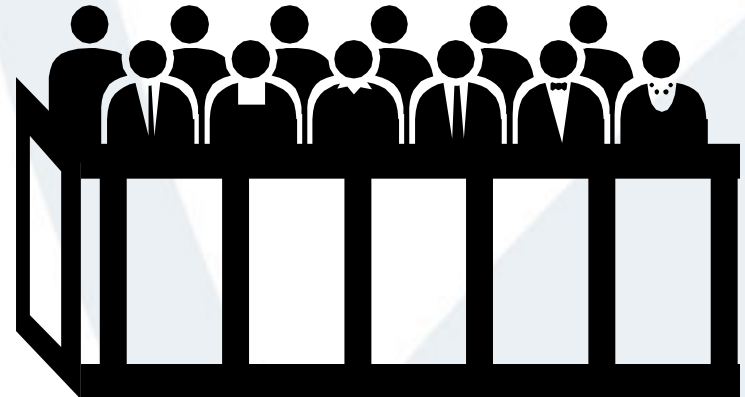
- FISIM is the sum of
 - The service charge paid by the borrower
 - The service charge paid by the lender
- We usually think of this as the gap between the interest rates on loans and deposits
- SNA breaks it up in to two bits
 - And SPPI measures prices for Deposits and Loans

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