

# Chairman summary of session STCPM28: Measuring bank services – further developments

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## Opening remarks

The treatment of the conceptual issues and practicalities relating to the measurement of bank services<sup>2</sup> based on the 2008 System of National Accounts (SNA) was the focus of this special contributed paper session. The meeting addressed the essence of risk in the national accounts and the plausibility of calculating bank services based on current methodology. The rapid growth of bank output volume in the current financial crisis is difficult to interpret against activity in financial intermediation.

The level of (current and constant price) Financial Intermediation Services Indirectly Measured (FISIM) is sensitive to the choice of the reference rate.<sup>3</sup> In the current environment of volatile differentials between market and official rates, the view is expressed that the choice of a risk-free reference interest rate is to split bank interest margins into depositor and borrower services and should take account of the term structure and risk profile of the asset structure of banks. A failure to exclude the compensation for *risk-taking* from the output will lead to changes in output which are unrelated to changes in input and technology and to an overstatement of bank output, which will distort productivity analyses. On the other hand, *risk management* is an integral part of bank output.

Further work to define bank services has also been suggested, to include: (i) the choice of several reference rates to “reflect the risk and maturity structure of deposits and loans”; (ii) the definition and decomposition of SNA interest into risk and term premium; (iii) a price *and* volume analysis of the changes in FISIM and the identification of price and volume components for (other) payments of financial services; and (iv) a wider measurement of financial services, namely in the definition of income and the recording of financial assets and interest flows.

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<sup>2</sup> Bank services impact on most components of production, expenditure and income measures of GDP. From a supply and use perspective, the financial sector produces or supplies bank services. The logic of national accounts requires that the output of banking services must be allocated to consumers to identify the purchase of such services and to classify them as: intermediate consumption (if a firm borrows from a bank); final consumption expenditure (a household depositing money with a bank or obtaining a loan from a bank); or exports (for services attributed to non-residents). This logic is accepted internationally.

<sup>3</sup> Paragraph 6.166 of 2008 SNA: “The reference rate to be used in the calculation of SNA interest is a rate between bank interest rates on deposits and loans. However, because there is no necessary equality between the level of loans and deposits, it cannot be calculated as a simple average of the rates on loans or deposits. The reference rate should contain no service element and reflect the risk and maturity structure of deposits and loans. The rate prevailing for inter-bank borrowing and lending may be a suitable choice as a reference rate. However, different reference rates may be needed for each currency in which loans and deposits are denominated, especially when a non-resident financial institution is involved.”

## Concluding remarks

1. No one was advocating the elimination of all risk from FISIM, but the debate focused on the allocation of various categories of risk assessment, risk management, risk-taking and provisions for defaults when calculating FISIM appropriately (eg similar to non-life insurance output).
2. Various proposals have been presented and discussed for the treatment and calculation of term and default risk premium (or an equivalent credit default cost) in the valuation of bank services in the national accounts.
3. Banks provide risk assessment services and this is part of financial services output.
4. The real issue is to allocate the income generated by risk-taking. The dispute is not whether this income should be allocated to banks (it should) but whether it is remuneration for a productive service and thus part of value added, or a part of property income, similar to interest earned on holding debt securities.
5. Similarly, the insurance industry transfers risk, and it was noted that, in that case, losses are covered (claims are subtracted from premiums in insurance output), while this is presently not done in FISIM or in the banking industry. This national accounts treatment was thus possibly inconsistent.
6. Test calculations may, therefore, be done using both ex ante and ex post indicators for credit default cost: loan loss provisioning; write-offs/other changes in value; and writedowns/revaluations.
7. Further study is needed to decide whether the transformation of maturities should be included in FISIM.
8. There is a need to look at the cost accounting of services and, in particular, at loan loss provisions using, for instance, micro-supervisory data.

The debate has been given new impetus; the full involvement of central bank statisticians together with a possible task force can take forward the ideas debated today towards a harmonised calculation – preferably at a monthly or quarterly frequency – of bank services, which would not yield completely implausible outcomes (such as negative FISIM output). In Europe, the establishment of such a task force has already been agreed by the European Committee on Monetary, Financial and Balance of Payments Statistics (CMFB), but it would be important to incorporate non-European views as well, as demonstrated by the very valuable exchange of views during this session.