REGIONAL COURSE ON SNA 2008 : *Improving Exhaustiveness of GDP Coverage*

FINANCIAL SERVICES
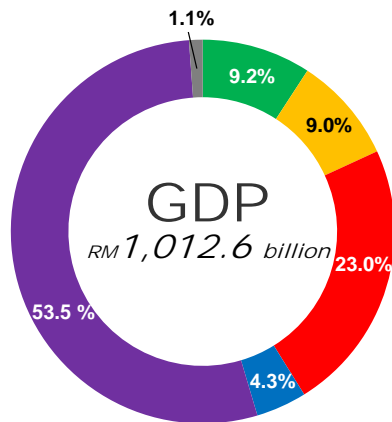
31 Aug – 4 Sept 2015
Daejeon, Republic of Korea


PERFORMANCE OF SERVICES SECTOR

Percentage Share of GDP at Constant 2010 Prices, for year 2014

1.1%
9.2%
9.0%

GDP
RM **1,012.6** *billion*

23.0%
53.5 %
4.3%

Annual Percentage Change for Total Services
and Private Services at Constant 2010 Prices

**Annual Growth
YoY (%)**

7.5
7.0   **7.0**
6.5   **6.5**   **6.6**
6.0   **6.0**   **6.5**
5.5   **6.3**   **6.0**
5.0   **5.7**

2011   2012   2013   2014   **Year**

○─ SERVICES   ─○─ PRIVATE SERVICES

■ *Agriculture*   ■ *Mining & Quarrying*   ■ *Construction*
■ *Manufacturing*   ■ *Services*   ■ *Import Duties*
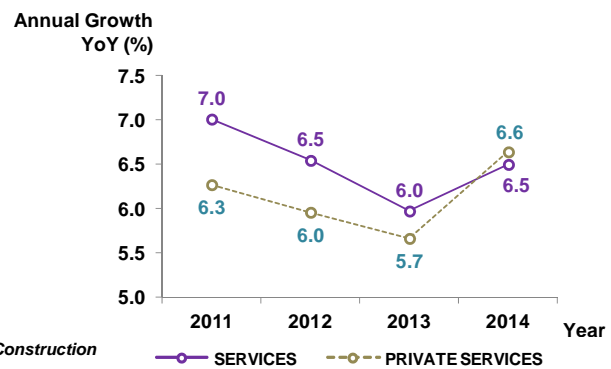
CONTRIBUTION OF SERVICES SUB-SECTORS

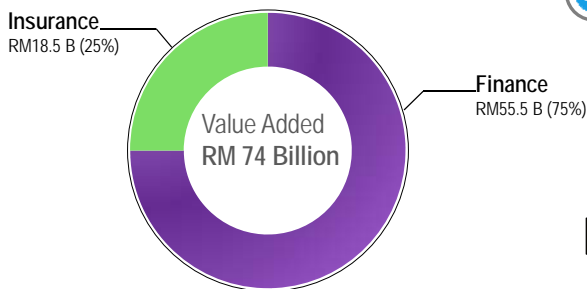| SECTOR	Share to GDP	Share to Sector		Share to Private Services	Growth YoY (%)	
	2014	2014	Q215	Q215	Q115	Q215
SERVICES	**53.5**	**100.0**	**100.0**	**100.0**	**6.4**	**5.0**
Electricity and Gas	2.1	3.9	3.9	4.7	2.9	3.6
Water, sewerage and waste management	0.5	1.0	1.0	1.2	7.2	5.2
Wholesale Trade	6.3	11.7	12.3	14.7	9.6	8.7
Retail Trade	6.2	11.5	11.2	13.3	10.7	4.0
Motor Vehicles	2.0	3.6	3.3	4.0	7.6	1.9
Food and Beverage	2.1	3.9	4.0	4.8	8.5	7.4
Accommodation	0.6	1.2	1.2	1.4	3.4	3.9
Transportation and Storage	3.5	6.5	6.6	7.8	5.7	5.4
Information and Communication	5.5	10.2	10.9	13.0	9.6	9.3
Finance	5.5	10.3	9.9	11.8	1.3	1.7
Insurance	1.8	3.4	3.0	3.6	3.6	-4.6
Real Estate and Business Services	4.2	7.9	8.2	9.8	7.6	6.2
Other Services	4.4	8.2	8.4	10.0	4.6	4.7
Government Services	8.8	16.5	16.1	-	3.9	4.1

Note: Contribution of Services Sector at Constant 2010 Prices

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FINANCE & INSURANCE

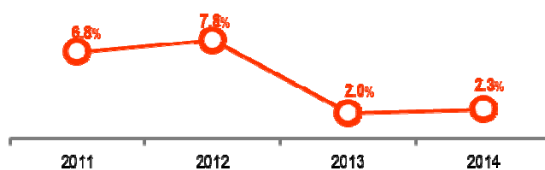## Finance & Insurance Composition
Share For Year 2014

Insurance
RM18.5 B (25%)

Finance
RM55.5 B (75%)

Value Added
RM 74 Billion

Finance & Insurance Performance
Annual Percentage Change 2011 - 2014

2011	2012	2013	2014
6.8%	7.8%	2.0%	2.3%

YEAR 2014

*Contribution of Finance & Insurance to Total GDP is **7.3%** and **13.7%** to the total services sector*

Percentage to Services Sector
13.7 %

Percentage to Total GDP
7.3 %

FINANCE & INSURANCE: DEFINITION

This category includes all units engaged in activities of obtaining and redistributing funds, in the form of deposits by Central banks and other monetary institutions, insurance and pension funding and other activities auxiliary to financial intermediation

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FINANCE :
Data Sources & Methodologies

Annual	Quarterly
Data Sources	**Data Sources**
• Central Bank of Malaysia • Financial Statement From Companies • Other Indicators : BLR, ALR	• Central Bank of Malaysia • Other Indicators : BLR, ALR • Deflator : CPI
Methodology	**Methodology**
• Double Deflation	• Extrapolation Output as mover

FINANCE : OUTPUT


```
                        Finance
                           |
          +----------------+----------------+
          |                                 |
       Market                          Non-Market
          |                                 |
   +------+------+                          |
   |             |                          |
Monetary    Other Financial           Central Bank
Intermediation  Intermediation
```

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FINANCE : OUTPUT

```
                 Output for Banking
                        |
        +---------------+----------------+
        |                                |
  Explicit Charges                  Implicit
        |                           Charges
        |                                |
  +-----+-----------+-----------+        |
  |                 |           |        |
Fee Income    Rental Income  Other   FISIM
                            Income      |
                                        |
                               Associated with loans
                                  and deposits
```
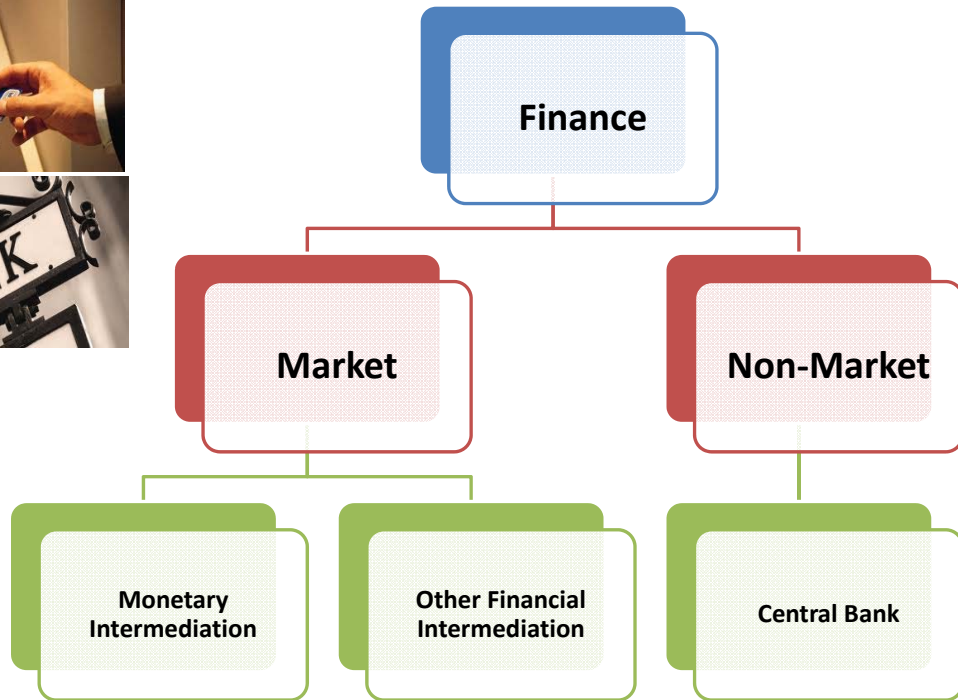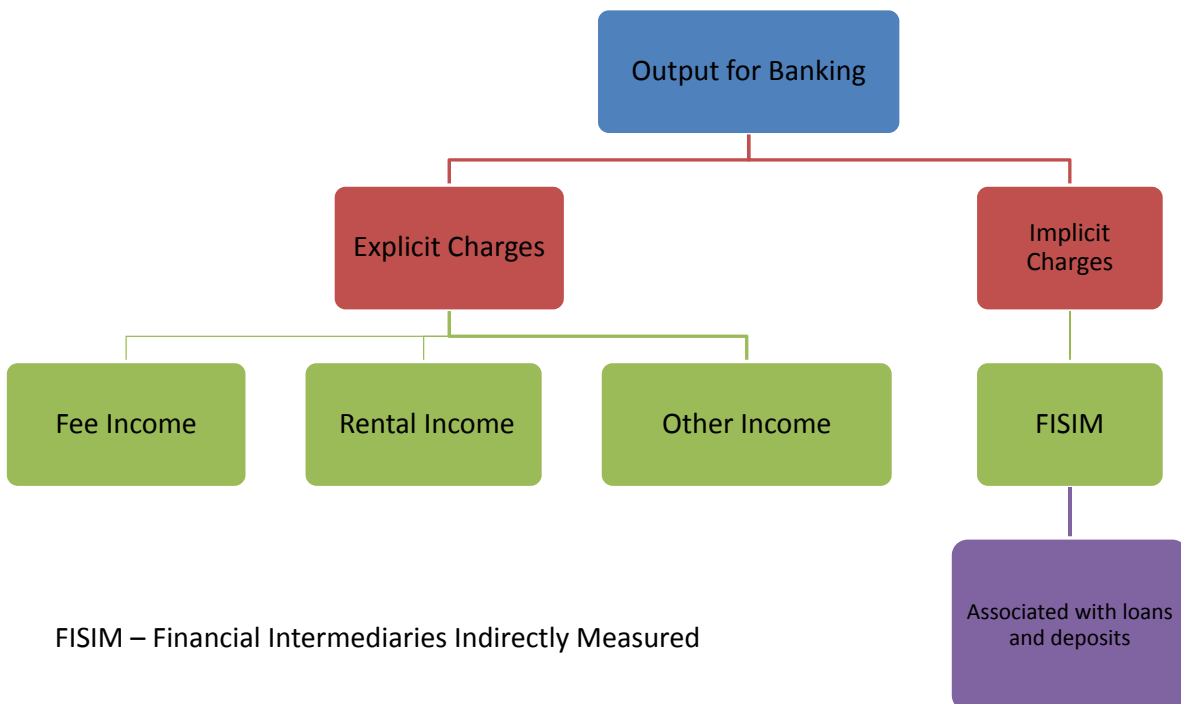
FISIM – Financial Intermediaries Indirectly Measured

FINANCE : FISIM

- **Output for Finance (Market)**

  = **Service charges and other receipt from services + FISIM**

  Explicit Charges @ Fee Base

- **FISIM** - Value of services integrated in the computation of interest on deposit and loans.

Loans & Deposits (Interest) → BANKS ← Loans & Deposits (Interest)

HOUSEHOLD   CORPORATION

  – Compute FISIM on Loans and Deposits using **Reference Rate Method**

FINANCE : FISIM

- **Reference Rate**

  - rate between bank interest rate on deposits and loans

  = (Interest on deposits + Interest on loans) / (Stocks of loans + deposits)

  - **Fisim on loans**

  = (Interest rates on loans – reference rate) x Stock of loans.

  - **Fisim on deposits**

  = (Reference rate - Interest rates paid on deposits) x Stock of deposits.
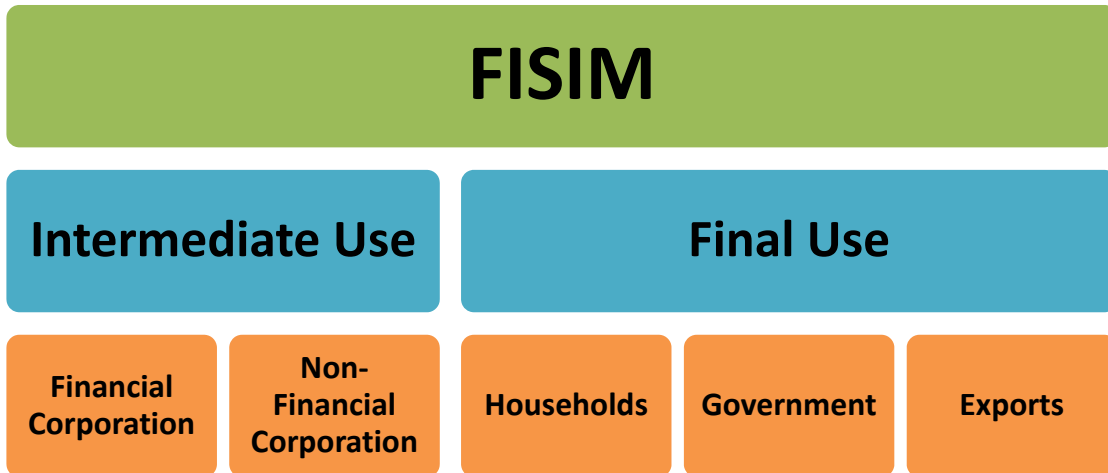
  - **Implicit service charges (FISIM)**

  = Fisim on loans + Fisim on deposits.

- **Allocation of FISIM**
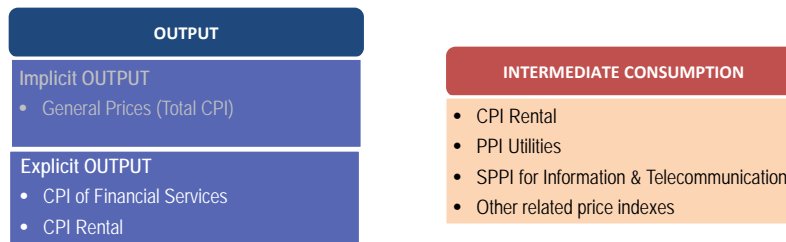 - A full allocation the use of FISIM across the relevant sectors & industries.
  - To identify the purchase of these services explicitly

FISIM

Intermediate Use		Final Use		
Financial Corporation	Non-Financial Corporation	Households	Government	Exports

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FINANCE & INSURANCE

FINANCE IN CONSTANT PRICE

In deriving the constant prices, double deflation method is used to eliminates the price effect from both output and intermediate consumption.

OUTPUT

Implicit OUTPUT
- General Prices (Total CPI)

Explicit OUTPUT
- CPI of Financial Services
- CPI Rental

INTERMEDIATE CONSUMPTION
- CPI Rental
- PPI Utilities
- SPPI for Information & Telecommunication
- Other related price indexes
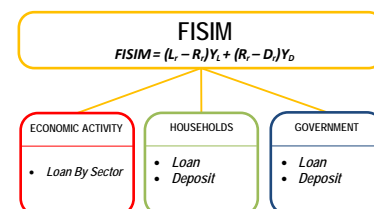
CONCEPTUAL TREATMENT ON FISIM

In SNA 1993 and 2008, FISIM is to be allocated among the sectors that consume FISIM either as <u>final consumption</u> or <u>intermediate consumption</u>
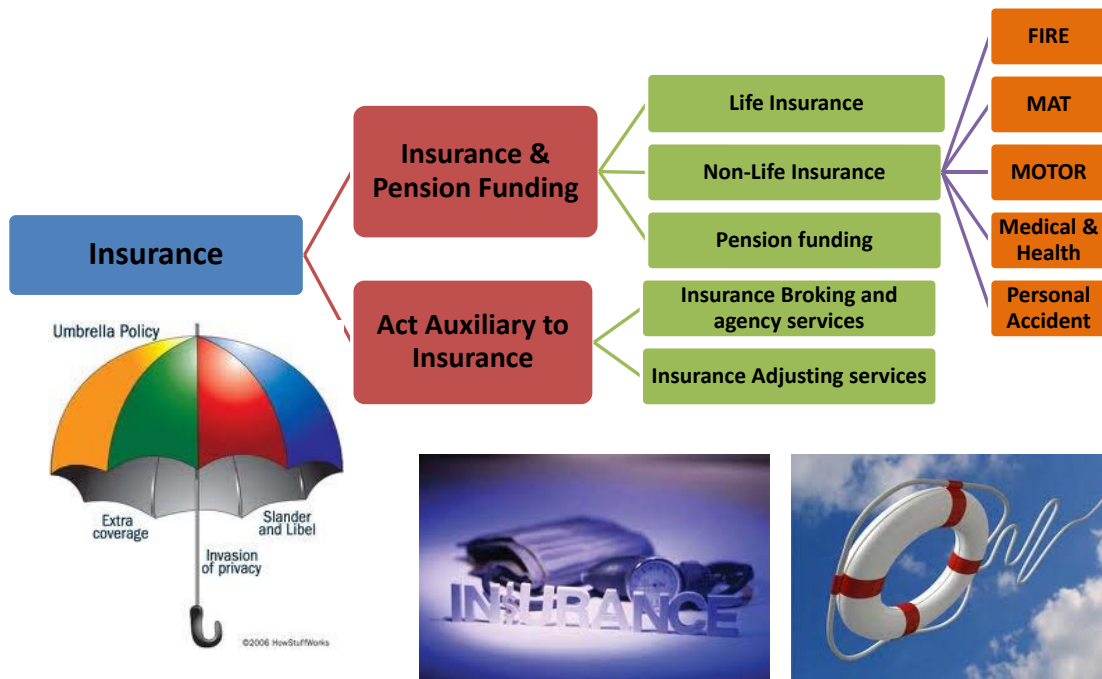
METHOD OF ALLOCATION

<u>Bank deposits</u> by customer type and <u>bank loans</u> by sector

FISIM on loans : Allocated using loan by sector (+ treatment for OOD)
FISIM on deposit : Allocated using deposit by customer type (+ treatment for business)

FISIM
$$FISIM = (L_r - R_r)Y_L + (R_r - D_r)Y_D$$

ECONOMIC ACTIVITY	HOUSEHOLDS	GOVERNMENT
• Loan By Sector	• Loan • Deposit	• Loan • Deposit

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INSURANCE

Insurance	**Insurance & Pension Funding**	Life Insurance	FIRE
		Non-Life Insurance	MAT
			MOTOR
		Pension funding	Medical & Health
	Act Auxiliary to Insurance	Insurance Broking and agency services	Personal Accident
		Insurance Adjusting services	

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INSURANCE :
Data Sources & Methodologies

Annual

Data Sources

- Central Bank of Malaysia
- Financial Statement From Companies

Methodology

- Double Deflation
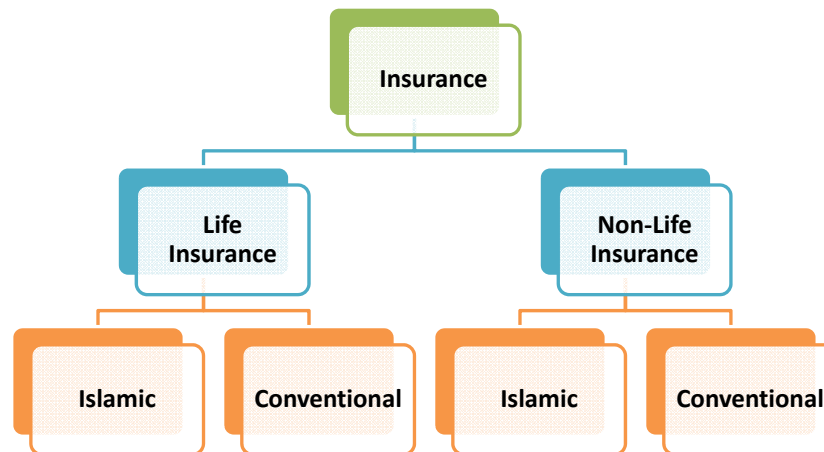
Quarterly

Data Sources

- Central Bank of Malaysia

Methodology

- Extrapolation Output as mover

INSURANCE : OUTPUT

```
                    Insurance
                   /         \
            Life Insurance   Non-Life Insurance
             /      \          /        \
        Islamic  Conventional  Islamic  Conventional
```

Output of Insurance

- **Premium**
- **Investment Income** (consist of income from the Investment Account, islamic money market, income from financing, gross dividend, rent and others minus investment expenses)
- **Claims**

INSURANCE : OUTPUT

- Output of insurance companies (insurance service charges)

  = Premium contribution + Premium supplements

  – (Claims payable + Changes in the provisions for claims Outstanding)

- A calamity may create a negative output of nonlife insurance if claims payable is extraordinary large.

- Claims payable in this case may be replaced based on past behavior instead of actual claim paid.

- SNA 2008 : Output of insurance companies (insurance service charges) = Premium contribution + Premium supplements – (Adjusted claims incurred)

- Life = Premium earned + Premium supplements – benefits due - increases (+) decreases) in life insurance technical reserves

CALCULATION OF INSURANCE (Malaysia)

Output of Insurance sub-sector as recommended in SNA 2008:

> **Output = Premium contribution + Premium supplements - (Adjusted claims incurred)**

However, our output estimation is still based on SNA 1993 since Malaysia seldom faces huge disaster and calamity:

> **Output = Premium income + Net Investment Income – Claims Paid**

INSURANCE

In deriving the constant prices, double deflation method is used to eliminates the price effect from both output and intermediate consumption.

INSURANCE IN CONSTANT PRICE

OUTPUT
PREMIUM,PREMIUM SUPPLEMENT CPI Insurance (i.e for Life, motor vehicles, Fire) Other related indexes (investment)
Claims, Benefit paid CPI Insurance Services (technical reserves) CPI Insurance (i.e for Life, motor vehicles)

INTERMEDIATE CONSUMPTION

- CPI Rental
- PPI Utilities
- SPPI for Information & Telecommunication
- Other related price indexes

CHALLENGES

- Appropriate deflator in financial activities is needed to derive a constant price. (i.e Producer Price Index for Banking Services)
- Limitation in allocating FISIM on deposit by economic activity since data on deposit only available by type of customer (e.g government, business and household).
- In the absence of comprehensive data set on interest paid / receive by economic activity, data on loans and deposits by sectors are used as an indicator to allocate the FISIM by economic activities.
- IFRS – adaptation of the new standard of financial reporting affected the compilation of financial sector.
- Compilation FISIM with ROW still under study
- Life Insurance Technical Reserve – not available by quarterly basis