



The financial corporations sector and financial services

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United Nations Statistics Division



Outline of presentation

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- Overview of financial corporations sector
- Subsectors of financial corporations sector
- Scope of financial services
- Overview of charges for financial services
- Reference



Overview of financial corporations sector

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Financial corporations

- Consist of all resident corporations that are principally engaged in providing financial services, including insurance and pension funding services, to other institutional units
- The provision of financial services is typically subject to strict regulation
- Usually, units providing financial services do not produce other goods and services and financial services are not provided as secondary products



Overview of financial corporations sector

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Composition of financial corporations sector

- All resident financial corporations (as understood in the SNA and not just restricted to legally constituted corporations), regardless of the residence of their shareholders
- The branches of non-resident enterprises that are engaged in financial activity on the economic territory on a long-term basis
- All resident non-profit institutions that are market producers of financial services



Subsectors of financial corporations sector

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- Divided into nine subsectors according to their activity in the market and the liquidity of their liabilities
 - Central bank
 - Deposit-taking corporations except the Central Bank
 - Money market funds (MMF)
 - Non-money market investment funds (Non-MMF)
 - Other financial intermediaries except insurance corporations and pension funds (ICPF)
 - Financial auxiliaries
 - Captive financial institutions and money lenders
 - Insurance corporations (IC)
 - Pension funds (PF)



Subsectors of financial corporations sector

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Central bank

- Is the national financial institution that exercises control over key aspects of the financial system
- Examples:
 - The national central bank, including where it is part of a system of central banks
 - Currency boards or independent currency authorities that issue national currency that is fully backed by foreign exchange reserves
 - Central monetary agencies of essentially public origin (for example, agencies managing foreign exchange or issuing bank notes and coins) that keep a complete set of accounts, but are not classified as part of central government. Supervisory authorities that are separate institutional units are not included with the central bank, but are included with financial auxiliaries



Subsectors of financial corporations sector

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Central bank

- Is always allocated to the financial corporations sector, even if it is primarily a non-market producer as long as it is a separate institutional unit
- Supervisory authorities that are separate institutional units are not included with the central bank, but are included with financial auxiliaries



Deposit-taking corporations except the central bank

- Have financial intermediation as their principal activity
- Thus, they have liabilities in the form of deposits or financial instruments (such as short-term certificates of deposits) that are close substitutes for deposits
- Their liabilities are typically included in measures of money broadly defined



Deposit-taking corporations except the central bank

- Examples:
 - Commercial banks, universal banks and all-purpose banks
 - Savings banks (including trustee savings banks, and savings and loan associations)
 - Post office giro institutions, post banks and giro banks
 - Rural credit banks and agricultural credit banks
 - Cooperative credit banks and credit unions
 - Specialized banks or other financial corporations if they take deposits or issue close substitutes for deposits (for example, corporations engaged in granting mortgages, including building societies and mortgage banks, merchant banks, and municipal credit institutions, including regional or provincial credit institutions which accept deposits)



Money market funds (MMF)

- Are collective investment schemes that raise funds by issuing shares or units to the public
- Proceeds are invested primarily in money market instruments, MMF shares or units, transferable debt instruments with a residual maturity of not more than one year, bank deposits and instruments that provide a rate of return that approaches the interest rates of money market instruments
- Shares or units can be transferred by cheque or other means of direct third-party payment
- Shares or units may be regarded as close substitutes for deposits



Non-money market investment funds (Non-MMF)

- Are collective investment schemes that raise funds by issuing shares or units to the public
- Proceeds are invested primarily in financial assets, other than short-term assets, and in non-financial assets (usually real estate)
- Shares or units are generally not close substitutes for deposits
- They are not transferable by means of cheque or direct third-party payments



Non-money market investment funds (Non-MMF)

- Examples:
 - Equity based investment funds
 - Security based investment funds
 - Real estate investment trusts, which invest in debt and equity securities of companies that purchase real estate
 - Mortgage real estate investment trusts (REITs), which provide money to real estate owners and operators either directly in the form of mortgages or other types of real estate loans, or indirectly through the acquisition of mortgage backed securities
 - Investment funds investing in other funds (“funds of funds”)



Non-money market investment funds (Non-MMF)

- Examples:
 - Hedge funds covering a heterogeneous range of collective investment schemes, typically involving high minimum investments, light regulation and a wide range of investment strategies
 - Private equity funds, which are collective investment schemes used for making investments in companies, many of which are not listed on a stock exchange
 - Exchange-traded funds (ETFs)



Other financial intermediaries, except insurance corporations and pension funds

- Consist of financial corporations that are engaged in providing financial services by incurring liabilities in forms other than currency, deposits or close substitutes for deposits on their own account for the purpose of acquiring financial assets by engaging in financial transactions on the market
- Include financial intermediaries predominantly engaged in long-term financing



Other financial intermediaries, except insurance corporations and pension funds

- Examples:
 - Financial corporations engaged in the securitization of assets
 - Security and derivative dealers (operating on own account)
 - Financial corporations engaged in lending, including financial leasing, hire purchase and the provision of personal or commercial finance
 - Central clearing counterparties
 - Investment banks that assist other corporations in raising funds in equity and debt markets and provide strategic advisory services for mergers, acquisitions and other types of financial transactions, invest their own funds, including in private equity, in hedge funds dedicated to venture capital, and in collateralized lending



Other financial intermediaries, except insurance corporations and pension funds

- Examples:
 - Specialized financial corporations that provide the following:
 - Short-term financing for corporate mergers and takeovers
 - Export/import finance
 - Factoring services
 - Venture capital and development capital firms
 - Loans against mortgage on real estate by issuing mortgage bonds



Financial auxiliaries

- Consist of financial corporations that are principally engaged in activities associated with transactions in financial assets and liabilities or with providing the regulatory context for these transactions, but in circumstances that do not involve the auxiliary taking ownership of the financial assets and liabilities being transacted



Financial auxiliaries

- Examples:
 - Insurance brokers, salvage and claims adjusters (whether employed by the insurance corporation, an independent adjuster or a public adjuster employed by the policyholder), and insurance and pension consultants
 - Loan brokers, securities brokers who arrange trades between security buyers and sellers but do not purchase and hold securities on their own account, investment advisers, etc.
 - Flotation corporations that manage the issue of securities
 - Corporations whose principal function is to guarantee, by endorsement, bills and similar instruments



Financial auxiliaries

- Examples:
 - Corporations that arrange derivative and hedging instruments, such as swaps, options and futures (without issuing them)
 - Corporations providing infrastructure for financial markets, including those providing transaction processing and settlement activities, such as for credit card transactions, as well as securities depository companies, custodians, clearing offices and nominee companies
 - Managers of pension funds, mutual funds, etc. (but not the funds they manage)
 - Corporations providing stock exchange, insurance exchange, and commodity and derivative exchange



Financial auxiliaries

- Examples:
 - Foreign exchange bureaux
 - Non-profit institutions recognized as independent legal entities serving financial corporations, but that do not themselves provide financial services
 - Head offices of financial corporations that are principally engaged in controlling financial corporations or groups of financial corporations, but that do not themselves conduct the business of financial corporations
 - Central supervisory authorities of financial intermediaries and financial markets when they are separate institutional units



Captive financial institutions and moneylenders

- Consist of institutional units providing financial services, where most of either their assets or liabilities are not transacted on open financial markets
- Includes entities transacting within only a limited group of units (such as with subsidiaries) or subsidiaries of the same holding corporation or entities that provide loans from own funds provided by only one sponsor



Captive financial institutions and moneylenders

- Examples:
 - Units which are legal entities, such as trusts, estates, agencies' accounts or brass plate companies
 - Holding corporations that hold only the assets (owning controlling-levels of equity) of a group of subsidiary corporations and whose principal activity is owning the group without providing any other service to the enterprises in which the equity is held, that is, they do not administer or manage other units
 - Special purpose entities or conduits that qualify as institutional units and raise funds in open markets to be used by their parent corporation



Captive financial institutions and moneylenders

- Examples:
 - Special purpose government funds, usually called sovereign wealth funds, if they are institutional units and provide financial services on a market basis to the government
 - Units which provide financial services exclusively with own funds or funds provided by a sponsor to a range of clients, and incur the financial risk of the debtor defaulting, including:
 - Moneylenders
 - Corporations engaged in lending (for example providing student loans or import/export loans) from funds received from a sponsor, such as a government unit or non-profit institution
 - Pawnshops that predominantly engage in lending



Insurance corporations

- Consist of incorporated, mutual and other entities whose principal function is to provide life, accident, sickness, fire or other forms of insurance to individual institutional units or groups of units, or reinsurance services to other insurance corporations
- Include deposit insurers, issuers of deposit guarantees and other issuers of standardized guarantees that are separate entities and act like insurers by charging premiums and have reserves



Pension funds

- Consists of only those social insurance pension funds that are institutional units separate from the units that create them
- Excluded from this subsector are non-autonomous pension schemes managed by employers, government-sponsored pension schemes funded through wage taxes (pay-as-you-go schemes), social security funds and arrangements organized by non-government employers, when the reserves of the fund are simply included among the employer's own reserves or invested in securities issued by that employer



Scope of financial services

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Financial services comprise

- Financial intermediation, financial risk management and liquidity transformation services
- Auxiliary financial services
- Services provided by institutional units where most of assets and liabilities are not available on open financial markets
- Services provided by insurance and pension schemes



Scope of financial services

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Change from 1993 SNA

- 1993 SNA recognized only financial intermediation services
- 2008 SNA enlarges definition of financial services to give due weight to the increase in financial services other than the financial intermediation, specifically financial risk management and liquidity transformation
- Financial services provided by money lenders are recognized
 - Include services provided by unincorporated enterprises



Scope of financial services

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Financial intermediation, financial risk management and liquidity transformation services

- Are provided by financial intermediaries which obtain funds by taking deposits, issuing bills, bonds and other securities and then use these funds and own funds to acquire mainly financial assets including loans, bills, bonds or other securities
- Typically comprise a major part of services provided by financial corporations sector
- Also involve financial risk management and liquidity transformation



Scope of financial services

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Auxiliary financial services

- Facilitate financial intermediation, risk management and liquidity transformation activities
- Financial auxiliaries typically act on behalf of other units and do not put themselves at risk by incurring financial liabilities or by acquiring financial assets as part of an intermediation service



Scope of financial services

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Services provided by institutional units where most of assets and liabilities are not available on open financial markets

- Such services
 - Tend to take place between entities transacting within only a limited group of units (such as with subsidiaries) or subsidiaries of the same holding corporation, or
 - Are undertaken by entities providing loans from own funds provided by only one sponsor



Scope of financial services

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Services provided by insurance and pension schemes

- Services involve redistribution of funds between different units in the same period or between different periods for a single client
- These services also involve risk management and liquidity transformation



Overview of charges for financial services

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Financial services are provided and charged for in four main ways

- Financial charges provided in return for explicit charges
- Financial services provided in association with interest charges on loans and deposits
 - Financial intermediation services indirectly measured (FISIM)
 - Financial services associated with institutional units which engage in lending using own funds or funds provided by a sponsor
 - Financial services provided by the central bank



Overview of charges for financial services

United Nations Statistics Division

Financial services are provided and charged for in four main ways

- Financial services associated with acquisition and disposal of financial assets and liabilities in financial markets
- Financial services associated with insurance and pension schemes
 - Non-life insurance
 - Standardized guarantee schemes
 - Life insurance and annuities
 - Reinsurance
 - Social insurance schemes



Overview of charges for financial services

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Financial services are provided and charged for in four main ways

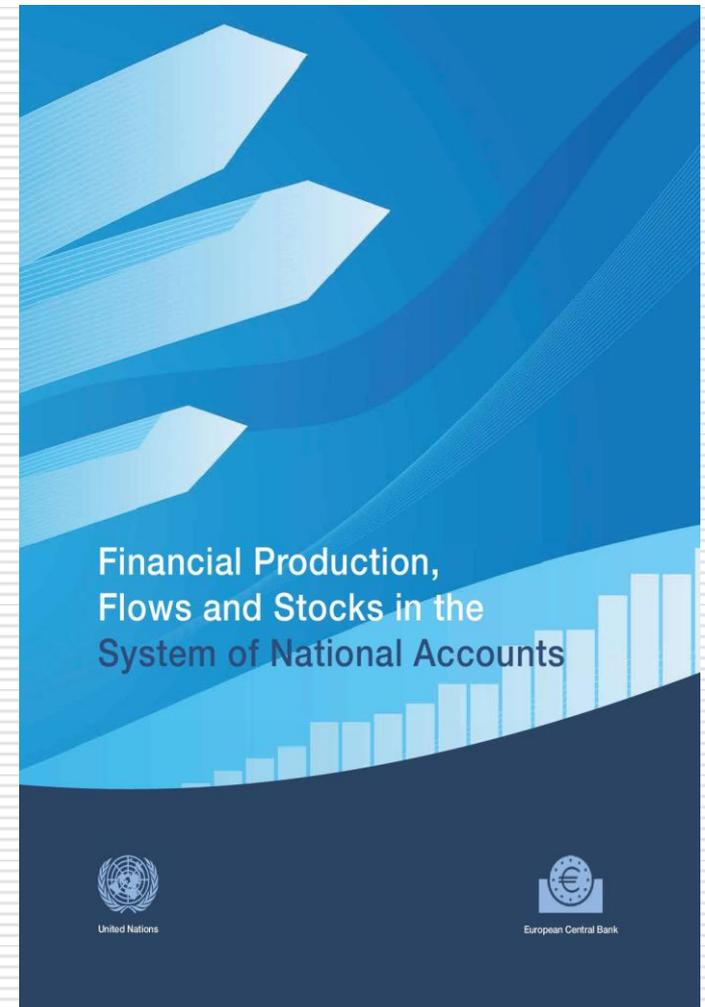
- Note
 - Many charges for financial services are implicit rather than explicit
 - This complicates attempts to measure the output of these services in the national accounts
 - Measuring implicit charges for financial charges typically involves combining/partitioning a number of observed transactions



Reference

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- UNSD and European Central Bank Directorate General Statistics have produced the “Handbook on Financial Production Flows and Stocks in the System of National Accounts”
- Chapter 2 defines and describes financial corporations sector and its subsectors
- Table 3.1 summarizes the methods to calculate output of financial corporations

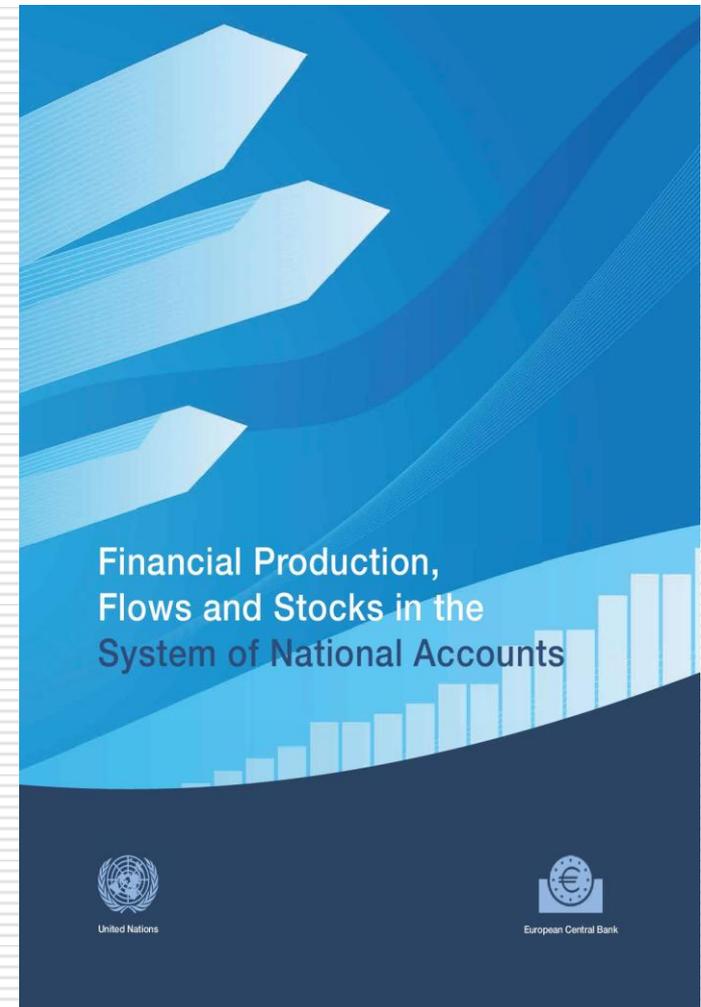




Reference

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- Chapter 3 has illustrative worked examples on calculation and allocation of output of financial services
- Handbook is available on <http://unstats.un.org/unsd/nationalaccount/docs/FinancialHB.pdf>
- Translation to other non-English UN languages, including Arabic is in progress





Thank you