

# Financial services sector methods changes: 1997 to 2019

Improvements in calculating financial services estimates for Other Financial Institutions by basing the calculation of output and intermediate consumption of Other Financial Institutions (in NACE 64.2 to 64.9), and financial auxiliaries (in NACE 66) on the industry-specific data, and applying output valuation for the financial services that these units provide.

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# 1 . Main changes

- Data from the new Financial Services Survey (FSS) will be introduced as part of the [Blue Book publication](#) on 29 October 2021.
- Data have been collected so that a full sequence of National Accounts can be constructed for Other Financial Institutions.

## 2 . Overview of Financial Services Survey

The new Financial Services Survey (FSS) delivers major improvements to the calculation of the financial services estimates for Other Financial Institutions (OFIs) (excluding banks, insurance corporations and pension funds).

The financial services estimates currently base the calculation of output and intermediate consumption of OFIs and financial auxiliaries, for example, administration of financial markets, risk and damage evaluation and fund management activities, on industry specific data.

The industry specific data applies output valuation for the types of financial services that these units provide. The survey has been introduced to capture the development of the financial services industry which has occurred in recent years. The new data fills a current gap in the data sources used for this component of the National Accounts (Table 1).

A [separate article](#) describing the overall impact of these changes will also be published on 28 June 2021.

The FSS consists of [two separate questionnaires](#), both introduced in 2016:

- collection of quarterly returns of assets and liabilities
- collection of [income and expenditure](#)

## 3 . Data collection

This article relates to the introduction of data for income and expenditure and how it will be used within the National Accounts.

Data are collected so that a full sequence of National Accounts can be constructed for Other Financial Institutions (OFIs), for example, trust funds, finance leasing and security dealing. The data includes the inputs required for deriving an estimate of output and intermediate consumption, and the main income components of gross value added (GVA). The FSS also enables the separation of output supplied to domestic and non-resident consumers, providing a new source for exports of financial services.

The survey collects data from 20 industry groups, spanning non-monetary financial institutions across industries K64 (financial service activities, except insurance and pension funding) and K66 (activities auxiliary to financial services and insurance activities). The categories S124, S125, S126 and S127 are relevant to this article.

### Other Financial Institutions (OFIs) within financial corporations

## **Sector: S12K: Monetary financial institutions (MFI)**

- S121: Central Bank
- S122: Deposit-taking corporations except the central bank
- S123: Money market funds (MMF)

## **Sector 12P: OFIs within financial corporations**

- S124: Non-MMF investment funds
- S125: Other financial intermediaries, except insurance corporations and pension funds
- S126: Financial auxiliaries
- S127: Captive financial institutions and money lenders

## **Sector S12Q: Insurance corporations and pension funds**

- S128: Insurance Corporations
- S129: Pension Funds

## **Financial industries (SIC 2007) descriptions:**

- K64: Financial service activities, except insurance and pension funding
- K65: Insurance, reinsurance and pension funding, except compulsory social security
- K66: Activities auxiliary to financial services and insurance activities

## **Financial products (CPA 2008) descriptions:**

- CPA\_K64: Financial services, except insurance and pension funding
- CPA\_K65: Insurance, reinsurance and pension funding services, except compulsory social security
- CPA\_K66: Services auxiliary to financial services and insurance services

Table 1 shows the improvements that have been made to data sources that are used in the compilation of OFIs data. The term “none” is used to identify the sources of information that have previously been modelled using historical proportions.

Table 1: Sources for financial services industries

<b>SIC</b>	<b>Description</b>	<b>Pre-FSS data source (pre-2016Q1)</b>	<b>Data source (2016Q1+)</b>
64.201	Agriculture holding companies	None (modelled data used)	FSS
64.202	Production holding companies	None (modelled data used)	FSS
64.203	Construction holding companies	None (modelled data used)	FSS
64.204	Distribution holding companies	None (modelled data used)	FSS
64.205	Activities of financial services holding companies	None (modelled data used)	FSS (non-bank) <sup>1</sup>
64.209	Other holding companies	None (modelled data used)	FSS
64.301	Investment Trusts	None (modelled data used)	None <sup>2</sup>
64.302	Unit Trusts	None (modelled data used)	None <sup>2</sup>
64.303	Activities of venture and development capital companies	None (modelled data used)	FSS
64.304	Open-Ended Investment Companies (OEICs)	None (modelled data used)	None <sup>2</sup>
64.305	Property Unit Trusts	None (modelled data used)	None <sup>2</sup>
64.306	Real Estate Investment Trusts	None (modelled data used)	None <sup>2</sup>
64.91	Financial leasing	Quarterly & Annual Asset Financing Surveys 1999Q2+  Quarterly balance sheet survey of specialist finance  leasing companies and partnerships Pre-1999Q2	FSS
64.921 & 64.929	Credit granting companies & Other credit granting companies	Quarterly & Annual Asset Financing Surveys 1999Q2+  Quarterly survey to credit grantors Pre-1999Q2	FSS
64.922	Activities of Mortgage Finance Companies	None (modelled data used)	Estimated based on 64.921 <sup>3</sup>
64.991	Securities dealing on own account	Securities dealers: Quarterly return of income and expenditure 1989+	FSS
64.992	Factoring	Quarterly & Annual Asset Financing Surveys 1999Q2+  Quarterly balance sheet survey of specialist finance  leasing companies and partnerships Pre-1999Q2	FSS
64.999	Financial intermediation not elsewhere classified	None (modelled data used)	FSS
66.11	Administration of financial markets	None (modelled data used)	FSS
66.12	Securities and commodities dealing	Securities dealers: Quarterly return of income and expenditure 1989+	FSS
66.19	Activities auxiliary to financial intermediation n.e.c.	None (modelled data used)	FSS
66.21	Risk and damage evaluation	None (modelled data used)	FSS

66.22	Activities of insurance agents and brokers	None (modelled data used)	FSS
66.29	Other activities auxiliary to insurance and pension funding	None (modelled data used)	FSS
66.3	Fund management activities	None (modelled data used)	FSS and Investment Association Data

Source: Office for National Statistics

#### Notes

1. The FSS does not cover the activity of Bank Holding Companies within 64.205.
2. Data for industry 64.300 (aggregate of 64.301 to 64.306) are collected through the ONS Trust and Funds survey data collection, though the concept of these funds in the National Accounts means they should not have output or employment. In addition, the activity of investment funds and trusts (S.124) has not been considered as part of this project. The UN ISIC Manual suggests that output and employment of these investment vehicles is minimal.
3. 64.922 is not included in the FSS as historically the Bank of England (BoE) has been responsible for collecting data from this industry. At present, the BoE does not collect income and expenditure data for these businesses.

## 4 . Financial Services Survey (FSS) methodology

### Output

Output for Other Financial Institutions (OFIs) is captured directly by the [Financial Services Survey \(FSS\) questionnaire](#). The output value is calculated through the aggregation of four questions collected from the FSS questionnaire, namely:

- value of spread earnings
- income from operating leases
- fees and commissions earned in the UK
- fees and commissions earned from abroad

### Consumption

The value of goods and services used in the running of the business is captured directly by the FSS questionnaire. The consumption value is calculated through the aggregation of four questions collected directly from the FSS questionnaire, namely:

- amounts payable under operating leases
- value of fees and commissions incurred in the UK
- value of fees and commissions incurred in the rest of the world
- value of goods and materials used in running the business

## Exports and imports

Data on imports and exports are available from both FSS and International Trade in Services (ITIS). FSS data is available for imports and exports in Industry 64, and ITIS data is available for imports and exports in Industry 66.

## Expenditure

The FSS does not collect information on the consumers of OFIs outputs. The Office for National Statistics (ONS) has no data on who consumes these services. However, to inform an estimate, the ONS has used an ad hoc survey and expert judgement to create percentage allocations for each institutional sector. For the ad hoc survey, a sub sample of 150 contributors were chosen to receive a more detailed version of the questionnaire, with an additional question added:

“Of the figure provided above, what was the value earned relating to: Households and individuals, Financial corporations, Non-financial corporations, Government and public sector, Charities and universities?”

FSS fees and commissions are consumed by three sources:

- intermediate consumption in S.12P of companies consuming the output of other companies in the same institutional sector
- intermediate consumption across the economy of companies using the output of S.12P companies
- households finally consuming the fees and commissions produced by the S.12P companies

The data are allocated to the components above using the percentages informed from the ad hoc survey and expert judgement.

## Income

The FSS does not directly capture data for the income approach to the measurement of gross domestic product (GDP). The compensation of employees (CoE) data are sourced directly from HM Revenue and Customs (HMRC). As an administrative source, this already includes the CoE of the financial industries. However, because of the new data quality assurance, the ONS has reviewed and adjusted the CoE of the financial industries, based on analysis of other data sources such as Average Weekly Earnings (AWE). The remainder of the FSS change will lead to a change in gross operating surplus (GOS).

## Pre-2016 data

The backcast methodology uses the growth rates of the pre-FSS implementation, output and consumption data. The aim of this approach is to preserve the growth rates of the previous time series while allowing for a level shift to the new FSS levels.

The data were backcast to 1986 which was chosen as the start point due to the deregulation of the financial markets in the UK, referred to as the "[Big Bang](#)", in October 1986. This saw the markets undergo large structural change and removed many limitations of the time. After the deregulation, activity within the financial services industry significantly increased.

## 5 . Future developments

The Office for National Statistics (ONS) has improved the estimate of the Other Financial Institutions sector and will now use the latest survey data rather than rely on modelled estimates. The data will be published in the 2021 Blue Book and is part of an ongoing programme to deliver a range of improvements to financial services data, which are planned to be implemented in future Blue Books.

## 6 . Related links

[Impact of Blue Book 2021 changes on current price and volume estimates of gross domestic product](#)

Article | Released 28 June 2021

Methodological and data improvements that affect current price and chain volume measure of gross domestic product (GDP), 1997 to 2019.

[UK National Accounts, The Blue Book: 2020](#)

Compendium | Released 30 October 2020

National accounts statistics including national and sector accounts, industrial analyses and environmental accounts.