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# Measurement of Trade in Banking Services: Some Thoughts Provoked by Proposals for Benchmarking

Andrew Cornford

## Key elements of the benchmarking proposals submitted by the EU and some other countries last summer:

- ◆ *minimum new commitments*
- ◆ *methods for translating these commitments into operational targets*
- ◆ *credit for past commitments*
- ◆ *recourse to plurilateral negotiations*

The principal indicator under benchmarking for translating commitments into operational targets is the number of activities/subsectors for which countries undertake commitments.

### Subjects for which measurement and statistical data are important in WTO work:

- ◆ *Valuation of offers and commitments in negotiations on banking services.*
- ◆ *Assessment of trade in banking services.*
- ◆ *Emergency safeguard measures.*
- ◆ *Subsidies.*
- ◆ *Compensation and suspension of concessions.*

It is impossible to specify a single measure of international trade in services applying to all of the different Modes of Supply of the GATS.

The most important measure for trade in banking services would be the income or revenue accruing to the supplying country.

This is especially true of the valuation of offers and commitments for Mode of Supply 3.

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### *Statistics for services trade: ongoing initiatives*

The work of *Voorburg Group*, established in 1986 as an initiative of Statistics Canada and the United Nations Statistics Office, has concerned classification, output and price measures, cross-border trade, reporting, methodology, national compilation, and foreign affiliates. The specifically sectoral work on finance has been limited to papers on insurance.

The most important output of the *Interagency Task Force* established in 1994 is the 2002 *Manual on Statistics of International Trade in Services*. This proposes a framework for foreign affiliate trade in services (FATS) statistics, which would cover services through Mode of Supply 3. These statistics are to cover sales, employment, value added, exports and imports, number of enterprises, assets, net worth, operating surplus, capital formation, income taxes, expenditure on research and development, and compensation of employees.

FATS statistics are a long-term project and will not be available for the Doha round.

The level of disaggregation of FATS statistics will not permit matching them with the Annex on Financial Services of the GATS.

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***Statistics relevant to the GATS Modes of Supply for trade in banking services currently available or being developed:***

1. cross-border trade in balance-of-payments statistics
2. supply through the temporary presence of natural persons
3. local lending by international banks
4. financial FDI and M&A
5. aggregate indicators of financial activity in national accounts and FATS statistics
6. numbers of foreign banks in selected jurisdictions
7. income statements of banks
8. trading in countries' financial markets.

For Mode 3 the headings, (3), (4), and (6), are covered by existing data sources or ongoing official initiatives. But none of these provide satisfactory measures of international trade in banking services under the activity headings of the GATS Annex for Mode of Supply 3.

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The data sources for these headings, except (7) and (8), depend on official systems of statistical compilation.

The data sources for the income of banks and trading, headings (7) and (8), depend on data already generated by private-sector entities in connection with their own activities.

Trading income from participation in the trading of financial instruments or contracts can be inferred from turnover figures through their multiplication by percentage spreads and by percentage commissions. For organised exchanges the turnover data as well as those for spreads and possibly for fees are available from the exchanges themselves or in various annuals and other publications. For OTC instruments the data on turnover and spreads are available from market-making financial firms.

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The income statements of banks themselves and their notes, heading (8), provide data on net interest income (interest income minus interest expense), fees and commissions, trading income and investment income. Such sources of income have potential for valuation and assessment for banking services under Mode of Supply 3.

- ◆ Net interest income is income from activities covered by activities (v) (acceptance of deposits and repayable funds), (vi) (lending) and (vii) (financial leasing) of the GATS Annex on Financial Services.
- ◆ Fees and commissions include income from activities covered by (viii) (payment and money transmission services), (ix) (guarantees and commitments), (xi) (participation in securities issues), (xii) (money broking), (xiii) (asset management), (xiv) (settlement and clearance), and (xvi) (advisory, intermediation other auxiliary services).
- ◆ Trading income is earned from trading the instruments and securities classified under activity (x) (trading).

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### *Pilot project for the income statements of Jordanian banks*

The income streams under the different activities headings in the exhibits belong to net operating income, i.e. the sum of net interest and non-interest income serving as the revenue pool from which a bank will meet its expenses and generate a profit. Net income after the deduction of expenses by activity is not available for banks owing to the impossibility of allocating costs – of which a high proportion are fixed – to different activities.

Many of the headings in the exhibits involve more than one activity from the GATS Annex's classification, reflecting the lack of a one-to-one correspondence between this classification and banks' income statements.

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### Islamic Banks

There are special problems in matching the classification of income in the financial statements of Islamic banks with the activity classification of the GATS Annex. Islamic banks cannot be considered as credit institutions owing to the prohibition of interest-bearing debt. However, a large part of the business of Islamic banks consists of serving as intermediaries between sources and users of funds in their role as managers (*mudarib*) of investment accounts. Income due to this role is denoted as (v) & (xiii).

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### Exhibit 1. Consolidated income statement of Arab Banking Corporation (Jordan), selected items for 2004 (Jordanian dinars)

Net interest income – (v), (vi), & (vii)	9,907,874
Net commission – (v), (vi), & (vii)	1,570,972
Gain from financial assets and instruments – (x)	2,511,484
Other operating income ( <i>of which</i> )	6,261,692
Foreign exchange differences – (x) (B)	515,801
Commission on customers' funds trading – (x), (xii), (xiv), & (xvi)	4,244,401
Revenue from credit card operations- (viii)	430,964
Management and consultation fees – (xiii) & (xvi)	63,773
Transfers commission – (xiv)	164,379
Recovery of loans previously written off – (vi) & (vii)	489,977
Capital gain – (x)	45,619
Others	301,778

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**Exhibit 2. Income statement of Islamic International Arab Bank Corporation, selected items for 2004 (Jordanian dinars)**

Mudarib share of profit for managing unrestricted investment accounts (IA) – (v) & (xiii)	2,646,500
<i>(of which)</i>	
Deferred sales - (xiii)	4,410,397
Financing – (xiii)	334,456
Investment in commodities – (xiii)	1,173,550
Investment in Islamic Sukuks – (xiii)	42,115
Ijara (vii)	3,422
<i>(less)</i>	
Revenues of unrestricted IA	2,721,046
Allocation to investment risk fund	596,394
Profit from investments financing and deferred sales – (x)	2,043,039
Agent's share of profit from restricted IA – (xiii)	326,378
Net revenues of banking services – (viii)	835,186
Other operating revenues	655,829

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**Exhibit 3. Income statements of Jordanian banks, selected items for 2003 - 2004 (Jordanian dinars)**

	Year	(vi) & (vii)	(vi) & (vii)	(viii)	(x)	(x) (B)	(x), (xii), (xiv) & (xvi)	(xiii)	(xiv)	Other
<b>Conventional Banks</b>										
Arab Banking Corporation (Jordan)	2004	489,977	11,478,846	430,964	2,557,103	515,801	4,244,401	63,773	164,379	301,178
	2003	95,681	9,857,877	420,020	2,671,504	530,121	3,078,761	353,567	137,289	147,192
Arab Bank Group	2003		586,982		99,364	47,152		749		60,184
Arab Jordan Investment Bank	2004	700,139	9,312,396		1,651,689	1,140,806				78,936
	2003	-	8,856,168		2,208,232	1,059,610				29,842
Bank of Jordan	2004	1,897,441	43,276,201	399,924	1,973,207	1,616,425				164,224
	2003	812,998	37,955,296	315,461	490,319	2,263,578				123,217
Export & Financial Bank	2004		9,550,084		3,912,740	309,856			707,828	1,885
	2003		11,914,262		6,148,180	172,862			1,326,584	1,423
Housing Bank for Trade and Finance	2004	1,936,721	80,936,918	4,271,474	10,375,098	710,312				4,861,760
	2003	53,044	69,724,136	3,131,121	14,126,758	143,448				3,524,317
Industrial Development Bank	2004	4,148,441	3,112,129		(440,243)	60,544		281,552	25,388	75,688
	2003	2,079,751	3,939,516		230,237	39,738		159,753	25,296	135,512
Jordan Kuwait Bank	2004	407,351	45,292,401	673,752	4,798,287	2,835,006			123,542	5,526,258
	2003	520,089	35,684,337	486,219	6,365,311	2,305,561			113,840	3,885,542
Jordan National Bank	2004	2,619,207	43,908,884	78,891	2,106,894	2,214,083			45,512	308,677
	2003	2,528,828	37,435,625	65,125	2,371,961	2,260,476			43,532	425,846
Société Générale de Banque-Jordanie	2004		4,167,780	287,083	416,688			144,041	4140	176,979
	2003		2,389,200	178,226	597,972			98,679	3531	125,890
Union Bank	2004		13,453,861		5,312,124					2,583,931
	2003		10,801,433		(9,567,290)					1,732,409
<b>Islamic banks</b>										
	Year	(v) & (xiii)	(vii)	(viii)	(x)	(xiii)				Other
Islamic International Arab Bank	2004	2,039,617	3,422	835,186	2,043,039	326,378				655,829
	2003	2,011,457	-	535,798	2,011,457	299,170				537,147
Jordan Islamic Bank	2003	12,885,922		4,591,474	53,546	1,371,837				1,785,475

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