ABSTRACT

This paper discusses the process, issues and challenges faced by the Department of Statistics, Malaysia (DOSM) in collecting data pertaining to financial services activities. There has been a notable demand for statistics on financial services activities in Malaysia from the Government as well as the private sector. Timely and relevant data are essential in monitoring the implementation of the Government policies and ensuring the economic and social stability of the country. Therefore, for DOSM to be able to provide the much needed data on financial services, the data collection methodology need to be further reviewed and improved. Among the areas of improvement are the industry scope and coverage; source of establishments frame; data collection methodology; and data analysis particularly in determining the values of gross output as well as the intermediate input of the financial services activities.
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II. Introduction

The contribution of financial services to the Gross Domestic Product (GDP) of the Malaysian economy had been growing over the past decade. For year 2015, Malaysia’s economy grew 5.0 per cent (2014: 6.0%) with value added stood at RM1,062.6 billion at constant prices and RM1,156.9 billion at current prices. Financial and insurance sub-sector contributes 12.2% to Malaysia Gross Domestic Product (GDP) in 2015 [1].

The Index of Services registered a growth of 4.8 per cent in the fourth quarter of 2015 as compared with the same quarter of 2014. This growth was contributed by the increase in all segments. The index of Finance, Real Estate and Professional segment edged up by 0.3 per cent as compared to the corresponding quarter of 2014. This increase was spurred by the growth in Professional, 8.6 per cent and Real Estate, 3.7 per cent sub-sectors. However, Finance & Insurance sub-sector registered a decrease of 1.6 per cent.

With the uncertainty of the economic situation and global financial crisis, there has been a notable demand for statistics on financial services activities in Malaysia from the Government as well as the private sector. Timely and relevant data are essential in monitoring the implementation of the Government policies and ensuring the economic and social stability of the country.

In December 2011, the Central Bank of Malaysia (Bank Negara Malaysia – BNM) released the Financial Sector Blueprint 2011 - 2020 [2] which charts the direction of Malaysia’s financial system towards becoming a high value-added, high income economy by year 2020. In realising the goals envisaged in the Blueprint, quality financial statistics is one of the key elements in ensuring the effectiveness of implementation of the framework outlined in the Blueprint, thus support Malaysia’s transition towards becoming a developed nation with a comprehensive, resilient and progressive financial system.

Another significant development in the financial services is the greater role and relevance of Islamic finance in contributing to global financial stability and in supporting overall global economic growth. The Islamic finance industry in Malaysia has undergone a rapid transformation in recent decades. The industry has grown to become one of the competitive components of the financial system in Malaysia and one of the drivers of growth and economic progress. The financial crisis that hit the world recently has opened up significant opportunities for Islamic finance sector
as one of the important alternative to the global financial crisis. Thus, the Eleventh Malaysia Plan \[3\] announced in October 2015, had given emphasis on development of modern services sector and one of the sub-sectors highlighted was Islamic Financial Services.

The importance of robust and secured financial services was also highlighted in the Economic Transformation Programme (ETP) \[4\], a comprehensive effort by the Government of Malaysia with the aim to transform Malaysia into a high-income nation by 2020.

With the current economic development, there has been increasing demand for comprehensive statistics on financial services to measure the growth of this sector. Therefore, for the Department of Statistics Malaysia (DOSM) to be able to provide the much needed data on financial services, the data collection methodology need to be further reviewed and improved.

III. The Collection of Financial Services Activities Statistics in Malaysia

A. Literature Review – Manuals and Guidelines for Financial Services Activities Statistics

a) Irena Asmundson, 2011 \[5\] defines financial service as a process of acquiring financial goods or in other words it involves the transaction required to obtain the financial good. The financial sector covers many different types of transactions in areas such as real estates, consumer finance, banking and insurance. It also covers a broad spectrum of investment funding, including securities.

b) Monetary and Financial Statistics Manual (MFSM) \[6\] suggests that financial statistics (or flow-of-funds statistics) extend the range of monetary statistics to include stock positions and flows of the assets and liabilities between all sectors of the economy and between the sectors of the economy and non-residents. The financial statistics are organised and presented in formats designed to show financial flows among the sectors of an economy and corresponding financial asset and liability stock positions. Sectoral balance sheets provide a significant portion of the data needed to compile financial statistics. Financial statistics are compiled and presented with varying degrees of detail depending on the availability of source data, analytical needs, and other considerations.
c) System of National Accounts (SNA) 2008 \[7\] explains that the production of financial services is the result of financial intermediation, financial risk management, liquidity transformation or auxiliary financial activities. Because the provision of financial services is typically subject to strict regulation, it is usually the case that units providing financial services do not produce other goods and services and financial services are not provided as secondary production. Financial services also include monitoring services, convenience services, liquidity provision, risk assumption, underwriting and trading services.

d) SNA 2008 also suggests that 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 financial corporations sector is composed of the following set of resident institutional units:

i. All resident financial corporations (as understood in the SNA and not just restricted to legally constituted corporations), regardless of the residence of their shareholders;

ii. The branches of non-resident enterprises that are engaged in financial activity on the economic territory on a long-term basis;

iii. All resident NPIs that are market producers of financial services.

e) Further explained in the SNA 2008 is that the financial corporations can be divided into three broad classes namely, financial intermediaries, financial auxiliaries and other financial corporations. Financial intermediaries are institutional units that incur liabilities on their own account for the purpose of acquiring financial assets by engaging in financial transactions on the market. They include insurance corporations and pension funds. Financial auxiliaries are institutional units principally engaged in serving financial markets, but do not take ownership of the financial assets and liabilities they handle. Other financial corporations are institutional units providing financial services, where most of their assets or liabilities are not available on open financial markets.

f) The measurement of output as well as input is part of calculating productivity and assessing performance of the economic sectors. There have been debates at the international level on how to measure
the value of gross output and intermediate inputs in determining total economic activity for the financial services activities.

g) Panayiotis P. Athanasoglou et, 2008 \[8\] describes that measuring the output of banks is the starting point of the empirical research on productivity measurement, as well as the estimation of cost and economies of scale and the study of the efficiency of banks. There are three alternative approaches to measuring bank output, based on the classical microeconomic theory:

i. the production approach;
ii. the intermediation approach; and
iii. the user-cost approach.

B. Sources of Data Collection and Compilation

a) The primary data sources for Malaysia’s financial services activities statistics are from the Economic Census and Annual Surveys of Services Establishments which are conducted under the provisions of Statistics Act 1965 (Revision 1989). Data collected are pertaining to ownership profile, value of assets, capital expenditure, income and expenditure, employment as well as salaries and wages paid of the registered establishments under the financial services activities. The data collected are used to chart the growth, identify the overall structure and determine the profile of the financial services activities in Malaysia based on variables which are derived from the questionnaires.

b) The Monetary and Financial Statistics: Compilation Guide \[9\] recommends that the source data for the monetary and financial statistics should be obtained, to the extent possible, from the accounting records of institutional units, as based on the accounting rules of the country in which the units have their centre of economic interest. Hence for Malaysia, in collecting data of financial services, two (2) types of census/ survey questionnaires were designed to suit the accounting record of financial establishments involved. The questionnaires were classified by a unique survey code for banking and insurance activities which include all activities under monetary intermediation and insurance/ takaful; and another survey code is for other financial services activities. Both questionnaires differ in terms of types of its income and expenditure.
c) Apart from primary data source, DOSM also compiled financial services statistics from other regulatory agencies such as BNM, the Ministry of Finance Malaysia and the Security Commissions (SC). The data are used as indicators and inputs to derive the Index of Services (IOS) and for the compilation of GDP.

C. Classification of Activities

a) In classifying data according to kind of economic activity, DOSM adopts the Malaysia Standard Industrial Classification (MSIC) [10] which conforms closely to the International Standard Industrial Classification of All Economic Activities (ISIC) Rev. 4 to ensure international comparability of data. The MSIC were extended up to 5-digits level based on national needs. The current classification for financial services activities are based on MSIC 2008 Ver.1.0 under Section K - Financial and Insurance/ Takaful Activities.

b) Malaysia financial services activities are classed in three main divisions namely financial intermediation, insurance and takaful (Islamic insurance); and activities auxiliary to financial intermediation. Currently, it contains 64 kinds of activities descriptions of financial services activities.

c) For a company or business to operate in Malaysia, it is a requirement to register the company or business with the Companies Commission of Malaysia (CCM), a statutory body which regulates companies and businesses registration. The registration procedure requires the identification of principal activities to be carried out by the companies or businesses based on the classification of MSIC. This has enables DOSM to classify establishments by the type of activity in which they are primarily engaged at the initial stage of classifications of activities. The same principal applies to financial services activities.

D. The List of Establishments for Financial Services Activities

a) An establishment frame is the foundation of every economic census or survey program. For DOSM, the list of establishments is updated regularly in Malaysia Statistical Business Register (MSBR), a comprehensive list of business and companies operating in Malaysia. The primary source in updating the establishments list in MSBR is the CCM.
b) However, financial services activities in Malaysia are under strict and tight regulations of specific regulatory bodies. BNM is the main statutory body in promoting Malaysia’s monetary and financial stability. Therefore, the list of registered financial intermediation establishments such as banks and insurance companies were obtained from the BNM while the list of licensed establishments dealing with capital market were obtained from SC, a statutory body entrusted with the responsibility of regulating and systematically developing the Malaysia’s capital markets.

c) Other agencies which act as regulatory bodies for financial services activities and provide the list of registered establishments to DOSM are Labuan Financial Services Authority (Labuan FSA) for the activities of offshore banks and insurance and takaful; Malaysia Co-operative Societies Commission for activities of co-operative with credit functions; and Ministry of Urban Wellbeing, Housing and Local Government for licensed money lending activities and pawnshop and pawnbrokers.

d) DOSM also carries out regular engagement with related business associations such as The Association of Bank in Malaysia, Association of Islamic Banking Institutions Malaysia, and Life Insurance Association of Malaysia etc.

E. Scope and Coverage in Censuses and Surveys

a) Financial services establishments covered in censuses and surveys conducted by DOSM includes all legally registered units engaged in financial intermediation activities in Malaysia, namely to obtain and distribute funds, in the form of deposits and regulated by BNM and other financial institutions. It also includes all units involved in insurance and pension funds as well as other activities in addition to financial intermediaries to support the financial services.

b) The collection of financial activities statistics by DOSM had started in 2001 for the reference year of 2000 through Malaysia first Economic Census. However the industry coverage was limited to activities of stock, share and bond brokers; commodity brokers and dealers; and foreign exchange service.

c) Full coverage of financial services activities were only taken into accounts during the implementation of Establishment and Enterprise
F. Measurement of value of gross output and intermediate input

a) The input and output of the financial services is not as specific as goods and products in other services subsector. To ensure the measurement of economic activities of Malaysia service’s sector are on a comparable basis, DOSM adopts the measurement of value of gross output and intermediate input concept as suggested in SNA 2008.

b) For financial intermediation services such as commercial banks, Islamic banks, offshore banks, investment banks the output includes FISIM income and free-based income as follows:

![Formula]

\[ \text{Output} = \text{FISIM on loans} + \text{FISIM on deposits} \]
\[ = (r_L - r_r)Y_L + (r_r - r_d)Y_d \]

where,
\[ Y_L = \text{Total loans} \]
\[ Y_d = \text{Total deposits} \]
\[ r_L = \text{Interest rate on loans} \]
\[ r_d = \text{Interest rate on deposits} \]
\[ r_r = \text{Reference rate} \]

c) The measurement of value of gross output for insurance/ takaful services includes the following elements:

![Formula]

\[ \text{Premium income} \]
\[ + \text{Investment income (premiums supplement)} \]
\[ - \text{Claims paid} \]
d) While for other financial services activities such as activities of holding companies, administration of financial markets, fund management activities etc. the value of gross output are from:

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<th>Formula</th>
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<tr>
<td>Income from services rendered</td>
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<tr>
<td>+ Management services</td>
</tr>
<tr>
<td>+ Commission and brokerage earned</td>
</tr>
<tr>
<td>+ Fees earned from membership</td>
</tr>
<tr>
<td>+ Rental income received except land rental</td>
</tr>
<tr>
<td>+ Other operating income</td>
</tr>
<tr>
<td>+ Service tax and services charges</td>
</tr>
<tr>
<td>+ Closing stocks</td>
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<td>- Opening stocks</td>
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e) The measurement of intermediate inputs which applies to all financial services activities includes:

<table>
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<tr>
<td>Purchase of goods, materials and services</td>
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<tr>
<td>+ Insurance premiums</td>
</tr>
<tr>
<td>+ Royalty and patent fees</td>
</tr>
<tr>
<td>+ Bank charges</td>
</tr>
<tr>
<td>+ Purchase of electricity and water</td>
</tr>
<tr>
<td>+ Purchase of fuels, lubricants and gas</td>
</tr>
<tr>
<td>+ Research and development expenditure</td>
</tr>
<tr>
<td>+ Environmental compliance expenditure</td>
</tr>
<tr>
<td>+ Other operating expenditure</td>
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There are challenges faced by DOSM in compiling data of financial services activities. Therefore, improvements have to be made to ensure that the data collections of financial services statistics are reflective to the current economic situation. Among the areas that need to be looked into are:

i. **Updating the list of financial services establishments**
Updating an establishment frame is a very challenging task. Updating the list of establishments involved in financial activities and identifying the missed class of establishment’s activity in MSBR requires great effort. This includes classification of grey areas activities such as the distinction between financial holding company and non-financial holding company under financial services sub-category.

ii. **Well-designed questionnaire**
Continuous improvement on the questionnaires design that are able to reflect the accounting report of the financial corporations that operates in Malaysia is a necessary. On 1st April, 2015, the Government of Malaysia had imposed the Goods and Services Tax (GST).

Even though in general the financial services is an exempted supply or not subjected to GST, there are taxable supplies of goods and services offered by the establishments which are subject to 6% standard-rated supplies. Questions related to this new policy have to be taken into consideration in designing the questionnaires.

Another aspect which needs to be considered is the accurate usage of Islamic financial products and services terminology in the questionnaire. Few examples of eminent Islamic financial terminologies which are internationally accepted are takaful which refers to Islamic insurance and sukuk which refers to Islamic bonds. The consistencies of terminology of products and services offered by Islamic and conventional financial is necessary in order to ensure that all related variables are properly recorded.

iii. **Determining the measurement of the value of gross output and intermediate input**
For the upcoming economic census, new variables will be collected such as in-house and outsourced expenditure on research and
development; payment to other establishment for providing workers; and GST on net purchased that are not claimable as input tax. Hence, the measurement of value of gross output and intermediate input which relate to these new variables need to be carefully determined to ensure the reliability of the data collected.

iv. **New emerging areas of modern services subsectors**
The financial services activities are dynamic and there are always new emerging modern services areas being offered in the market.

IV. **Conclusion**

Continuous effort to enhance DOSM capability in collecting the financial services activities statistics in Malaysia is essential. DOSM is conducting its fourth Economic Census in 2016 for the reference year of 2015 with full coverage for financial services activities. The census will be the best platform for DOSM to make improvement in the identified areas so as to ensure the statistics are of quality. The improvements which include:

i. Collaborative efforts between DOSM and the regulatory agencies which provide the establishment frames in ensuring the MSBR are up to date. DOSM had signed Memorandum of Understanding with the agencies that has been identified as the source of establishments frame.

ii. For grey area industries, it is necessary to further explore and identify the most obvious and unique characteristics of each industry in order to have a clear boundary of the industries involved. DOSM is updating the MSIC 2008 Ver.1.0 where some of the grey areas are put into highlights for improvements. The updating of MSIC is vital to reflect significant changes in the structure of the Malaysia economy and the emergence of new activities as well as to align with changes in the international standard.

iii. To enhance understanding on measurement of the value of gross output and intermediate input which best suits Malaysia’s financial services environment. This will enable comparability of the Malaysia’s financial services productivity with other countries.
iv. To explore new areas of financial services i.e. Islamic finance, start up business in order for DOSM to able to meet the demands for statistics on new emerging areas.

V. References


[5] Irena Asmundson IMF’s Strategy, Policy, and Review Department

What Are Financial Services? March 2011,


[10] Department of Statistics Malaysia, Malaysia Standard Industrial Classification (MSIC) 2008 Ver.1.0, Putrajaya, 2009