

Australia's Outward Finance and Insurance Foreign Affiliates Trade in Services, 2009-10

A new survey commissioned by DFAT shows the importance of Australia's finance and insurance foreign affiliates. In 2009-10, Australia had 1,245 finance and insurance foreign affiliates operating in 70 countries around the world. Australia's investment in these affiliates was worth \$71.1 billion. Total economic value of Financial, insurance & pension services provided by these affiliates was valued at \$38.9 billion. These affiliates earned \$6.5 billion profit during the year – a good result given the economic backdrop of the Global Financial Crisis. The survey clearly shows that for Australian business to trade in Financial, insurance & pensions with the world it is necessary (in most cases), for the business to create a commercial presence in the host economy.

Overview

Australia's economic interaction with the world as captured in the Australian Bureau of Statistics (ABS) Balance of Payments (BOP) statistics, measures Australia's trade flows (exports and imports), income earned and paid and associated financial flows with the rest of the world. The BOP does not, however, cover all aspects of Australian business overseas.

Australia is a significant direct investor abroad, with equity investment (in all industries) of \$306.4 billion invested in affiliated companies around the world at the end of June 2010¹. Trade by Australia's foreign affiliates abroad (commercial presence) is not explicitly included in ABS BOP and associated national accounts statistics, as it is considered to be part of the non-resident economy². However, trade by Australian foreign affiliates in its own right is important in terms of understanding Australia's overall global links with the world economy, in particular for services trade and for trade negotiations. Unlike goods exports, it is often necessary for the Australian service provider to establish a presence in the host economy to deliver the service. A one-off *Survey of Australian Outward Foreign Affiliates Trade* conducted by the ABS in 2002-03 found that the majority of Australian services (65 per cent) were delivered by a commercial presence in the host country³.

The World Trade Organization (WTO) General Agreement on Trade in Services (GATS) identifies four "modes of supply" for determining a country's delivery of services to the world to facilitate classification and analysis of barriers to services trade. This is a wider definition of international services trade than used in ABS and other countries' BOP statistics and includes sales and purchases by Australia's foreign affiliates.

To help address this data gap in current trade in services statistics the Department of Foreign Affairs and Trade (DFAT) commissioned the ABS to conduct a new survey of outward foreign affiliates trade in services for the reference period 2009-10. The survey covered the finance and insurance sector only, a sector identified in the previous survey as being one of the key sectors for Australia's outwards foreign affiliates trade in services.

ABS Survey of Outward Finance and Insurance Foreign Affiliates Trade in Services

The ABS *Survey of Outward Finance and Insurance Foreign Affiliates Trade in Services* was sent to all Australian enterprise groups who were thought to have foreign affiliates that traded primarily in finance and/or insurance. Thirty enterprises were in scope with results being published by the ABS on 27 June 2011 in the publication *Australian Outward Finance and Insurance Foreign Affiliate Trade, 2009-10* (catalogue 5485.0). All the major Australian financial and insurance companies with affiliates overseas completed the survey.

The survey only included finance and insurance affiliates where Australia had a majority ownership (over 50 per cent) unless ownership restrictions in the host economy prevent the Australian head office from acquiring a 50 per cent stake in the affiliate. In these cases finance and insurance affiliates with less than 50 per cent Australian ownership were also included in the survey.

¹ Direct investment includes all investment where the investor owns 10% or more of the total equity capital.

² Only the income earned by the foreign affiliate (profit or loss) and the investment flows and stocks are recorded in Australia's BOP and National Accounts Statistics.

³ DFAT's *Trade in Services, Australia, 2003-04* – feature article *Australia's Outwards Foreign Affiliates Trade, 2002-03*. A copy of the article is available at the DFAT website http://www.dfat.gov.au/publications/stats-pubs/trade_statistical_articles.html.

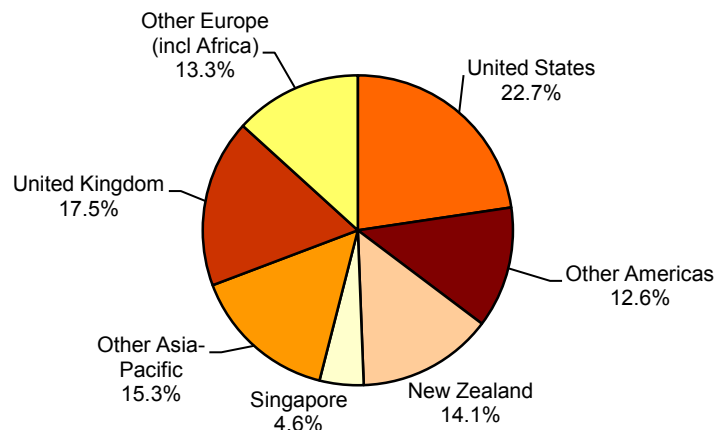
The ABS used the perturbation methodology (amongst other techniques) to confidentialise the survey output (a technique already adopted for ABS trade in services statistics) to maximise the release of data items from the survey⁴.

Key characteristics of Australia's finance and insurance foreign affiliates, 2009-10

The survey found that 30 Australian enterprise groups had 1,245 finance and insurance foreign affiliates in 2009-10 (refer to **Table 1** in **Annex A**). Of the 1,245 finance and insurance affiliates the majority, 1,201, were from an Australian owned Australian enterprise group while only 44 were from a foreign owned Australian enterprise group. There were 429 *Finance* foreign affiliates, 297 *Insurance & superannuation funds* foreign affiliates and 519 *Auxiliary finance & insurance services* foreign affiliates (industries which support the delivery of finance and insurance services such as nominees, trustees, brokers, consultants, superannuation fund management or other finance or insurance services not classified elsewhere).

Australian finance and insurance foreign affiliates were located in 70 countries around the world (refer to **Table 2** in **Annex A**). Australia had 439 affiliates located in the Americas, 423 affiliates in the Asia-Pacific region and 383 affiliates in Europe (including Africa). The largest number of affiliates were located in the United States (282), the United Kingdom (218) and New Zealand (176) (**Chart 1**).

Chart 1 – Number of affiliates by major country and by region



Based on ABS catalogue 5485.0.

Total Australian equity invested in these finance and insurance foreign affiliates was worth \$71.1 billion in 2009-10. Of this \$52.9 billion was invested in the *Finance* industry, \$12.9 billion in *Insurance & superannuation funds* industry and \$5.3 billion invested in the *Auxiliary finance and insurance services* industry.

Australian finance and insurance foreign affiliates employed 75,919 employees. Of these 31,503 were managerial and professional employees (or 41.5 per cent of total employment). The affiliates paid employees wages and salaries worth \$6.7 billion in 2009-10, with managerial and professional employees being paid \$3.9 billion (or 58.9 per cent of total wages and salaries).

Total value of *Financial, insurance & pension services* provided by Australian finance and insurance foreign affiliates was \$38.9 billion in 2009-10, which included explicit fees and charges on the sale of services valued at \$28.1 billion and implicit service charges valued at \$10.7 billion (**Chart 2**). Implicit service charges – or Financial Intermediation Services Indirectly Measured (FISIM) – are payments for financial services not achieved by direct sales but by the margin between interest rates applied to depositors and borrowers (see **Box A** for more information). In this article the sum of explicit and implicit charges is referred to as the 'total economic value' of the service.

The total economic value of *Financial, insurance & pension services* received by Australian finance and insurance foreign affiliates was valued at \$22.9 billion, with reported purchases valued at \$19.6 billion and payments for financial services not directly charged (or FISIM) valued at \$3.3 billion.

⁴ For more information on the perturbation methodology please refer to the article *Changes to ABS trade in services statistics in 2009* at the DFAT website http://www.dfat.gov.au/publications/stats-pubs/trade_statistical_articles.html.

The Australian finance and foreign affiliates also purchased \$1.7 billion of other services during 2009-10 and sold other services valued at \$733 million. The survey did collect information on the sales and purchases of goods by these affiliates but this was not published in the survey results as it was not significant in value.

Australian finance and insurance foreign affiliates made profits valued at \$6.5 billion in 2009-10. The *Finance* industry earned \$4.7 billion, the *Insurance & superannuation funds* industry earned \$1.5 billion and the *Auxiliary finance and insurance services* industry earned \$253 million.

Box A - Financial Intermediation Services Indirectly Measured

Financial corporations charge interest rates to borrowers that are higher than the rates they offer to depositors. These interest rate margins can be viewed as including both a pure interest margin and an indirect charge for the financial services of the corporation that are not covered by their direct fees and charges.

In trade in services statistics, this indirect charge is called Financial Intermediation Services Indirectly Measured (FISIM). It is estimated by the application of a 'reference rate' of interest. The 'reference rate' of interest represents the pure cost of borrowing funds and should represent the risk-free rate that includes no service element. The 'reference rate' used by compilers of trade in services statistics is usually the interbank lending rate. The difference between the reference rate and the actual interest rate charged is attributed to FISIM. The rate of FISIM may vary over time due to a range of factors, including the accessibility of funds.

FISIM on loans from financial corporations is calculated as the difference between the income derived from the interest rate charged on the loan and the income that would be derived if the reference rate only was charged.

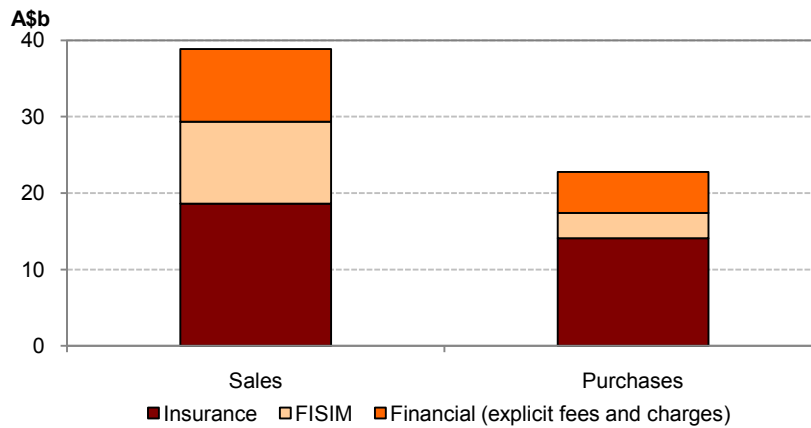
For example, if an Australian bank lends a non-resident \$1,000 at an interest rate of 7 per cent per annum, total interest earned by the Bank for the year would be \$70. If the 'reference' rate is calculated at 5 per cent, pure interest receivable would be \$50, while FISIM (or indirect charges for the credit service) would be \$20.

Loan		\$1,000
Interest rate p.a. on loans	7%	\$70
Reference rate of interest p.a.	5%	\$50
FISIM (or indirect charge for the loan)	2%	\$20

FISIM on deposits with financial corporations is calculated as the difference between the income that would be derived if the reference rate was applied and the income on the interest rate actually earned.

For more information on how FISIM is calculated in ABS trade in services statistics please refer to Chapter 12 of the information paper: *Implementation of new international statistical standards in ABS National and International Accounts, September 2009* (catalogue 5310.0.55.002) at the ABS website www.abs.gov.au or the UN [Manual of the Statistics of International Trade in Services 2010](#).

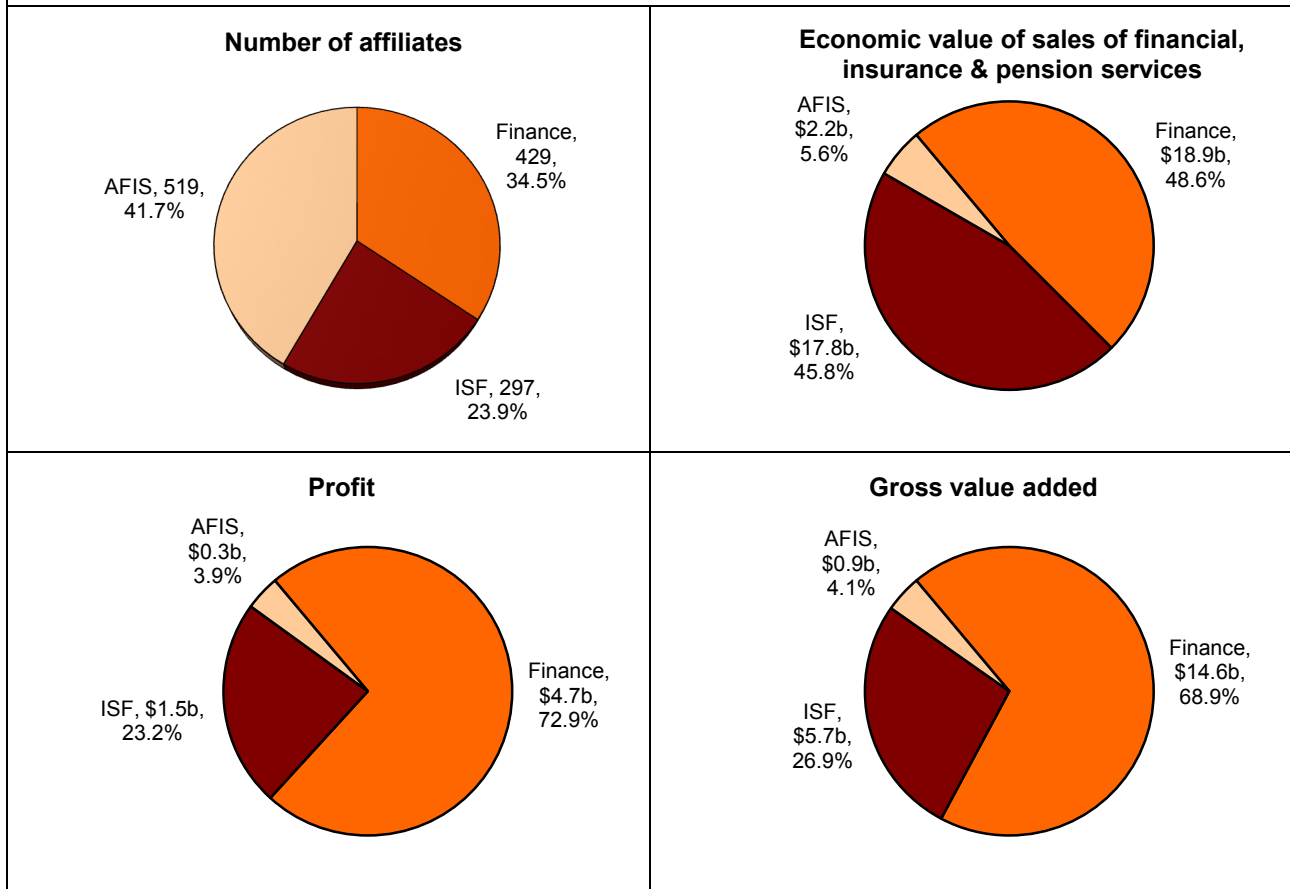
Chart 2 – Total economic value of sales/purchases of financial & insurance services by explicit charges and FISIM



Based on ABS catalogue 5485.0.

The gross value added (GVA)⁵ by Australian finance and foreign affiliates was \$21.2 billion in 2009-10. By industry, GVA was \$14.6 billion for the *Finance* industry, \$5.7 billion for the *Insurance & superannuation funds* industry and \$878 million for the *Auxiliary finance and insurance services* industry (**Chart 3**).

Chart 3 – Australia’s finance and insurance foreign affiliates, selected indicators by industry, 2009-10



ISF–Insurance & superannuation funds; **AFIS**–Auxiliary finance & insurance services.

Based on ABS catalogue 5485.0.

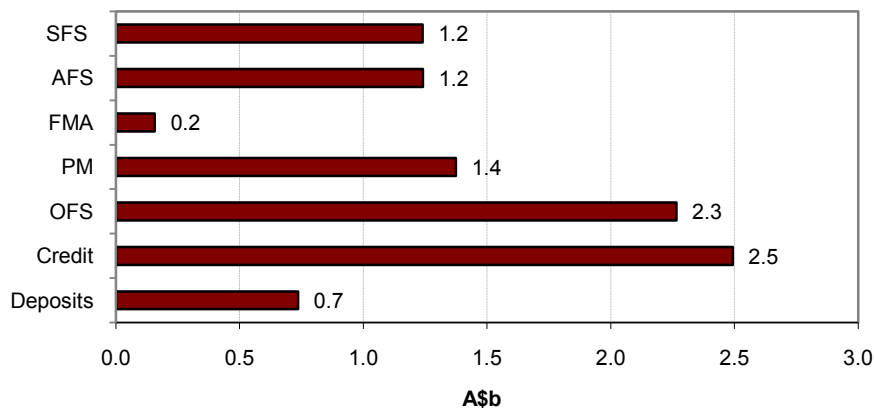
⁵ Gross value added (GVA) is used to describe the gross product by the industry. GVA is the value of output at basic prices minus the intermediate consumption at purchasers' prices. FISIM has been included in the calculation of GVA.

Sales of financial insurance & pension services by Australian affiliates

The total economic value of sales of *Financial, insurance & pension services* by Australia's finance and insurance foreign affiliates was \$38.9 billion in 2009-10. Sales in the host economy (local sales) were valued at \$35.1 billion (or 90 per cent of total sales) while sales to other countries (non-residents) including sales back to Australia were valued at \$3.8 billion (refer to **Table 3** in **Annex A**).

Sales of *Financial services* were valued at \$20.2 billion in 2009-10, with explicit fees and charges valued at \$9.5 billion and FISIM valued at \$10.7 billion. The major types of explicit financial services (refer to **Table 4** in **Annex A**) were *Credit granting services* valued at \$2.5 billion and *Portfolio management services* valued at \$1.4 billion (**Chart 4**). The major markets for sales of explicit financial services were New Zealand valued at \$3.4 billion, the United Kingdom valued at \$1.4 billion, the United States valued at \$1.0 billion and Hong Kong (SAR of China) valued at \$847 million.

Chart 4 – Sales of financial services (excl FISIM) by Australian foreign affiliates by type of service, 2009-10

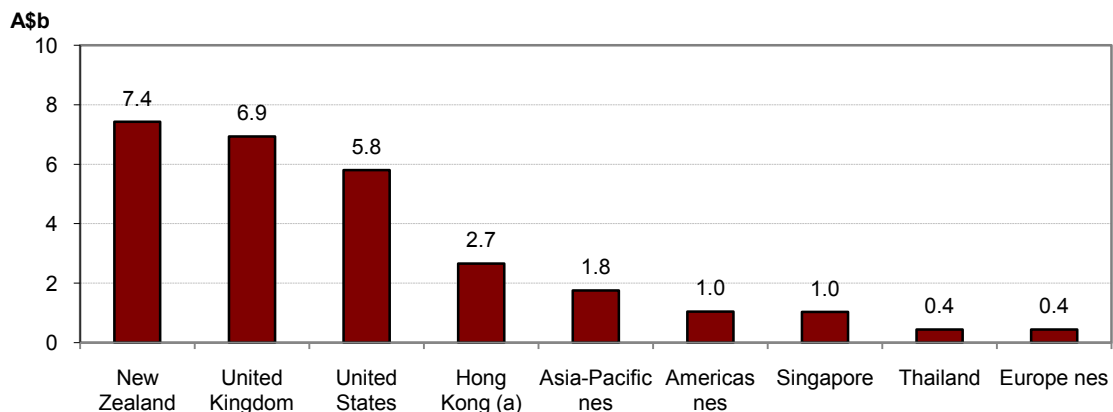


OFS—Other financial services ; **PM**—Portfolio management; **FMA**—Financial market administration; **AFS**—Other auxiliary financial services; **SFS**- Selected financial services—includes Services relating to investment banking; Brokerage; Trust & custody services; Services auxiliary to insurance and pensions; and Services of holding financial assets.

Based on ABS catalogue 5485.0.

Sales of *Insurance & pension services* were valued at \$18.6 billion in 2009-10. The ABS indicated that *Insurance services* comprised nearly 100 per cent of this value. The major markets for sales of *Insurance & pension services* by these affiliates were the United Kingdom valued at \$5.5 billion, the United States valued at \$4.8 billion and New Zealand valued at \$4.0 billion.

Chart 5 – Sales of financial, insurance & pensions services (excl FISIM) by major market, 2009-10



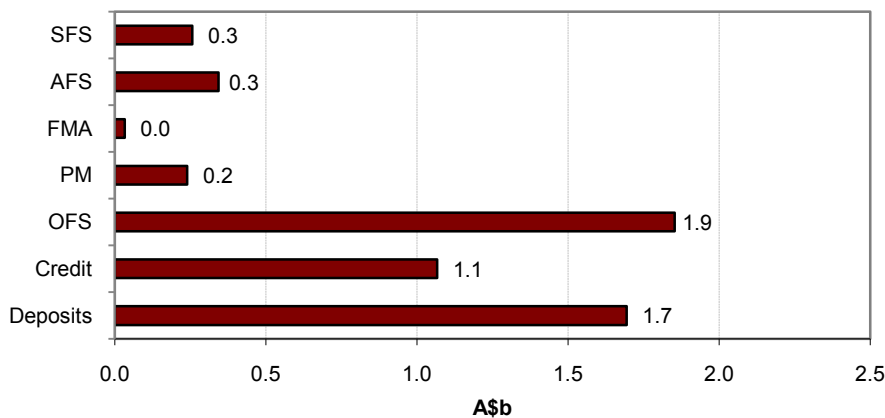
Based on ABS catalogue 5485.0. (a) SAR of China.

Purchases of financial insurance & pension services by Australian affiliates

The total economic value of purchases of *Financial, insurance & pension services* by Australia's finance and insurance foreign affiliates was \$22.9 billion in 2009-10. Purchases in the host economy (local sales) were valued at \$20.3 billion (or 88.7 per cent of total purchases) while purchases from other countries (non-residents) including from Australia were valued at \$2.6 billion (refer to **Table 5** in **Annex A**).

Purchases of *Financial services* were valued at \$8.8 billion in 2009-10, with explicit fees and charges valued at \$5.5 billion and FISIM valued at \$3.3 billion. The major types of explicit financial services purchased (refer to **Table 6** in **Annex A**) were *Deposit services* valued at \$1.7 billion and *Credit granting services* valued at \$1.1 billion (**Chart 6**). The major sources for purchases of explicit financial services (were New Zealand valued at \$2.8 billion, the United Kingdom valued at \$707 million and the United States valued at \$514 million.

Chart 6 – Purchases of financial services (excl FISIM) by Australian foreign affiliates by type of service, 2009-10

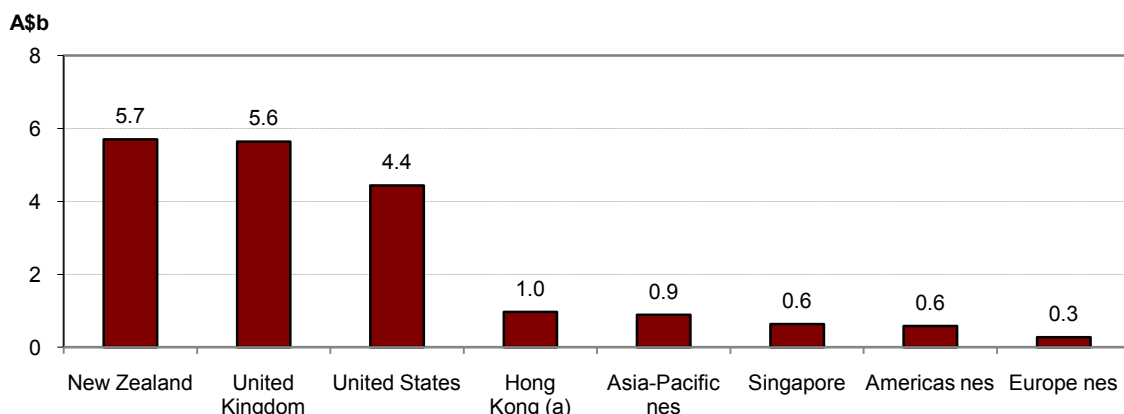


OFS—Other financial services; **PM**—Portfolio management; **FMA**—Financial market administration; **AFS**—Other auxiliary financial services; **SFS**- Selected financial services—includes Services relating to investment banking; Brokerage; Trust & custody services; Services auxiliary to insurance and pensions; and Services of holding financial assets.

Based on ABS catalogue 5485.0.

Purchases of *Insurance & pension services* were valued at \$14.1 billion in 2009-10. As with sales, the ABS indicated that purchases of *Insurance services* comprised nearly 100 per cent of this value. The major sources for purchases of *Insurance & pension services* were the United Kingdom valued at \$4.9 billion, the United States valued at \$3.9 billion and New Zealand valued at \$2.9 billion.

Chart 7 – Purchases of financial, insurance & pensions services (excl FISIM) by major source, 2009-10



Based on ABS catalogue 5485.0. (a) SAR of China.

Australia's provision of financial insurance & pension services by WTO GATS modes of supply

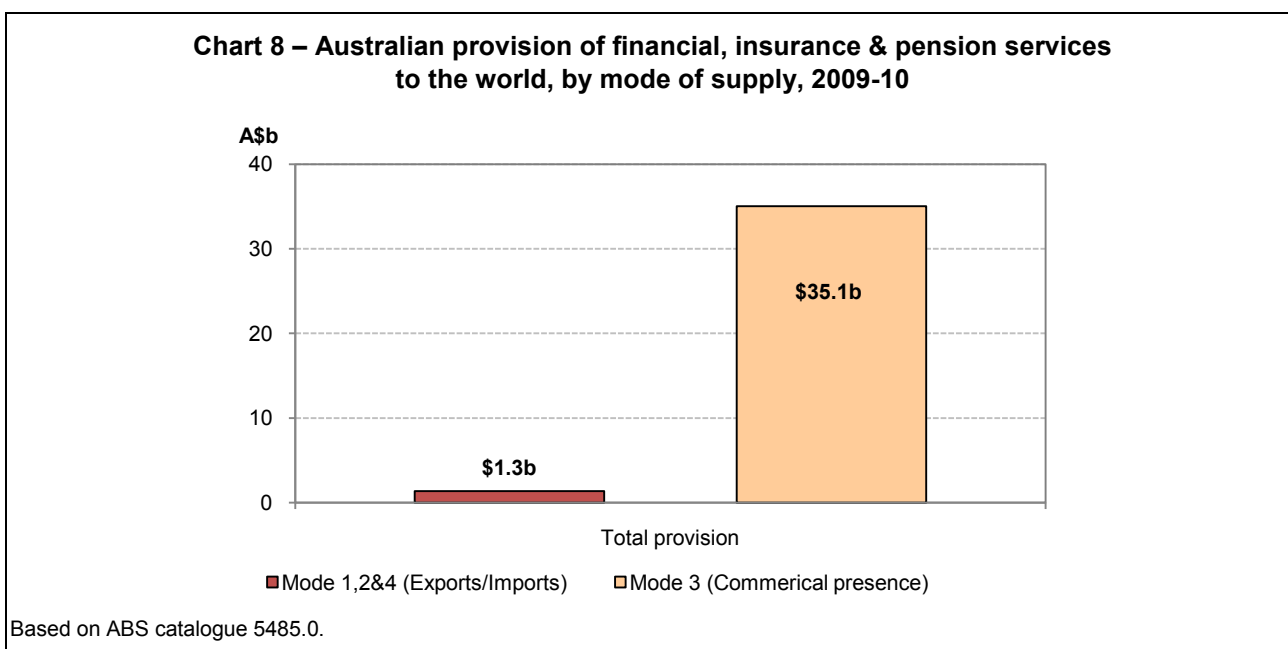
The WTO General Agreement for Trade in Services (GATS) identifies four “modes of supply” (including trade by foreign affiliates) for determining a country's delivery of services to the world to facilitate classification and analysis of barriers to services trade. The modes of supply framework was developed by the WTO as barriers to services trade typically arise as regulatory barriers within the host economy and not as traditional tariff barriers as for merchandise goods. These modes of supply have been adopted by the United Nations (UN) in their international statistical frameworks for services and globalisation statistics. The standards are set out in the UN publication *Manual of International Trade in Services, 2010*.

The four modes of service supply are defined as:

- *Mode 1 – Cross border supply* – occurs when a service is delivered from a supplier in their country of residence to a consumer in another country, without either supplier or consumer moving into the country of the other.
- *Mode 2 – Consumption abroad* – occurs when consumers resident in their country move outside their home territory and consume services in another country, such as tourist activities.
- *Mode 3 – Commercial presence* (i.e. foreign affiliates trade) – occurs when a commercial presence abroad is established as a result of direct investment in the host country (i.e. a foreign affiliate is established) to supply services to consumers in their country of residence (i.e. local sales only)⁶.
- *Mode 4 – Presence of natural persons* – occurs when an individual has moved into the territory of the consumer to provide a service without becoming a resident of that country.

Modes 1, 2 and 4 are recorded as exports and imports in balance of payments and national accounts statistics, Mode 3 services are not. Refer to **Annex B** for a full definition of the WTO GATS modes of supply.

Table 7 (in **Annex A**) shows Australia's provision and purchases of *Finance, insurance & pension services* by WTO GATS modes of supply with the world. It shows that GATS Mode 3 (local sales) was the dominant mode of supply by which Australian businesses provided and purchased these services with the world in 2009-10. Trade delivered via Mode 3 accounted for 96 per cent of total sales of *Financial, insurance & pensions* valued at \$35.1 billion (**Chart 8**). This clearly shows that for Australian business to trade in *Financial, insurance & pensions* with the world it is necessary (in most cases), for the business to create a commercial presence in the host economy.



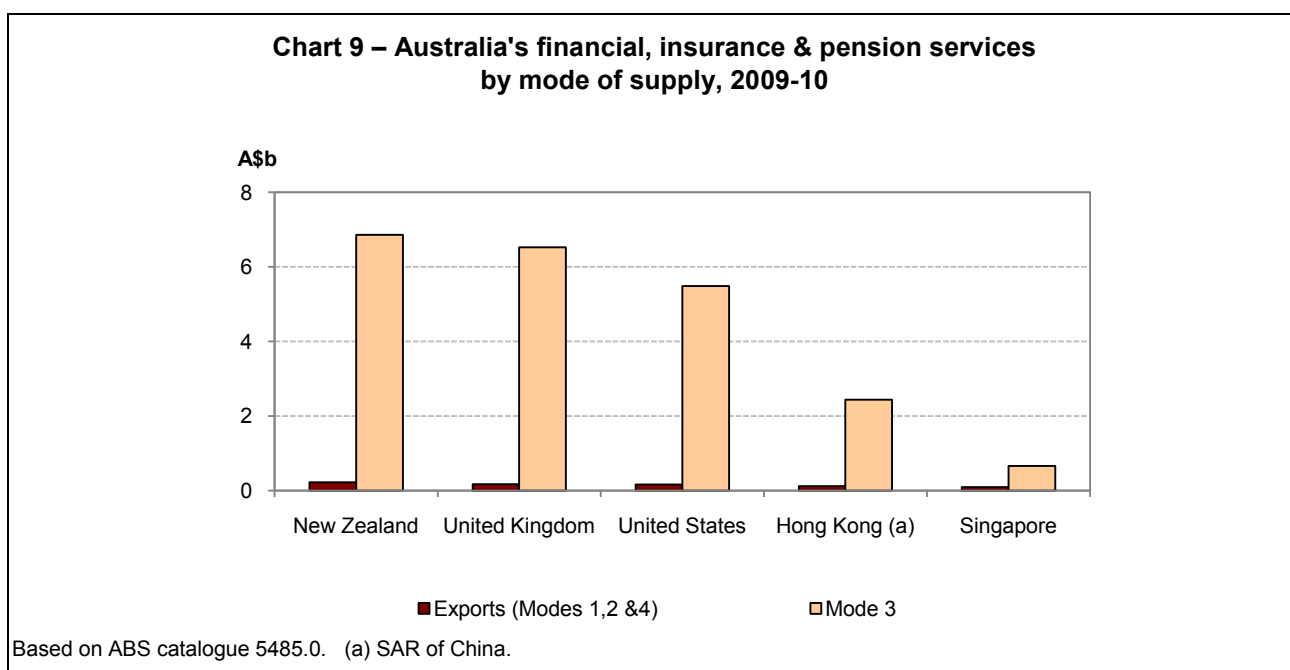
⁶ Exports and imports of Australian foreign affiliates to another country are not included as they would be picked up in the trade account of that country's balance of payments statistics.

Trade via Modes 1, 2 & 4 (Australia's exports) of *Finance, insurance & pension services* accounted for only 5 per cent of total provision with the world. Exports were valued at just \$1.3 billion in 2009-10.

Please note that a trade balance in Australian *Financial, insurance & pension services* with the world (provision of services minus purchases of services) by all GATS modes of supply cannot be calculated from this data. To calculate a balance it would be necessary to also collect data on Australia's inwards foreign affiliates trade in Australia in the finance and insurance sector.

Tables 8 (in **Annex A**) shows Australia's total provision of services by GATS modes of supply by country. It should be noted that the ABS was unable to split FISIM for GATS Mode 3 by country, however FISIM is split by country for GATS Modes 1, 2 & 4. As a result caution needs to be used in comparing the GATS modes of supply country data.

By all GATS modes of supply New Zealand was Australia's largest market for the provision of *Financial, insurance & pension services* (**Chart 9**) valued at \$7.1 billion in 2009-10, followed by the United Kingdom (\$6.7 billion), the United States (\$5.6 billion) and Hong Kong, SAR of China (\$2.6 billion).



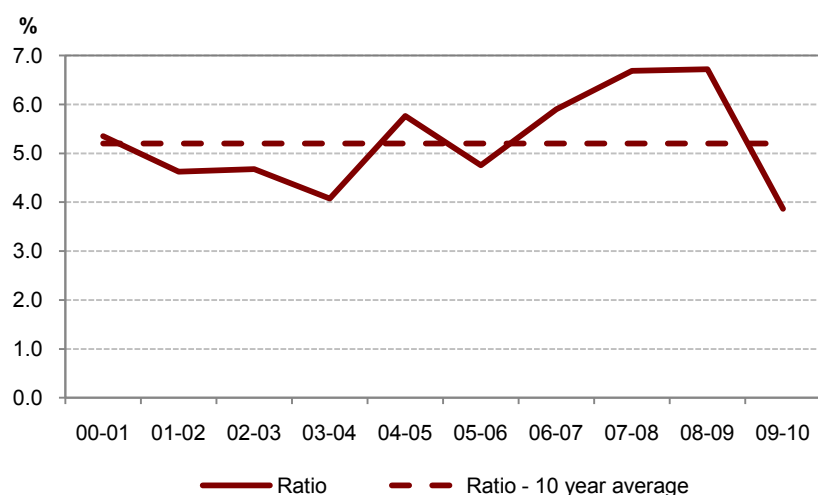
Profit of Australia's finance and insurance foreign affiliates

Australian finance and insurance foreign affiliates earned total profit (before tax) of \$6.5 billion in 2009-10. Profit (after tax) attributed to Australian equity in the affiliates was \$4.8 billion.

The Global Financial Crisis (GFC) would be expected to have had a negative impact on the level of profits of Australia's finance and insurance affiliates abroad in 2009-10. The rate of return on \$4.8 billion profit (after tax) attributed to Australia over Australian equity investment (\$71.1 billion) was 6.6 per cent (refer to **Table 9** in **Annex A**). However without time series data it is not possible to analyse the extent of the impact of the GFC in terms of just Australia's finance and insurance foreign affiliates.

Time series data however is available for total Australian direct investment abroad (income and stock). The finance and insurance industry accounts for around 30 per cent of Australian total direct investment stock so this data can be used as a broad indicator of the impact on the rate of return on investment for this industry. This data shows that the ratio of income earned on the stock of Australian direct investment equity abroad (for all industries) for 2009-10 was 3.9 per cent which was well below the ten year average (2000-01 to 2009-10) of 5.2 per cent (**Chart 10**), and indicates that the GFC would have had a negative impact on the level of profits of Australia's finance and insurance foreign affiliates during 2009-10.

Chart 10 – Ratio of income earned on Australian direct equity investment abroad as a proportion of investment stock



Based on ABS catalogue 5302.0.

The impact of the GFC on the profits of Australia's finance and insurance foreign affiliates in different regions can be observed from the survey data. Total profits (before tax) by Australia's finance and insurance affiliates in the Americas were just \$99 million on equity level of \$12.5 billion. The rate of return on Australian equity (after tax) valued at \$12.0 billion in these affiliates was negative 0.1 per cent. For the affiliates in Europe (including Africa) total profit earned was \$1.1 billion in 2009-10 with a rate of return on Australian equity of 2.6 per cent. In comparison with the affiliates in the Americas and Europe, Australia's affiliates in the Asia-Pacific region earned profits of \$5.3 billion at a rate of return on Australian equity of 13.1 per cent.

This indicates that the GFC had a major impact on the activity of Australia's affiliates in the Americas and Europe region in terms of sales, purchases and generated profit while the Asia-Pacific region seemed to have escaped the worst impacts of the GFC.

Comparison between 2002-03 and 2009-10 survey

It is possible to compare a number of compatible data items between the ABS *Survey of Australia Outwards Foreign Affiliates Trade* for 2002-03 and the ABS *Survey of Outward Finance and Insurance Foreign Affiliates Trade in Services* for 2009-10. However, as annual time series data has not been collected comparisons between the two surveys need to be viewed in the light of the prevailing economic conditions at the time.

The World Gross Domestic Product (GDP) table below clearly shows that the advanced economies experienced quite different real GDP growth rates between 2002 and 2003 compared with 2009 and 2010. The advanced economies recorded positive growth of just under 2 per cent for both 2002 and 2003 while for 2009 they recorded negative growth of 3.4 per cent with growth recovering to 3.0 per cent in 2010. For the newly industrialised Asian economies a similar pattern was experienced, though the decline in GDP in 2009 was much smaller (only 0.8 per cent) while the recovery in 2010 was much stronger (8.4 per cent). However for the emerging Asian economies growth was broadly similar over both periods though at significantly higher levels than the advanced economies.

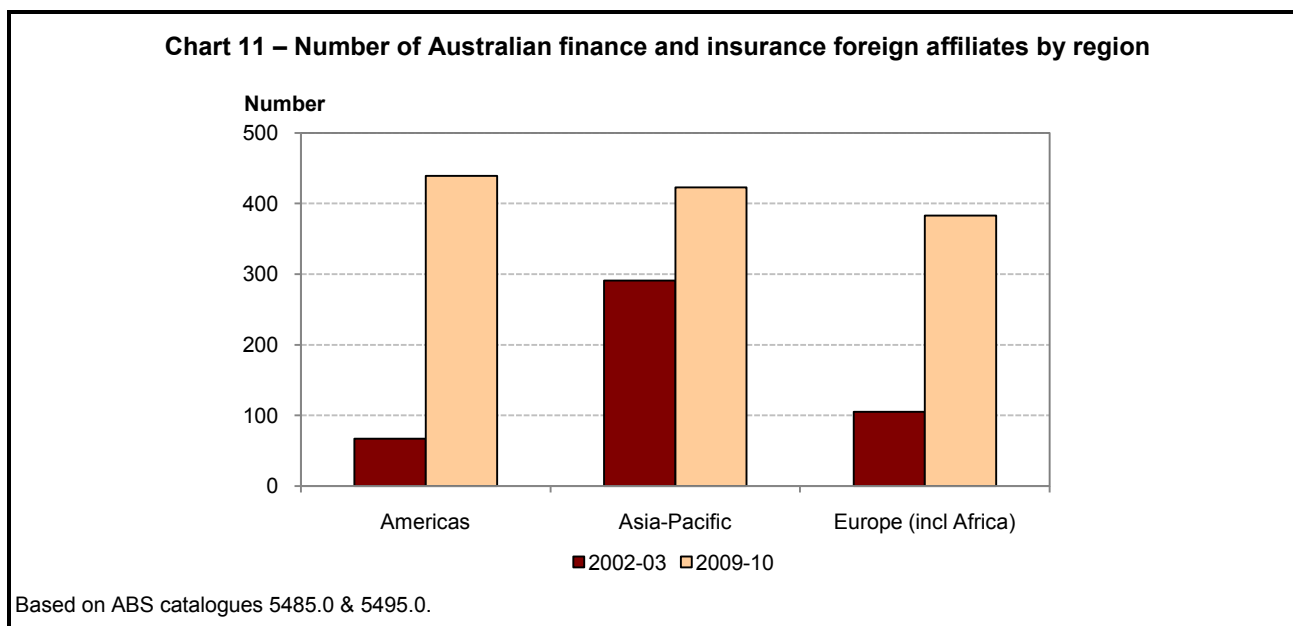
The economic downturn brought on by the GFC would therefore be expected to have a downwards impact on the volume of sales and purchases of *Financial, insurance & pension services* by Australian affiliates for 2009-10 compared with 2002-03. As noted in the profits section above, the downturn was more severe in North America, Europe and New Zealand, while the impact on Singapore and the emerging Asian economies was less significant.

Table 10 (in **Annex A**) shows a comparison of a number of indicators between the 2002-03 and 2009-10 surveys for Australia's finance and insurance foreign affiliates.

Growth in World Real Gross Domestic Product				
	2002	2003	2009	2010
	%	%	%	%
World	2.9	3.6	-0.5	5.0
Advanced economies	1.7	1.9	-3.4	3.0
Major advanced economies (G7)	1.3	1.8	-3.7	2.8
Japan	0.3	1.4	-6.3	3.9
United Kingdom	2.1	2.8	-4.9	1.3
United States	1.8	2.5	-2.6	2.8
Newly industrialized Asian economies	5.8	3.2	-0.8	8.4
Hong Kong (SAR of China)	1.8	3.0	-2.7	6.8
Republic of Korea	7.2	2.8	0.2	6.1
Singapore	4.2	4.6	-0.8	14.5
Australia	4.0	3.3	1.3	2.7
New Zealand	4.9	4.2	-2.1	1.5
Developing Asia	6.9	8.1	7.2	9.5
China	9.1	10.0	9.2	10.3
India	4.6	6.9	6.8	10.4

Source: International Monetary Fund, World Economic Outlook Database, April 2011.

The number of Australian finance and insurance foreign affiliates (**Chart 11**) has increased from 463 in 2002-03 to 1,245 in 2009-10, a growth of 782 affiliates or 168.9 per cent. This suggests that in volume terms Australia's network of finance and insurance affiliates has increased strongly over this period. Growth was strongest in the Americas with the number of affiliates increasing 372 (or 555.2 per cent) to 439 affiliates, followed by Europe (including Africa) with the number of affiliates increasing by 278 (or 264.8 per cent) to 383. The Asia-Pacific region had the slowest growth with the number of affiliates increasing by 132 (or 45.4 per cent) to 423 in 2009-10.

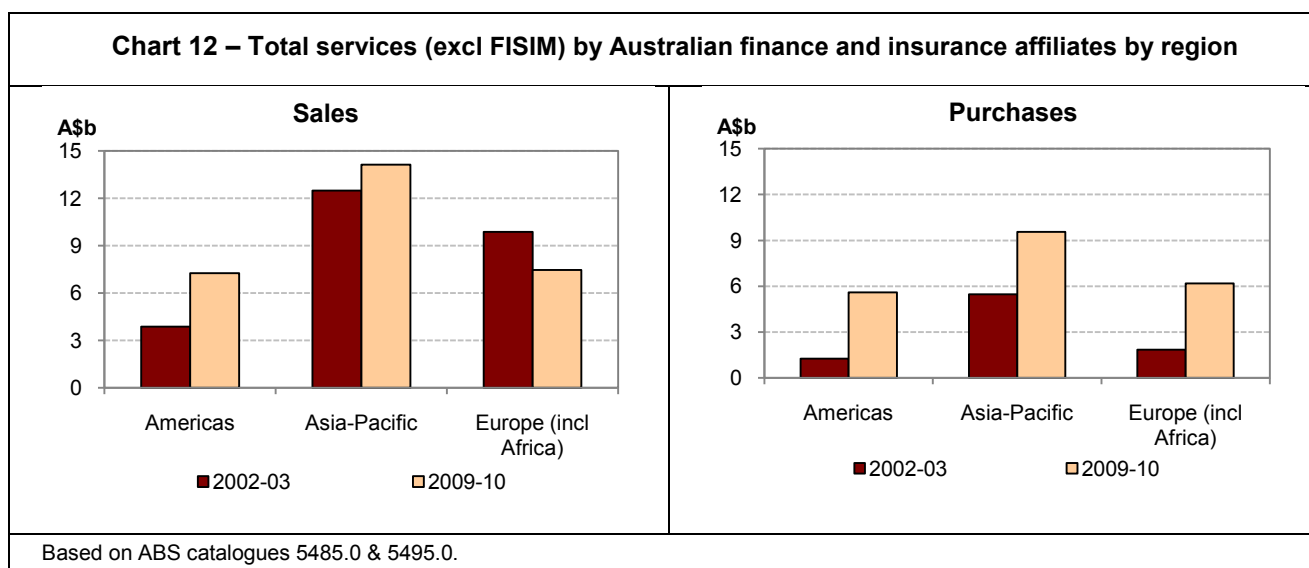


Total employment by Australian finance and insurance foreign affiliates rose from 51,407 to 75,919 between 2002-03 and 2009-10, with wages and salaries rising from \$3.0 billion to \$6.7 billion.

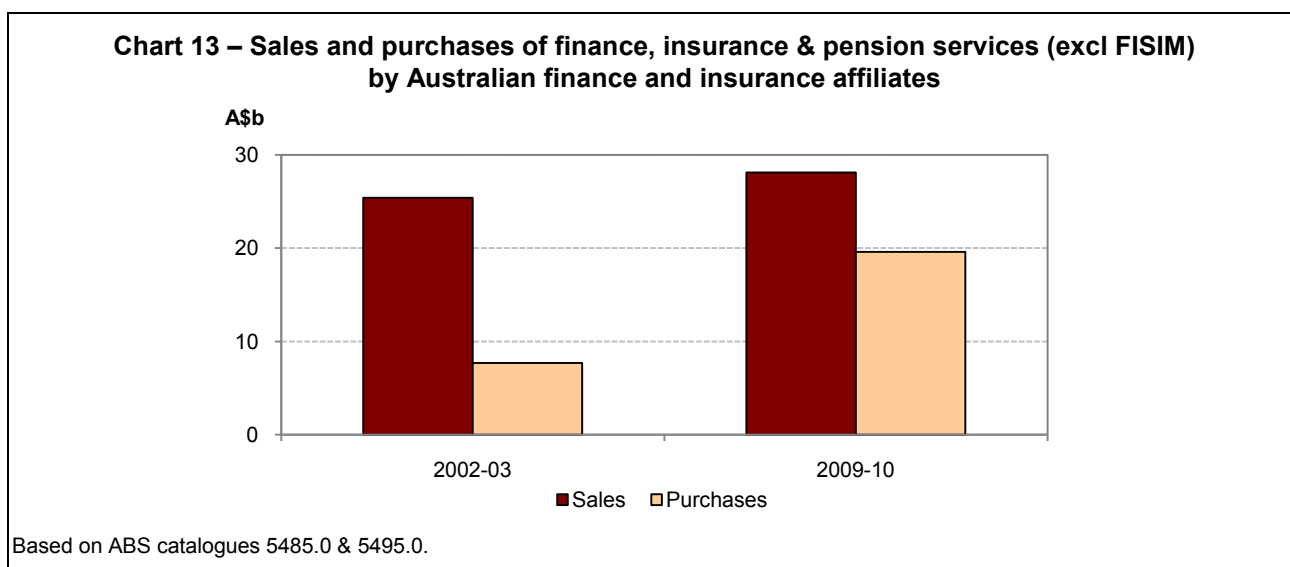
It terms of total *Services* (all types of services but excluding FISIM⁷), sales by Australia's finance and insurance foreign affiliates increased \$2.8 billion or 10.9 per cent to \$28.9 billion between 2002-03 to 2009-10. Purchases of *Services* by these affiliates increased \$12.7 billion or 148.9 per cent to \$21.3 billion over the same period.

The significant difference in the growth rates between sales and purchases needs to be viewed with some caution. The ABS advised that the survey methodology used in the 2002-03 study resulted in significant imputation for purchases based on company annual reports. It is possible that the purchases of services in the 2002-03 survey may have been under estimated.

By region (**Chart 12**), sales of total *Services* grew the strongest for the Americas between 2002-03 and 2009-10, up \$3.4 billion (or 87.2 per cent) followed by the Asia-Pacific up \$1.6 billion (or 13.1 per cent). Sales to Europe (including Africa) fell \$2.4 billion (or 24.4 per cent). Purchases of *Services* from the Americas rose \$4.3 billion (or 349.4 per cent), from Asia-Pacific \$4.1 billion (or 74.4 per cent) and from Europe (including Africa) \$4.3 billion (or 235.0 per cent).



Sales of *Finance, insurance & pension services* (excluding FISIM) by Australia's finance and insurance foreign affiliates increased \$2.7 billion to \$28.1 billion between 2002-03 and 2009-10 while purchases increased \$11.9 billion to \$19.6 billion (see caution note above) (**Chart 13**). In both years, sales of *Finance, insurance & pension services* accounted for nearly 100 per cent of all *Services* sales, while purchases of *Finance, insurance & pension services* accounted for around 90 per cent of total *Services* purchases.



⁷ FISIM is excluded as it was not included in the 2002-03 survey.

Conclusion

This survey has highlighted the importance of measuring services delivered by Australian foreign affiliates. This is especially the case for the delivery of Australian *Financial, insurance & pension services* where over 95 per cent of these services are delivered by Australia's foreign affiliates. This survey will assist businesses to better understand how Australian firms are engaging internationally in the finance and insurance sector. It will also assist trade policy and trade negotiators to better understand the way Australian *Financial, insurance & pension services* are delivered to the world.

It will be invaluable for trade policy and negotiators to have an update of the survey in the near future, only with time series data will users be able to fully analyse the performance of Australia's finance and insurance services sector's interaction with the world.

For more information on the ABS *Survey of Outward Finance and Insurance Foreign Affiliates Trade in Services* please refer to the ABS publication *Australian Outwards Finance and Insurance Foreign Affiliates Trade, 2009-10* (catalogue 5485.0) on the [ABS website](#).

Author: Frank Bingham
Trade Competitiveness & Advocacy Branch
statssection@dfat.gov.au

This article (originally published in DFAT's publication *Trade in Services Australia, 2010*) has been revised to incorporate technical comments from the World Trade Organisation (29 August 2011)

Annex A

Table 1 – Summary characteristics of Australia's finance & insurance foreign affiliates abroad, 2009-10 by industry

	Unit	By industry			
		Total	Finance	Insurance & superannuation funds	Auxiliary financial & insurance services
Number of Australian enterprise groups	no.	30	np	np	np
Number of foreign affiliates	no.	1,245	429	297	519
Value of Australian equity in the affiliate	\$m	71,093	52,908	12,864	5,321
Employment by affiliates	no.	75,919	53,034	18,494	4,391
Wages and salaries of affiliates	\$m	6,668	4,083	1,712	873
Total economic value of sales of financial, insurance & pension services	\$m	38,871	18,893	17,818	2,159
Sales of financial, insurance & pension (a)	\$m	28,128	8,150	17,818	2,159
FISIM (b)	\$m	10,743	10,743	0	0
Total economic value of purchases of financial, insurance & pension services	\$m	22,897	8,598	13,524	775
Purchases of financial, insurance & pension (a)	\$m	19,591	5,292	13,524	775
FISIM (b)	\$m	3,306	3,306	0	0
Sales of other services	\$m	733	551	46	136
Purchases of other services	\$m	1,718	1,106	115	497
Profit of affiliates	\$m	6,465	4,712	1,500	253
Gross value added	\$m	21,168	14,628	5,662	878

(a) Sales/purchases of financial services where explicit services were charged.

(b) Financial Intermediation Services Indirectly Measured.

Based on ABS catalogue 5485.0.

Table 2 – Selected characteristics of Australia's finance & insurance foreign affiliates abroad, 2009-10 by country

	Number of foreign affiliates	Value of Australian equity in the affiliates	Employment of foreign affiliates	Sales of financial, insurance & pension services (a)	Purchases of financial, insurance & pension services (a)	Gross value added (b)
	no.	\$m	no.	\$m	\$m	\$m
Americas	439	11,997	9,590	6,846	5,013	3,769
United States	282	7,317	8,061	5,800	4,432	3,935
Americas nes	157	4,680	1,529	1,046	581	-166
Asia-Pacific	423	30,447	51,513	13,911	8,662	14,086
China	14	199	752	114	21	83
Hong Kong (SAR of China)	45	5,455	3,901	2,654	966	2,211
Indonesia	9	435	3,285	311	183	266
Japan	29	105	286	177	75	75
New Zealand	176	21,164	30,961	7,424	5,695	9,128
Singapore	57	586	2,732	1,035	632	420
Thailand	8	132	1,575	442	199	260
Other Asia-Pacific nes	85	2,371	8,021	1,754	891	1,643
Europe (incl Africa)	383	28,650	14,816	7,370	5,917	3,314
United Kingdom	218	17,692	13,708	6,935	5,637	3,082
Europe (incl Africa) nes	165	10,958	1,108	435	280	232

(a) Excludes Financial Intermediation Services Indirectly Measured (FISIM).

(b) Includes Financial Intermediation Services Indirectly Measured (FISIM).

America nes - largest contributors were Bermuda, Canada, Cayman Islands & Mexico.

Other Asia-Pacific nes - largest contributors were India & Republic of Korea.

Europe (incl Africa) nes - largest contributors were Germany, Ireland, Luxembourg, Mauritius & South Africa.

Based on ABS catalogue 5485.0.

**Table 3 – Sales of financial, insurance & pension services
by Australia's finance & insurance foreign affiliates**

	Local resident \$m	Non-resident \$m	Total \$m
Explicit Financial Services			
China	48	6	54
Hong Kong (SAR of China)	636	211	847
Indonesia	128	2	130
Japan	132	6	137
New Zealand	3,254	139	3,394
Singapore	356	341	697
Thailand	22	3	25
United Kingdom	1,104	336	1,440
United States	744	261	1,005
Other	1,730	44	1,775
Total explicit financial services	8,156	1,348	9,505
Financial Intermediation Services Indirectly Measured (FISIM)	9,175	1,568	10,743
Insurance & Pension Services			
China	40	20	60
Hong Kong (SAR of China)	1,802	5	1,807
Indonesia	178	2	180
Japan	30	10	40
New Zealand	3,608	422	4,030
Singapore	302	36	338
Thailand	412	5	417
United Kingdom	5,424	71	5,496
United States	4,744	50	4,794
Other	1,181	279	1,461
Total insurance & pension services	17,722	900	18,622
Total (excluding FISIM)	25,878	2,248	28,128
Total (including FISIM)	35,053	3,816	38,871

Local sales - Sales in the host economy only (Mode 3).

Non-resident sales - Sales to third party countries only (including Australia).

Based on ABS catalogue 5485.0.

**Table 4 – Sales of financial services
by Australia's finance & insurance foreign affiliates by type of service**

	Local resident \$m	Non-resident \$m	Total \$m
Financial services			
Deposit services	619	117	736
Credit granting services	2,264	229	2,493
Other financial services	1,663	602	2,265
Portfolio management services	1,329	45	1,374
Services relating to financial marketing administration	108	49	157
Other services auxiliary to financial services	1,114	126	1,241
Selected financial services (a)	1,059	180	1,239
Total explicit financial services	8,156	1,348	9,505
Financial Intermediation Services Indirectly Measured (FISIM)	9,175	1,568	10,743
Total (including FISIM)	17,331	2,916	20,248

Local sales - Sales in the host economy only (Mode 3)

Non-resident sales - Sales to third party countries only (including Australia)

(a) Includes the following: i) Services related to investment banking; ii) Brokerage, related securities and commodities services; iii) Trust and custody services; iv) Services auxiliary to insurance and pensions; v) Services of holding financial assets.

Based on ABS catalogue 5485.0.

Table 5 – Purchases of financial, insurance & pension services by Australia's finance and insurance foreign affiliates

	Local resident \$m	Non-resident \$m	Total \$m
Explicit Financial Services			
China	7	3	10
Hong Kong (SAR of China)	169	73	242
Indonesia	55	5	60
Japan	62	6	68
New Zealand	2,756	85	2,841
Singapore	191	209	400
Thailand	4	2	6
United Kingdom	371	335	707
United States	476	38	514
Other	632	9	641
Total explicit financial services	4,724	765	5,489
Financial Intermediation Services Indirectly Measured (FISIM)	2,411	895	3,306
Insurance & pension services			
China	8	3	11
Hong Kong (SAR of China)	684	40	724
Indonesia	120	3	123
Japan	5	2	7
New Zealand	2,413	441	2,854
Singapore	196	36	232
Thailand	175	18	193
United Kingdom	4,870	60	4,930
United States	3,819	100	3,919
Other	881	230	1,110
Total insurance & pension services	13,170	933	14,102
Total (excluding FISIM)	17,894	1,698	19,591
Total (including FISIM)	20,305	2,593	22,897

Local purchases - Purchases in the host economy only (Mode 3).

Non-resident purchases - Purchases from third party countries only (including Australia).

Based on ABS catalogue 5485.0.

Table 6 – Purchases of financial services by Australia's finance and insurance foreign affiliates by type of service

	Local resident \$m	Non-resident \$m	Total \$m
Financial services			
Deposit services	1,484	210	1,694
Credit granting services	1,061	6	1,067
Other financial services	1,403	450	1,853
Portfolio management services	234	6	240
Services relating to financial marketing administration	31	2	33
Other services auxiliary to financial services	294	50	344
Selected financial services (a)	216	41	257
Total explicit financial services	4,723	765	5,488
Financial Intermediation Services Indirectly Measured (FISIM)	2,411	895	3,306
Total (including FISIM)	7,134	1,660	8,794

Local purchases - Purchases in the host economy only (Mode 3).

Non-resident purchases - Purchases from third party countries only (including Australia).

(a) Includes the following: i) Services related to investment banking; ii) Brokerage, related securities and commodities services; iii) Trust and custody services; iv) Services auxiliary to insurance and pensions; v) Services of holding financial assets.

Based on ABS catalogue 5485.0.

Table 7 – Australia's provision and purchases of financial, insurance & pension services with the world by WTO GATS modes of supply, 2009-10

	Exports Mode 1,2 & 4 \$m	Commercial presence Mode 3 \$m	Total provision All modes \$m	Share Mode 3 %
Australian provision of financial insurance & pension services to the world				
Financial	1,043	17,331	18,374	94.3
Explicit fees & charges	335	8,156	8,491	96.1
FISIM	708	9,175	9,883	92.8
Insurance & pension	293	17,722	18,015	98.4
Total (excluding FISIM)	628	25,878	26,506	97.6
Total (including FISIM)	1,336	35,053	36,389	96.3
	Imports Mode 1,2 & 4 \$m	Commercial presence Mode 3 \$m	Total provision All modes \$m	Share Mode 3 %
Australian purchases of financial insurance & pension services from the world				
Financial	656	n.a	n.a	n.a
Explicit fees & charges	356	n.a	n.a	n.a
FISIM	300	n.a	n.a	n.a
Insurance & pension	458	n.a	n.a	n.a
Total (excluding FISIM)	814	n.a	n.a	n.a
Total (including FISIM)	1,114	n.a	n.a	n.a

n.a - not available

FISIM - Financial Intermediation Services Indirectly Measured.

Based on ABS catalogues 5302.0 & 5485.0.

**Table 8 – Australia's provision of financial, insurance & pension services
by WTO GATS modes of supply, 2009-10
by services type and country**

	Exports (a) Mode 1,2 & 4 \$m	Commercial presence (b) Mode 3 \$m	Total provision All modes \$m	Share Mode 3 %
Finance services				
China	14	48	62	77.4
Hong Kong (SAR of China)	112	636	748	85.0
Indonesia	5	128	133	96.2
Japan	23	132	155	85.2
New Zealand	76	3,254	3,330	97.7
Singapore	92	356	448	79.5
Thailand	1	22	23	95.7
United Kingdom	159	1,104	1,263	87.4
United States	151	744	895	83.1
Other	410	1,730	2,137	81.0
FISIM		9,175	9,175	..
Insurance & pension services				
China	26	40	66	60.6
Hong Kong (SAR of China)	2	1,802	1,804	99.9
Indonesia	3	178	181	98.3
Japan	21	30	51	58.8
New Zealand	149	3,608	3,757	96.0
Singapore	4	302	306	98.7
Thailand	3	412	415	99.3
United Kingdom	8	5,424	5,432	99.9
United States	7	4,744	4,751	99.9
Other	71	1,181	1,252	94.3
Total financial, insurance & pension services				
China	40	88	128	68.8
Hong Kong (SAR of China)	114	2,438	2,552	95.5
Indonesia	8	306	314	97.5
Japan	44	162	206	78.6
New Zealand	225	6,862	7,087	96.8
Singapore	96	658	754	87.3
Thailand	4	434	438	99.1
United Kingdom	167	6,528	6,695	97.5
United States	158	5,488	5,646	97.2
Other	481	2,911	3,389	85.9
FISIM		9,175	9,175	..

(a) Exports by country includes FISIM.

(b) Commercial presence by country excludes FISIM.

FISIM - Financial Intermediation Services Indirectly Measured.

Based on ABS catalogue 5485.0.

Table 9 – Profit of Australia's finance & insurance foreign affiliates

	Total equity in the affiliates \$m	Value of Australian equity in the affiliates \$m	Total profit or loss (a) \$m	Percentage attributed to Australia (b) %	Ratio of Aust. attributed profit on Aust. Equity (c) %
Total	73,531	71,093	6,465	75.0	6.6
By industry					
Finance	53,325	52,908	4,712	76.0	6.7
Insurance & superannuation funds	14,783	12,864	1,500	65.0	6.6
Auxiliary financial & insurance services	5,423	5,321	253	105.0	4.9
By country					
China	199	199	1
Hong Kong (SAR of China)	5,455	5,455	722	95.0	12.6
Indonesia	480	435	60	87.0	10.9
Japan	107	105	13	-17.0	-2.1
New Zealand	21,290	21,164	3,701	74.0	12.9
Singapore	597	586	149	74.0	18.5
Thailand	166	132	44	68.0	18.0
United Kingdom	19,086	17,692	551	61.0	1.8
United States	7,774	7,317	20
Other	18,380	18,008	1,205	78.0	5.1
By region					
Americas	12,474	11,997	99	-16.0	-0.1
Asia-Pacific	30,697	30,447	5,308	76.0	13.1
Europe (incl Africa)	30,361	28,650	1,058	74.0	2.6

(a) Before tax.

(b) After tax.

(c) Ratio of Australian attributed profit on Australian equity equals *Total profit/loss* multiplied by *Percentage attributed to Australia* divided by *Value of Australian equity*.

Based on ABS catalogue 5485.0.

Table 10 – Comparison of Australia's financial & insurance foreign affiliates abroad – 2002-03 & 2009-10

	Unit	2002-03	2009-10	Growth Value	%
Number of financial and insurance affiliates	no.	463	1,245	782	168.9
Americas	no.	67	439	372	555.2
Asia-Pacific	no.	291	423	132	45.4
Europe (incl Africa)	no.	105	383	278	264.8
Services traded by the affiliates (a) (b)					
Total sales	\$m	26,017	28,861	2,844	10.9
Americas(c)	\$m	3,879	7,261	3,382	87.2
Asia-Pacific (c)	\$m	12,490	14,129	1,639	13.1
Europe (incl Africa)	\$m	9,880	7,470	-2,410	-24.4
Total purchases	\$m	8,562	21,309	12,747	148.9
Americas	\$m	1,243	5,586	4,343	349.4
Asia-Pacific	\$m	5,477	9,553	4,076	74.4
Europe (incl Africa)	\$m	1,842	6,171	4,329	235.0
Financial, insurance & pension services by the affiliates (a) (b)					
Total sales	\$m	25,398	28,128	2,730	10.7
Total purchases	\$m	7,680	19,591	11,911	155.1
Employment	no.	51,407	75,919	24,512	47.7
Wages and salaries	\$m	3,028	6,668	3,640	120.2

(a) Excludes Financial Intermediation Services Indirectly Measured (FISIM).

(b) Excludes pension services for 2002-03 only.

(c) Also includes sales of goods for the America's & Asia-Pacific valued at \$232 million for 2002-03 only.

Based on ABS catalogues 5302.0, 5485.0 & 5495.0.

Annex B

Defining services trade

Services trade has routinely been defined within a Balance of Payments (BOP) framework and covered only transactions in services between residents and non-residents. Services trade, when defined in this way, can be broken down by the type of activity to include *Transport, Travel, Construction, Insurance, Financial, Telecommunication, computer and information, Charges for intellectual property, Business, personal, cultural and recreational, and Government* services. The ABS reports services trade on this basis as part of its BOP statistics. In practice, services trade defined in this way can involve some transactions in goods (for example, where an international visitor purchases goods in the country to which he or she travels).

Wider definitions encompassing international services trade are also in use and are being reflected increasingly in analyses of international delivery of services. The framework, used in the World Trade Organization (WTO) General Agreement on Trade in Services (GATS) thus identifies, for negotiating purposes, four modes of supply through which services can be traded. These are:

Mode 1 – cross-border supply.

Services are delivered from the territory of one Member into the territory of another Member. The service supplier and consumer generally do not meet. For example: a consultant located in country A provides advice to a client in country B by email, fax or phone.

Mode 2 – consumption abroad.

Services are delivered in the territory of one Member to the consumer of any other Member. It is the consumer who travels abroad to consume the service. For example, nationals of country A travel abroad as tourists, students or patients to consume services overseas.

Mode 3 – commercial presence.

Services are delivered by a service supplier of one Member, through commercial presence in the territory of another Member. For example, an insurance company in country A establishes a branch or office in country B.

Mode 4 – presence of natural persons.

Services are delivered by the movement of a service supplier as a natural person from the territory of one Member into the territory of any other Member. In this mode, it is the individual service supplier who travels abroad to deliver the service. Mode 4 covers only temporary entry and stay of service providers.

Mode 4 is general understood as covering:

- *Self-employed person* who enters the territory of another member to supply the services (for example legal advice is delivered to foreign consumers by a self employed lawyer).
- *Contractual services supplied by employees* where the employee of the service providers are sent to another members territory in context of the contract (for example a computer services provided by a company in country A to a unrelated company in country B by an employee of the company in country A in the territory of country B).
- *Intra-corporate transferees and foreign employees directly recruited by foreign established companies*: the service supplier has a commercial presence in another member's territory and either sends an employee to this affiliate or directly recruits foreign employees.
- *Service sellers* who enter the host country to establish contractual relationships for a service contract of for setting up a commercial presence.

Modes 1 and 2, and parts of mode 4, are captured as services exports and imports in BOP statistics. Mode 3, however, is not recorded in this way. However, profits from affiliates operating abroad are recorded in the income account of the BOP.

This framework has now been set out in the *United National Manual on Statistics of International Trade in Services, 2010* (<http://unstats.un.org/unsd/tradeserv/msitsintro.htm>). A number of statistical agencies, including the ABS, are increasingly seeking to identify and measure transactions arising from commercial presence abroad, as well as other transactions within the GATS framework.