
Banks' overseas earnings from financial services

The Bank has recently completed an inquiry of some 500 banks to establish the amount of their overseas earnings from fee and commission income, and from foreign exchange dealing in 1986; the last such inquiry was in respect of 1983. This information is used for balance of payments purposes, forming part of invisible earnings in the current account. The banks were asked to report receipts net of payments, covering net profit/loss from foreign exchange dealing, fees in respect of new issues of securities, fees in respect of portfolio management and security transactions, and miscellaneous earnings covering such items as commitment fees on euronote facilities, commission and fees on credit and bill transactions, income arising from futures and options trading and bank charges. The Bank is grateful for the co-operation and help received from the banks.

The results of the inquiry compared with the same categories of earnings reported in 1983 are as follows:

<i>£ millions</i>	<u>1983</u>	<u>1986</u>
Foreign exchange	252	438
New issue fees	49	101
Portfolio management fees	72	129
Miscellaneous earnings	<u>353</u>	<u>540</u>
	726	1,208

Between the two inquiries, the Bank had estimated these earnings for balance of payments purposes on the basis of turnover in the types of business that generated the income. This method had produced substantially higher figures than those now reported, particularly in the fees related to new issues of securities and portfolio management. In part this may have resulted from underestimation of the extent to which margins have been squeezed in the build-up to, and aftermath of, 'Big Bang'. Another, possibly more important, reason is that greater specialisation has led many banks to hive off their securities business to non-bank subsidiaries, which this inquiry was not designed to cover. It is likely, therefore, that substantial overseas earnings of a type that were captured by the 1983 inquiry were not included in the 1986 one because the earnings are now being received by non-bank businesses. Thus, although the estimates of invisible earnings attributed to banks in the balance of payments are being revised downwards, it is not yet clear to what extent this should be offset in institutional categories that were not covered by the inquiry. The Bank, in conjunction with the DTI, is presently seeking to establish a reporting system for security dealers that should capture, *inter alia*, much of this missing business. The Bank is also discussing with the banks the possibility of more frequent reporting of their invisible earnings in order to reduce dependence on unreliable projections.