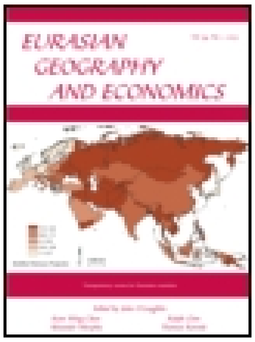

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The economics of financial services in emerging markets: measuring the output of the banking and insurance industriess

by Bhagiarath Prakash Baria, London and New York, Routledge Banking, Money and International Finance Series, 2023, 340 pp., £90.00/$135.00 (hardback), ISBN 978 1 78990 493 2; £25.00/$40.00 (ebook), e-ISBN 978 1 78990 494 9

Ria Kusumaningrum

BOOK REVIEW

The economics of financial services in emerging markets: measuring the output of the banking and insurance industries, by Bhagiarath Prakash Baria, London and New York, Routledge Banking, Money and International Finance Series, 2023, 340 pp., £90.00/$135.00 (hardback), ISBN 978 1 78990 493 2; £25.00/$40.00 (ebook), e-ISBN 978 1 78990 494 9

In service industry performance analysis, output measurement is still up for controversy, particularly in the banking and insurance sectors. Thus, this book offers a fresh viewpoint on the problem of gauging the productivity of the banking and insurance industries. This book, which has 11 chapters, provides a thorough analysis of current ideas on banking and insurance output measurement in four sections: (1) Evidence review (theoretical and empirical issues); (2) expert opinion and contribution; (3) empirical case studies; and (4) extended notes and final remarks. Researchers and policymakers should start with *The Economics of Financial Services in Emerging Markets: Measuring the Output of the Banking and Insurance Industries* if they want to understand various conceptualizations, measurements, and evidence regarding the size of banking and insurance outputs as well as concepts for potential future developments. This book provides a good summary of the concepts, metrics, and factors affecting the size of banking and insurance products from both the global and emerging market perspectives.

The book's focus is inconsistent, according to the editor, because it incorporates a lot of concepts from banking and insurance output assessment. However, this is the book's fundamental strength since it makes it possible for disparate and contradictory ideas/concepts to coexist, which helps the reader to comprehend these conflicts fully. This book gives the reader both a critical grasp of and a balanced awareness of the challenges surrounding the measuring of banking and insurance outputs. Readers can then propose a suitable strategy for themselves by comparing and contrasting the major points of agreement and disagreement in the body of existing literature on output measurement.

The first part, which consists of 4 chapters, reviews the literature widely using both an ad hoc and systematic methodology, with the ad hoc method relying more on the researcher's personal interpretation. The research on output measurement in banking and insurance performance analysis is summarized in Chapter 2, and Baria delves deeper into it in Chapters 3 and 4. When taking into account the formal literature evaluation, a sizable volume of literature has been evaluated on output measurement in banking and insurance performance analysis. Empirical sensitivity testing of performance estimates is done for different output measures in the literature on banking output measurement.

The sensitivity of performance estimates to different output measures hasn't been explored in depth by insurance performance analysis, though. Nevertheless, the insurance literature has analyzed a lot of output. Production, intermediation, asset, value-added, user cost, and index numbers techniques are examples of output specification methodologies that have been discussed in the banking literature. The production approach, intermediation approach, and value-added approach are also used in the insurance literature in addition to the national income approach.

The essential points, approaches, and difficulties in assessing banking and insurance output are outlined in the leitmotif of this first part, which provides a summary of the substantial literature. Loan output, deposit output, asset output, income, off-balance-sheet output, Financial Intermediation Services Indirectly Measured (FISIM) output, national income accounts, and banking output are some of the output measures that are frequently employed in the literature on banking. Life versus general insurance output, premium output, claims and loss output, investment and financial asset output, reserve output, income output, and national insurance income output are the output measures used in the insurance literature. It is anticipated that the range of viewpoints and concerns will accurately reflect the true economic contribution of the banking and insurance sectors, which is described in chapter 5.

In order to complete and elaborate on the topic of output measurement in banking and insurance from a practitioner's perspective, the second section of this book consists of two chapters with contributions from various academics, policymakers, and banking and insurance practitioners from various countries and backgrounds. Performance, which comprises technical efficiency, allocative efficiency, productivity, and profitability, is a term used in this discussion. The chosen experts from academics and practitioners in the field of banking and insurance offer their opinions, life lessons, and stances on the problem of gauging banking and insurance outputs. For the benefit of the reader, each contribution is distinct and addresses a different aspect of the subject at hand.

Part two looks at particular issues with measuring financial services, theoretical and empirical problems with national accounting systems in developing nations, issues with the aggregation function in the present, problems with using financial reports as a key source of output, data for banks, the role of dual bank intermediation, input-output debates, under- and overestimation of financial services output under economic shocks, and other things. Additionally, it discusses some of the difficulties that developing nations encounter when using conventional data collection methods, traditional data collection systems, new approaches to the creation of macroeconomic statistics, and the adoption of alternative data sources used in developed and developing market economies.

An empirical exercise on the effects of different output metrics on different performance parameters is provided in part three (Chapters 8–9). This section's primary goal is to describe the practical ramifications of alternative output measures in aggregate production for the banking and insurance industries through experimental case studies using a production function approach in Brazil, Russia, India, Indonesia, China, and South Africa (BRIICS) countries, including empirical estimation of partial factor productivity, total factor productivity, technical efficiency, and scale return.

In the third part, Baria emphasizes three key issues: 1) the implications of alternative output measures for partial factor productivity; 2) the analysis of index-based measures of aggregate total factor productivity, as well as parametric and nonparametric measures of aggregate technical efficiency; and 3) analysis of the variation, if any, carried by alternative output measures in estimates of aggregate industrial returns to scale as measured by the production function. For the combined banking and insurance industries, these three items are examined individually using sectoral data, which is data gathered across sectors rather than at the business level.

To guarantee reliable estimation outcomes for different variable specifications, all econometric estimates are checked for metric diagnostics. The manufacturing strategy is the main factor in the selection of these factors. Because it serves the goals of this empirical case study, the production technique has been adopted. Instead of researching the potential impact on performance estimates, each chosen output measure needs to be included in the production function. The production approach is simpler to implement than other output specification processes. The output technique is also aggregate rather than corporate level, which allows it to explain the whole banking industry behavior.

There are two chapters in part four. Additional information on input measurement and other topics other than output measurement is provided in Chapter 10. The size of the input values of labor and capital volumes is frequently constrained by a lack of data, and most researchers ultimately opt to use the value measure of employee hours worked. The time required for labor services is hard to quantify, hence the amount of workers is used as a proxy. The scope and restrictions of the study's performance parameters, which were only financial performance-related, are covered in Chapter 11.

For people who are interested in output measurement in banking and insurance performance analysis, this book is generally helpful. Theoretical talks, measurement issues, and case studies using real data from the BRIICS countries are all thoroughly introduced by Baria. Although it is necessary for this book to explain the concepts, claims, points of agreement, and points of controversy regarding output measurement, it does not seek to establish a consensus on the subject. However, researchers and policymakers who are doing performance analyses of banking and insurance activities may find this book useful.

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