The Economic Impact of the Swiss Financial Sector

Report on behalf of the Swiss Bankers Association (SBA) and the Swiss Insurance Association (SIA)

Executive Summary

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Financial intermediation has important infrastructure function for the Swiss economy

It is difficult to imagine a modern economy without a financial sector. The financial sector is an essential criterion for the efficient and effective operation of economic activities. The intermediary function exercised by banks and insurers makes numerous activities possible in the first place, by e.g. financing investment or securing risks. In 2015, for instance, banks provided loans to the Swiss economy that were equivalent to double the gross domestic product (GBP). Private life insurers managed pensions and insured sums that were likewise equivalent to twice GDP. Therefore, banks and insurers have an important catalyst function for the economy at large as well as for the population, and strengthen the performance of the economy as a whole. In addition, financial intermediaries fulfil functions that are indispensable for a modern economy. These include, for example, the settlement of payment transactions and the accumulation of capital.

Financial sector as key driving force of the Swiss economy …

In addition to its infrastructure function, the financial sector itself makes a significant contribution towards Swiss economic output and the prosperity of Switzerland. In the year 2015, around CHF 60 billion, or every tenth Swiss franc was generated by companies operating in the financial sector. Banks (including banking-related financial services) contributed the largest share of value added, approx. CHF 32.0 billion, despite the fact that real gross value added shrank in the difficult financial year 2015 (-0.9%). Insurers (including insurance-related financial services) followed with CHF 27.9 billion. The financial sector accounts for around 220,000 jobs (full-time positions), or some 6 percent of all jobs in Switzerland.

The Swiss financial sector has a strong focus on wealth management. Classic private banking is tremendously important here. Despite adversities, Switzerland has successfully defended its position as a leading global wealth management centre for international private clients. Insurance fields with high wealth management factors, such as life insurers and pension funds, account for a sizeable share of the financial sector. Compared with other countries, reinsurers constitute another very strongly concentrated and successful focus of the Swiss financial sector.

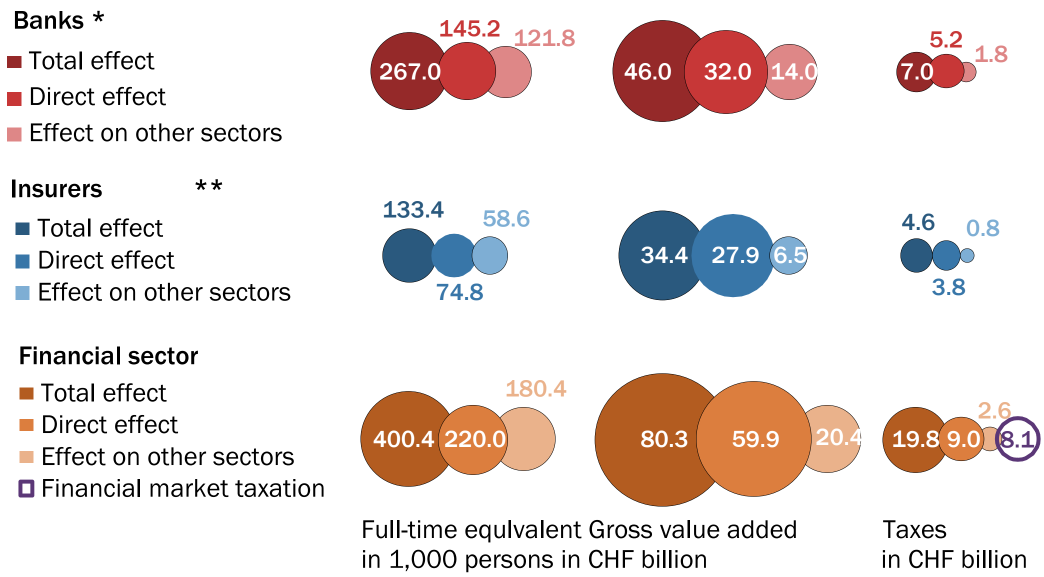
… from which companies in other sectors also benefit

Due to their close economic links, companies in other sectors of the Swiss economy also benefit to a significant extent from the success of banks, insurers and other financial service providers. On the one hand, demand for intermediate inputs from other sectors has indirect economic output effects. These include, for example, consultancy companies, fintech, IT services as well as accountancy and auditing firms. On the other hand, income earned by employees also benefits other sectors of the Swiss economy through their private consumption.

Calculations in a macroeconomic impact analysis show that in the year 2015 the economic activities of the financial sector generated added value of around CHF 80.3 billion. In addition to the CHF 59.9 billion of direct value added (share of overall gross value added: 9.6%), the financial sector triggered additional added value in the region of CHF 20.4 billion in other sectors. In cumulative terms, this corresponds to 12.9 percent of total gross economic output. Some 10.0 percent (400,000 full-time equivalent jobs) of the total number of jobs in Switzerland are linked to this.

Federal government, cantons and municipalities benefit from substantial tax revenues. For the year 2015, direct corporation tax, income tax, value added tax on financial services as well as financial market taxes (balance of withholding tax, stamp duties) collectively accounted for tax revenues of CHF 19.8 billion. This corresponds to 14.6 percent total federal, cantonal and municipal tax revenues, or 90 percent of the total federal expenditure on social welfare (CHF 22.0 billion).

Economic and fiscal importance of the financial sector 2015



Rounding discrepancies possible.
*Banks including banking-relating financial services
** Insurers including insurance-related services
Source: BAKBASEL

Important growth drivers of the past 20 years

Over the past 20 years, the financial sector has also been one of the most important sectors of the Swiss economy in terms of growth. This despite the fact that both of the financial crises of the new millennium – the dotcom bubble (2000-2002) and the financial and debt crisis (from 2008) – significantly slowed down the development of the financial sector. Over the past 20 years, the financial sector accounted for around one sixth of total economic growth. Only the wholesale and retail sector and the public sector outdid the financial sector as growth drivers.

Intact outlook for the next ten years

In the wake of the financial and debt crisis, competitive pressures in the sector have deteriorated. Increased competition, digitalisation and new regulations are now accelerating the structural changes within the sector. As the Swiss franc is seen as a stable, secure currency, demand increases steadily in unsettled times. The consequence is pressure on the franc to appreciate in value. The resulting strong Swiss franc means that banks in the important cross-border wealth management field are hit by losses on portfolio values denominated in foreign currencies, and this has a negative impact on fee revenues. While non-domestic revenues are generated in foreign currencies, overheads are often incurred in Swiss francs. Credit volumes continued to grow steadily, although these slowed in 2015 and during the first half of 2016. Pressure on interest margins is likely to remain unchanged for the present. In overall terms, output in the banking sector is likely to grow more slowly than the economy at large in the short term. In the medium and longer term, however, continued digitalisation along with the industrialisation of the baking sector is expected to lead to productivity gains and higher profitability. In addition, growth will also be driven by general economic growth and the increase in private assets.

Insurers are also being affected by the difficult business environment. Low interest rates are making it difficult to find profitable investment opportunities that are not exposed to excessive risks. For insurers, negative interest rates also mean an additional cost factor. Sluggish economic growth means insured salaries and the associated premium payments are unlikely to rise noticeably in the short term. While uncertainties surrounding the development of public sector provisioning are strengthening the need for private provisioning, the attractiveness of life insurance schemes is being undermined by low interest rates. In the global reinsurance business, increasing competition is resulting in sinking prices. In addition, many primary insurers are currently well-capitalised and are reducing their demand for reinsurance cover. Reinsurers are however profiting from the development of insurance markets in emerging countries. Insurers also have some catching up to do when it comes to the digitalisation of their processes. Digitalisation is likely to result in productivity gains, offering the sector additional growth opportunities. Overall, insurers are likely to expand slightly faster than the economy as a whole in the medium to long-term.

Other financial services are likely to post the strongest performance within the financial sector. These include bank-related service providers such as securities traders and independent wealth managers, as well as insurance-related service providers such as insurance brokers. The current low-interest environment and the continuing bull market for equities are boosting demand for the services offered by this sector. In addition, the positive outlook for other financial services is moreover based upon the increasing digitalisation of banks and insurers, the continued standardisation of business processes as well as the associated outsourcing.

The long-term added growth potential of the financial sector as a whole is 2.1 percent per annum for the coming ten years. This means the financial sector is growing more strongly than the economy at large.

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