

# The economic significance of the Swiss financial sector

Study on behalf of the Swiss Bankers Association SBA and the Swiss Insurance Association SIA

EXECUTIVE SUMMARY

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## Executive Summary

### **The financial sector as a driving force behind the Swiss economy**

A modern economy is hardly conceivable without a financial sector. Without functional banks, the money supply would collapse, without insurers liability causes would represent devastating or even existential threats and economic activity would be practically impossible. Services provided by the financial sector also amount to a significant and fundamental element in the area of retirement provision. The financial sector offers customers – which include private individuals, companies and institutions – a broad range of products, which enable their businesses to remain successful. Thus, a well-functioning financial sector is an essential prerequisite for a prosperous economy. The infrastructure role of the financial sector is an important pillar of the economy and an essential prerequisite for the efficiency of many companies.

The financial sector itself earns a considerable portion of Swiss economic output. 64 billion CHF were earned by the financial sector in 2013, or one out of every nine francs of GDP. The sector employed around 246,000 people, corresponding to 5 percent of the total Swiss workforce. The largest share of added value, amounting to 35 billion CHF, is contributed by the banks (including banking-related financial services). However, this is closely followed by insurance with 28 billion CHF. The financial sector in Switzerland is thus well-diversified, also compared to other countries internationally.

The Swiss financial centre is heavily focused on wealth management. Classic private banking is exceptionally important here. In spite of the difficulties, Switzerland has been able to maintain its position as the leading global offshore wealth management centre. The insurance classes, which includes a high element of wealth management - such as life assurance and pension funds - account for a significant portion of the financial sector.

Due to economic interlinkage, companies from other sectors of the Swiss economy benefit significantly from the success of the banks, insurers and other financial service providers. First, the demand for intermediate inputs from other sectors results in indirect value added; moreover, the salaries earned by workers also benefit other sectors of the Swiss economy through private consumption.

Calculations from a macro-economic impact analysis show that in 2013 economic activity by the financial sector resulted in value added totalling CHF 86 billion. In addition to the 64 billion CHF of direct value added, the financial sector also generates approximately 23 billion CHF in other sectors. In cumulative terms, this corresponds to around 15 percent of total gross value added to the economy. It provides work to around 10 percent (491,000 employees) of the total Swiss workforce.

The federation, the cantons and the municipalities benefit in the form of significant tax revenues. Taking account of financial market taxes (balance of the withholding tax, stamp duty) and value added tax on financial services, this resulted in estimated tax revenues in 2013 of around CHF 18 billion. This amounts to around 14 percent of total taxes levied by the federation, the cantons and the municipalities.

### **Important drivers of growth over the past 20 years**

Over the last 20 years, in terms of growth the financial sector was also one of the most important industries in the Swiss economy. This is in spite of the fact that both of the financial crises in the new millennium – the dotcom bubble (2000-2002) and the financial and debt crisis (since 2008) – have significantly slowed the development of the financial sector. Around one sixth of overall economic growth during the last 20 years has been generated by the financial sector. Only (wholesale and retail) trade, the public sector and the chemicals and pharmaceuticals industry have outperformed the financial sector as drivers of growth.

### **Perspectives intact for the next 10 years**

The financial and debt crisis has forced the pace of the previously sluggish remodeling of the banking industry and also resulted in new demands. Increased competitive pressure, customer behaviour and - in part - regulations have speeded up structural change within the sector. Three trends have been apparent within the significant area of offshore wealth management: a reduction in Western European assets as a result of ongoing regularisation, an influx of assets from emerging countries and an increase in existing assets due to positive growth on the capital markets. Market access to EU countries is essential for Swiss banks, which traditionally have a strong international focus, and would enable additional growth. Overall, it is expected that, over the short term, value added by the banks will expand at the same rate as the economy as a whole, in particular due to robust domestic demand. Over the medium to long-term, industrialisation within the banking sector is expected to lead to significant productivity gains. Alongside the essentially positive trend from overall economic and asset growth, efficiency gains are providing an additional boost to growth for the banks.

Insurers are also benefiting from the robust economic growth in Switzerland. Over the short to medium-term, increase of value added within the industry will however be held back by low interest rates. Over the long-term, insurers enjoy increasing demand nationally and from abroad. In particular the non-life and reinsurance sectors are expected to feel the effects of this. Growth opportunities are opening up for life assurance as a result of demographic changes and uncertainty regarding the sustainability of public insurance schemes. Not only the banks but also insurers still have ground to make up regarding the digitalisation of their processes. It is expected that digitalisation will lead to productivity gains, which will offer the industry additional opportunities for growth. Overall, insurance is expected to expand slightly superior to the economy as a whole.

The long-term growth potential for value added throughout the financial sector is around 2 percent. This means that the financial sector is growing superior to the economy as a whole. However, it will no longer be possible to return to the growth rates from the 1990s or the pre-crisis boom.

**Increased uncertainty**

The number of uncertainties associated with negative forecast risks for the Swiss economy and the financial sector has recently picked up again. In addition to political conflicts (Ukraine, Arab countries), the consequences of the economic and financial crisis have not yet passed. Above all the Eurozone continues to remain in a critical condition, with unresolved structural problems. The longer the cure of expansive monetary policy is administered, the greater the danger of knock-on effects and adverse reactions. This applies not only in the Eurozone but also in the USA and the UK where, despite an improved economy, the cure has not yet been stopped.

Within this conflict situation, which is already confusing, Switzerland is confronted with further specific risk factors. Political initiatives such as the Mass Immigration Initiative, the tense situation on the property market and the barely foreseeable consequences of enhanced regulatory or tax requirements increase uncertainty and the negative forecast risks for the Swiss financial sector.