The Economic Significance of the Swiss Financial Sector

Executive Summary

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Executive Summary

The financial sector as the driving force of the Swiss economy

It is difficult to imagine a modern economy without a financial sector. The financial sector is an essential condition for the efficient and effective operation of economic activities. In 2014, for example, banks provided the Swiss economy with loans equivalent to twice its GDP. Private life insurers managed pensions and insured sums that were likewise equivalent to twice its GDP. Together with accident/property insurers, they paid out sums that, if spread over the population as a whole, would correspond to a median monthly salary per person. Both facilitate economic development and investment that without financial intermediaries could be performed only with substantially higher transaction costs, or not at all. 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. By taking on entrepreneurial or private risks, they also ensure (planning) security. For this reason, a properly functioning financial sector is an essential precondition for a prosperous economy. The infrastructure function of the financial sector is an important pillar of the economy and criterion for the efficient operation of many enterprises.

The financial sector itself generates a substantial proportion of Swiss economic output. In the year 2014, around CHF 61 billion or every tenth franc was generated in the financial sector. At the same time, the financial sector provided around 218,000 full-time equivalent jobs, or some 6 percent of all employment in Switzerland. Banks (including banking-related financial services) contributed the largest share of value added, some CHF 35 billion. Insurers (including insurance-related financial services) followed with approx. CHF 26 billion. This means the financial sector in Switzerland is well diversified on an international comparison.

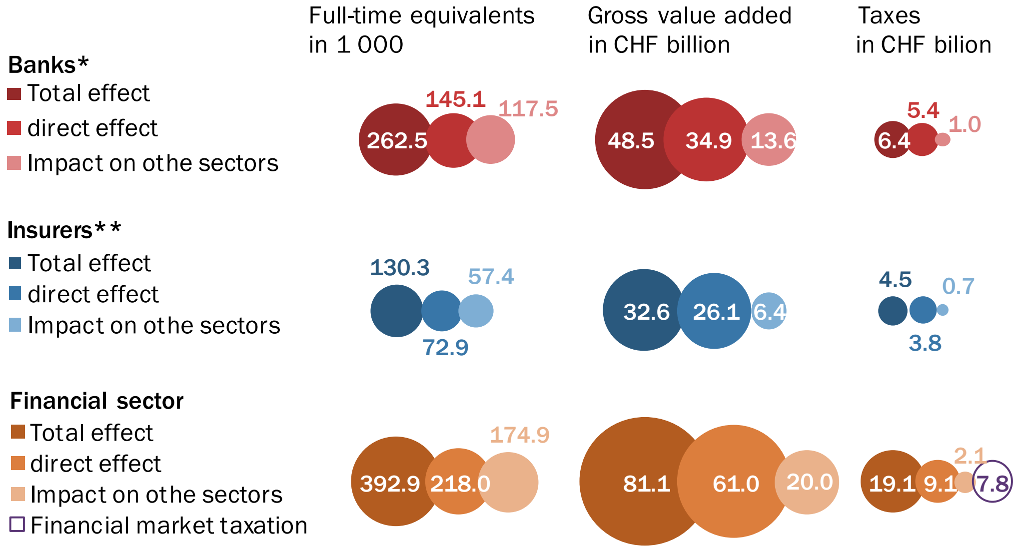
The Swiss financial centre has a strong focus on wealth management. Classic private banking is tremendously important here. Despite adversities, Switzerland has successfully defended its position as a leading global wealth management centre for international private clients. Insurance fields with high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

Due to their close economic links, companies in other sectors of the 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 have indirect economic output effects. These include, for example, consultancy companies, financial technology, IT services as well as accountancy and auditing companies. On the other hand, income earned by employees also benefits other sectors of the Swiss economy on account of their private consumption.

Calculations in a macroeconomic impact analysis show that in the year 2014 the economic activities of the financial sector generated value added of around CHF 81 billion. In addition to the approx. CHF 61 billion of direct value added, the financial sector triggered additional value added in the region of CHF 20 billion in other sectors. In cumulative terms, this corresponds to around 13 percent of total gross economic output. Some 10 percent (393,000 full-time equivalent) of the total number of jobs in Switzerland are linked to this.

The federal government, cantons and municipalities benefit through significant tax revenues. For the year 2014, direct corporation tax, income tax, financial market tax (balance of withholding tax, stamp duties) as well as value added tax on financial services are set to generate tax revenues amounting to an estimated CHF 19 billion. This is equivalent to about 14 percent of total federal, cantonal and municipal tax revenues, or almost the total amount spent on social welfare.

Economic and fiscal importance of the financial sector 2014



Banks* including banking-related services (e.g. independent asset managers, securities traders)
Insurers** including insurance-related services (e.g. insurance brokers)
Rounding discrepancies possible
Source: BAKBASEL

Key engine of growth over 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 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, the public sector and the chemical-pharmaceutical industry outdid the financial sector as growth drivers.

Intact outlook for the next 10 years

In the wake of the financial and debt crisis, competitive pressures in the banking sector have risen substantially. Increased competitive pressures, digitalisation and new regulations are now accelerating the structural changes within the sector.

Following the abandonment of the lower exchange rate limit for the Swiss franc against the euro, banks in the important cross-border asset management field were hit by losses on portfolio values, and this had a negative impact on fee revenues. On the domestic side, reduced corporate investment activities are also likely to weaken demand for banking services in the short term. The mortgage market, by contrast, should continue to support the development of economic output. When it comes to the interest rate margin, pressure is likely to remain broadly as strong as in previous years, whereby negative interest rates are causing changes in the interest operations of banks.

In the short term, output in the banking sector is likely to lag behind economic output as a whole. In the medium to long-term, however, the industrialisation of the banking sector is likely to result in substantial productivity gains. In addition, general economic and asset growth will help boost bank growth.

The abrupt slowdown in Swiss economic development and the tougher interest rate environment are also putting the brakes on the short-term development of insurers. Negative interest rates have accentuated the investment plight, and reduced economic growth means insured salaries and assets are unlikely to grow significantly in the short term. Uncertainties surrounding the development of public sector provisioning are strengthening the need for private provisioning. At the same time, their attractiveness 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, which is 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. In overall terms, insurers are likely to expand slightly faster than the economy as a whole.

Other financial services posted the strongest performance within the financial sector. The prevailing interest rate environment and the continuing bull market for equities are boosting demand for the services offered by this sector. In addition, at least in the short term, the trend that has seen output shift away from banks and towards independent asset managers and investment funds is likely to continue. The positive outlook for other financial services is moreover based upon the increasing digitalisation of banks and insurers as well as the associated outsourcing.

The long-term value added growth potential of the financial sector as a whole is 2.0 percent. This means the financial sector is growing more strongly than the economy at large.

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