Banks and insurers in Switzerland

An analysis of the importance of the financial sector to the economy in 2017
Key facts at a glance

Study by order of
the Swiss Bankers Association (SBA) and
Swiss Insurance Association (SVV)

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1 Key facts at a glance

At the end of August, the Federal Statistical Office (FSO) and State Secretariat for Economic Affairs (SECO) published updated value creation and employment figures for 2017. Polynomics determined the corresponding direct and indirect effects of the financial sector on the basis of this published data by request of the Swiss Bankers Association (SBA) and Swiss Insurance Association (SVV). Polynomics concludes that the financial sector continues to be an important contributor to the Swiss economy, despite facing challenges such as negative interest rates, constantly growing regulation, digitisation and competitive pressure.

The Swiss financial sector generated gross value creation of around CHF 60 billion in 2017, which accounts for 9.2 percent of Switzerland's total gross value creation. Of this value creation in the amount of CHF 60 billion, CHF 31 billion was generated by the banking sector and CHF 29 billion by the insurance sector. At 1.9 percent, growth in the financial sector in the past year was slightly higher than the Swiss average. The banking sector (2.1 percent real value creation growth) and insurance sector (1.8 percent real value creation growth) both contributed to this growth. Due to economic interlacing, the financial sector triggered additional value creation in other sectors of around CHF 24 billion (9.7 percent up on the previous year). The banking sector accounts for two thirds (CHF 16.7 billion) and the insurance sector for one third (CHF 7.1 billion) of indirect value creation.

The financial sector employed around 207,500 people (full-time equivalents) in the past year, which corresponds to a decrease of 1.2 percent. Of these 207,500 employees, at least 136,000 worked in the banking sector and at least 71,000 in the insurance sector. The job trends in both sectors were opposite: while employment in the insurance sector increased by 1.9 percent, it decreased by 2.7 percent in the banking sector. It needs to be stated that the decrease in the banking sector was caused by statistical special effects. The main reason for this development was the transfer of one major bank's central services to an internal group company, which is statistically not recorded as a bank. Due to the economic interlacing of the financial sector, it employed at least 253,300 persons in other sectors (7.5 percent up on the previous year). Of these jobs, 171,600 pertain to the banking sector and 81,700 to the insurance sector.

In addition to the direct importance with regard to gross value creation and jobs, Switzerland profits from the financial sector through the taxes it generates. In 2017, the financial sector generated total tax income of around CHF 16.5 billion, which is CHF 2 billion up on the previous year. The withholding tax income was the main contributor to this growth.

When compared with other sectors, the financial sector achieved a good position with its above-average annual gross value creation rate and above-average productivity. In the long-term comparison of the financial sector's importance as an employer with other sectors, it came in somewhere in the mid-field as its annual job growth is slightly below average.

The institutions in the financial sector continued to face the challenges posed by negative interest rates, which had started in 2015 and were still present in 2017. The negative interest rates narrowed the interest margins in the banking sector. However, the resulting decrease in income could be mostly compensated with an increase in demand for credit, increased income from the commission and service business and adjusted fee models. As the insurance companies invest a significant amount in shares, the negative interest rates also considerably decrease their income. As a result, insurance companies have become increasingly active in the mortgage business.

Taking into consideration the latest development and, in particular, the favourable macroeconomic environment, we expect real gross value creation to grow, both in the banking (3 percent) and insurance (2.5 percent) sector. In the medium term, direct value creation growth in the banking sector is expected to be around 2 percent per year, not least because of the increasing outsourcing trend due to digitisation. Further indirect value creation growth can also be expected. The insurance sector should be able to increase real gross value creation up to a point where it outperforms overall macroeconomic performance.

The pressure to increase productivity in the financial sector will continue to exist in the short and medium term. Digitisation, in particular, is resulting in new products and services as well as process adjustments.

Table 1: Direct and indirect importance of the financial sector 2017

	Direct impact	Impact in other industries	Total
Gross value creation in CHF billion	59.9	23.8	83.7
of which banks	31.0	16.7	47.7
of which insurances	28.9	7.1	36.0
Employees in thousand and full time equivalents	208	253	461
of which banks	136	172	308
of which insurances	71	82	153
Taxes in CHF billion	16.5	2.8	19.3
of which direct taxes	7.4	2.8	10.2
of which banks	4.6	1.9	6.5
of which insurances	2.8	0.9	3.7
of which indirect taxes financial sector	9.1	–	9.1
of which banks	7.4	–	7.4
of which insurances	1.7	–	1.7

Quelle: Gross value creation and employment: FSO and SECO; Taxes FTA, FINMA and FFA. Calculations by Polynomics. Due to rounding differences, the figures shown in the table may not add up.

As a result, the trend of shifting jobs to other sectors, which has been particularly apparent in the banking sector for some years now, will continue, albeit considerably slower than in previous years. This does not just shift part of value creation, but also part of the jobs in companies that are no longer reported as banks in statistical terms. We expect that the job growth rates in the insurance sector will also be unable to continue at the same level as in previous years and will fall short of overall macroeconomic performance.