



Economic Impact of the Swiss Financial Sector

**Study commissioned by the Swiss
Bankers Association (SBA) and the
Swiss Insurance Association (SIA)**

Executive Summary

Basel, 20.11.2019



Published by

BAK Economics AG

Contact

Martin Peters, Project Management

Financial Sector Analyses

Tel.: +41 (0)61 279 97 32

martin.peters@bak-economics.com

Michael Grass, Member of the Executive Board

Head of Industry and Impact Analysis

Tel.: +41 (0)61 279 97 23

michael.grass@bak-economics.com

Address

BAK Economics AG

Güterstrasse 82

CH-4053 Basel

Tel.: +41 (0)61 279 97 00

info@bak-economics.com

www.bak-economics.com

Cover photo

BAK Economics/iStock

Copyright © 2019 by BAK Economics AG

All rights reserved

Executive Summary

Despite the challenging business environment, the financial sector continues to be of major importance for the Swiss economy – both as an economic institution and employer and due to its infrastructure function. More than 218,000 people working in the financial sector generated value added of CHF 63 billion in 2018. Companies operating in the financial sector effectively provided Swiss companies and households with loans and payment transaction and insurance services. The difficult market environment prevailing since the financial crisis hit has impacted banking and insurance industry subsectors to varying degrees. For example, cantonal and Raiffeisen banks and reinsurers have reported significant growth since 2018, while the big banks have been hit harder by the negative effects and have experienced a downturn. However, an in-depth analysis shows that the unfavourable development of the big banks is partly due to statistical one-off effects.

The financial sector has an important infrastructure function

A functional financial sector that provides loans to the population and companies, guarantees smooth payment transactions and hedges against risks is imperative for modern economies. Without such services, a whole host of economic activities would be impossible or made much more difficult. To this extent, the financial sector has an important infrastructure function.

In early 2019, the Swiss banks fulfilled this role by providing the Swiss economy with loans to the amount of CHF 388 billion – mostly to the benefit of micro-enterprises, who received the lion's share. More than 7,000 cash machines and a still high branch density – even in rural regions – ensured a good availability of cash. The efficient handling of cashless transactions enabled payment card use to more than double since 2005. The insurance industry hedged against risks to a large extent. Life and non-life insurers alone paid out more than CHF 50 billion for insurance claims in 2018. And both the banks and insurance companies expanded their range of digital services, for example in the area of payments, investment products and claims.

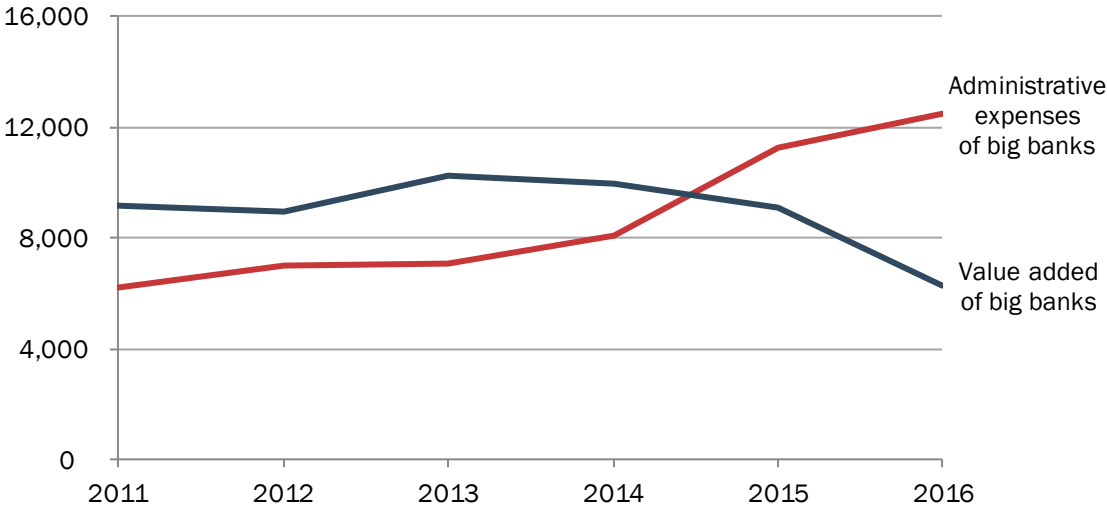
The financial sector also plays an important role in Swiss pension schemes, which rely more heavily on funded schemes than most other countries. In 2018 for example, insurance companies and pension funds managed retirement assets in the amount of more than CHF 1,000 billion within the second pillar. Pension products offered by banks and insurance companies within the scope of the third pillar also amounted to more than CHF 120 billion.

Highly disparate trends within subsectors of the financial sector

The focus of company activities within the banking and insurance industry differ greatly – ranging from the narrow regional focus of cantonal banks to the international activities of big banks and from small health insurance companies to global reinsurance giants. Correspondingly, each sub-sector has developed very differently in recent years. For example, cantonal, Raiffeisen and regional banks have performed well above-average since the financial crisis hit. Due to low interest rates, life insurers have reported little demand-side stimulus and consequently increased their value added only very moderately. This has been offset by the solid growth rates of non-life insurers, who have been able to benefit from the stable economic situation, and a very dynamic reinsurance industry, which has also grown as a result of the establishment of new undertakings.

Decline in the value added of big banks also caused by one-off effects

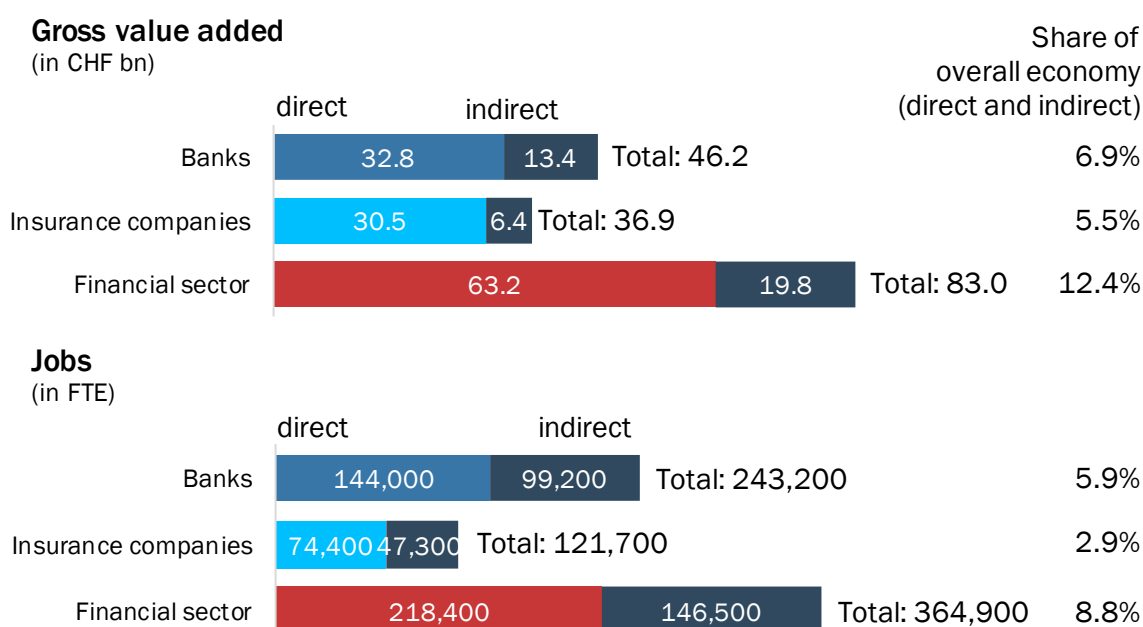
An in-depth examination showed a number of relevant one-off effects that contributed to developments in the banking sector. For instance, the decline in value added was also attributable to changes in the level of the interest rate in connection with decisions on monetary policy. The outsourcing of in-house services has contributed to the drastic decline in value added experienced by major banks in recent years. The service companies established as a result are not included in the banking sector. In addition to a decline in value added, this also caused a considerable rise in the big banks' administrative expenses (statistically part of preliminary goods and services) between 2013 and 2016.



Administrative expenses and nominal value added of big banks
In CHF m
2011–2016
Source: FSO, SNB, BAK Economics

One in eight value-added Swiss francs are generated by financial sector activities

Despite the difficulties in recent years, the financial sector has remained a key player in the Swiss economy. Generating direct value added of CHF 63.2 billion in 2018, the financial sector accounted for 9.4 per cent of the Swiss overall economy. With over 218,000 full-time positions, banks and insurance companies provided more than 1 in 20 jobs in Switzerland. Banking and insurance activities also provide momentum for other sectors of the economy. For example, demand for preliminary goods and services from other sectors lead to orders for companies along the entire upstream value-added chain. Furthermore, trade and industry benefit from the consumer spending of employees. Such indirect and induced value-added effects were also linked to external value added of an estimated CHF 19.8 billion in 2018, coupled with more than 146,000 jobs (FTE). All in all, one in eight value-added francs and almost one in eleven jobs in Switzerland can be attributed to the activities of the financial sector.



Nominal gross value added in CHF billion, jobs in full-time equivalents (FTE)
 Banks and insurance companies including other banking- and insurance-related financial services
 Proportion of total economic output relates to direct and indirect effects
 Rounding differences are possible
 2018
 Source: BAK Economics

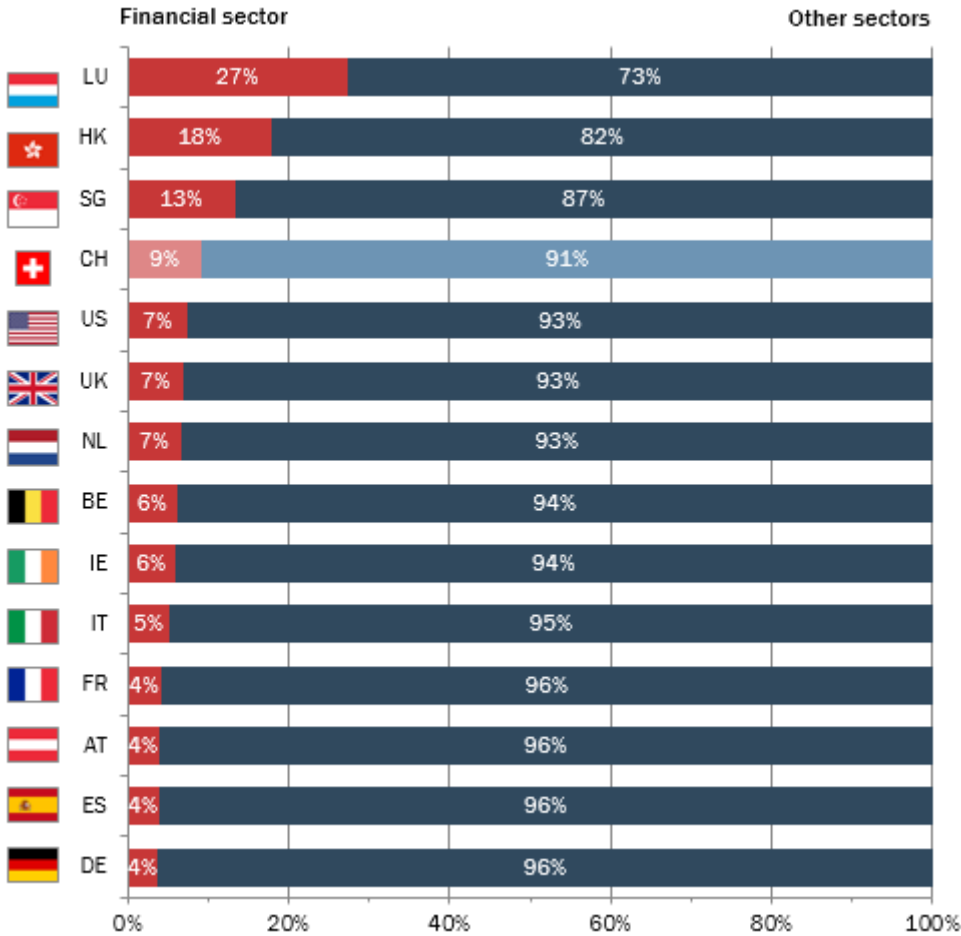
The financial sector is a major taxpayer

The financial sector also remains a key taxpayer. The economic activities of companies in the financial sector generated an estimated CHF 17.6 billion in tax revenue in 2018, corresponding to 12 per cent of all federal, cantonal and municipal tax revenue. Of this amount, around CHF 9.3 billion was attributable to taxes on earned income and corporate profits of the financial sector. The federal government collected another CHF 8.3 billion in the form of taxes on financial market transactions and financial services.

International comparison highlights financial sector's importance for the national economy

The importance of the financial sector for the Swiss economy can also be seen in comparison with other nations: a greater contribution by the financial sector to the overall economy's value added is evident in only a few other countries: The small economies of Singapore, Hong Kong and Luxembourg, which specialise in financial services, demonstrate a more significant financial sector. In the neighbouring countries of Germany, France, Italy and Austria, the financial sector's share of value added is only around half that of Switzerland.

Financial sector's share of value added compared to other countries



Financial sector's share of nominal gross value added in the economy as a whole, in per cent
 2018
 Source: BAK Economics

www.bak-economics.com

Headquarters

BAK Economics AG
Güterstrasse 82
CH-4053 Basel

Zurich Office

BAK Economics AG
Zürichbergstrasse 21
CH-8032 Zurich

Lugano Office

BAK Economics AG
Via Cantonale 36
CH-6928 Manno