



Banks and insurers in Switzerland

**Analysis of the economic importance of the Swiss financial sector
Key facts at a glance**

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



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Key facts at a glance

The financial sector as an important pillar for the economy

With nominal gross value creation of around CHF 60 billion in 2016, the financial sector remains an important pillar for the Swiss economy, even in a changing and challenging environment. The financial sector contributed around 9.4 percent to the total Swiss gross value creation, a figure which is above average when compared with neighbouring countries and the United Kingdom.

The financial sector is going through a dynamic adjustment process to keep up with rapid economic and technical developments. The insurance sector generated higher gross value creation growth rates than the banking sector in recent years. In the past year, the banks' gross value creation amounted to approximately CHF 30.3 billion, a figure which significantly exceeds the corresponding figure in the insurance sector (CHF 29.5 billion).

The importance of the financial sector cannot be reduced to just its contribution to value creation. The financial sector provides more than 201,000 full-time equivalent jobs, meaning that around 5.6 percent of all employees in Switzerland (excluding the primary sector) work in this sector. Around two thirds of these jobs are in the banking sector. The financial sector also contributed around CHF 14.5 billion in taxes in 2016, which accounts for at least one tenth of the total income of the Confederation, cantons and municipalities.

In addition, companies in the banking and insurance sector also impact the economic development in other sectors (indirect effects) through the purchase of their advance services. The related additional value creation in the financial sector amounted to CHF 21.7 billion. In 2016, around 230,000 employees (full-time equivalents), who paid around CHF 2.6 billion in taxes, benefited from this value creation triggered among suppliers in the financial market. Almost 12 percent of all jobs (full-time equivalents) in Switzerland and 12.6 percent of Confederation tax income are therefore directly and indirectly linked to the activities in the financial sector.

The major challenges, such as negative interest rates, digitisation and the increase in competitive pressure, were reflected in a decrease in real gross value creation of 3 percent in 2016. The banking sector was disproportionately affected by the changes. The insurance sector, which had recorded continuous above-

average growth in recent years compared with the Swiss total, saw its gross value creation stagnate in 2016.

In 2016, the challenging environment once again had a slightly negative effect on the labour market and resulted in a slight drop in employment (-1 percent) in both the insurance and banking sectors.

Cautiously optimistic outlook

The latest indicators, such as the quarterly estimates of the State Secretariat for Economic Affairs (SECO), hint at positive development in terms of value creation in the financial sector. Compared with the previous year's quarter, SECO states real growth of around 2.2 percent for the second quarter of 2017.

This positive development should continue into the near future as a consensus poll among experts in the banking and insurance sector conducted by Polynomics in the summer of 2017 concluded that, after several quarters of decreasing value creation, the endeavours of the industry will show their results. The polled experts expect average real value-creation growth of 1.2 percent in the financial sector in the next 12 months. Their figures are more reserved for the banking sector (+0.2 percent) than for the insurance sector (+2.3 percent). The experts base their cautiously optimistic outlook for the near future on the expected positive profit development. They forecast a decrease of around 0.7 percent in the labour market. In the medium term, the experts expect employment figures in the insurance sector to grow less strongly than in the past five years. The estimate for the banking sector is less defined. On average, however, the financial experts forecast that the development will be similar to that of the past five years.

Strengthening the industry with financial technologies

Digitisation provides particular opportunities for banks and insurance companies to optimise their business processes and provide new services in the FinTech and InsurTech sectors. Even though two third of the polled experts assume that traditional customer service in the financial sector will lose its importance, the need for personal contact may dampen the momentum of this change.

According to the poll, new developments such as RoboAdvice, artificial intelligence, sensor technology

and data analytics will change the interfaces between banks and insurance companies, but these interfaces are likely to be primarily operated by established financial enterprises in the future.

The polled experts generally expect industry concentration, firstly because new companies in the FinTech or InsurTech sectors are increasingly entering into partnerships with established companies or are acquired by the latter, secondly due to the disintegration of the value-added chain and related specialisation, and thirdly, because of the increasing level of cooperation caused by the investments necessary for increased data analysis and related economies of scale. The crucial factor for the accuracy of the experts' estimates is for established companies to deal with the new technologies in good time, thus getting themselves up to speed for the market.

General conditions are important for the successful development of FinTech and InsurTech

Digitisation and the resulting creation of new market participants, the disintegration of value-added chains and increasing outsourcing activities present new regulatory issues for the future. The new possibilities provided by big data, for instance, require adjustments to be made to existing protection for customer data. Depending on how Switzerland and other countries

around the world design such regulation, this will have a positive or negative impact on the competitiveness of the Swiss financial sector. Most of the experts who participated in the poll regard regulation related to data protection and cybercrime as extremely important for the future.

With regard to the future location factors, the availability of highly qualified employees and political stability are regarded as crucial. In particular, the proximity to innovative IT companies is expected to gain considerably in importance.

Table 1: Importance of the Swiss financial sector 2016

| | Direct impact | Impact in other industries | Total |
|---|---------------|----------------------------|-------|
| Gross value creation in CHF billion | 59.8 | 21.7 | 81.5 |
| of which banks | 30.3 | 15.0 | 45.3 |
| of which insurances | 29.5 | 6.7 | 36.2 |
| Employees in thousand full time equivalents | 213.6 | 235.8 | 449.4 |
| of which banks | 143.7 | 166.2 | 309.9 |
| of which insurances | 69.9 | 69.6 | 139.5 |
| Taxes in CHF billion | 14.5 | 2.6 | 17.1 |
| of which direct taxes | 7.5 | 2.6 | 10.1 |
| of which banks | 4.8 | 1.8 | 6.6 |
| of which insurances | 2.7 | 0.8 | 3.5 |
| of which indirect taxes financial sector | 7.0 | – | 7.0 |
| of which banks | 5.3 | – | 5.3 |
| of which insurances | 1.7 | – | 1.7 |

Source: Gross value creation and employment: FSO and SECO; Taxes: FTA, FINMA and FFA. Calculations by Polynomics.

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