

Measuring household wealth in Switzerland

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1. Introduction

Financial balance sheets for the different sectors of the Swiss economy were published for the first time in November 2005. They are the product of a working group comprising representatives of the Swiss National Bank and the Swiss Federal Statistical Office. Publication of financial transactions is scheduled for 2007. The IFC conference on “Measuring the Financial Position of the Household Sector” was a welcome opportunity to present some of the new data for Switzerland, to assess the data collection system and to intensify and focus the exchange of views with experts from other countries.

In section 2 this paper presents data on the financial wealth of households in Switzerland, the EU and the US. Data sources for Switzerland are described in section 3 and some comparisons with data sources used abroad are made in section 4. The topic of section 5 is the coverage of the wealth of rich individuals in the Swiss financial accounts. Some concluding remarks are made in section 6.

2. Financial wealth of households in Switzerland, the EU countries and the US

Table 1 shows stocks of financial assets and liabilities for households in Switzerland - in billions of euros and in euros per capita - as well as the corresponding per capita figures for the EU15 countries and the US. The EU15 figures are estimates based on data published by Eurostat for thirteen of the EU15 countries. For Luxembourg and Ireland no data are available. The appendix contains the data for the individual EU countries. Data represent the situation at the end of 2003, which were the most recent figures available at the time the Swiss financial accounts were published in November 2005. Swiss and US data in national currency are converted into euros at market exchange rates at the end of the period.

Total financial assets of households per capita are significantly higher in Switzerland than in the EU15 countries. But so are liabilities. Nevertheless, the net financial assets of Swiss households are well above the corresponding value for the EU15. While per capita values for all financial instruments are considerably higher in Switzerland than in the EU15, the biggest (absolute) difference is clearly to be found in insurance technical reserves. These are mainly claims arising from pension fund and life insurance contracts and account for 50% of the difference in total financial assets and 80% of the difference in net financial assets.

Swiss per capita figures are significantly higher than in any of the thirteen EU countries individually, for all major financial instruments. However, in this respect it is important to keep in mind that Luxembourg, the EU country with the highest per capita income, is not part of the comparison. The EU countries with per capita values for financial assets and liabilities of households closest to those for Switzerland are the Netherlands and the UK. Financial assets per capita are well above average in these two countries, mainly due to high

¹ Swiss National Bank. The views expressed in this paper are those of the author and do not represent those of the Swiss National Bank.

insurance technical reserves. Despite the fact that liabilities are above average, net financial assets are also comparatively high. The EU15 country with the highest net financial assets per capita for households is Belgium. Belgium has high per capita values for deposits, debt securities and shares. At the same time, insurance technical reserves and loans are below the EU average.

The data for US households generally lie between the values for the EU15 and those for Switzerland. The exceptions are deposits, where the US figure is below the EU15 figure, and “shares and other equity”, where the US figure exceeds the Swiss figure considerably.

A major determinant of financial assets and liabilities of households is residents’ income - not only in the recent past but over a long period of time. The funding principle for retirement provisions is a further decisive factor. Part of the reason is that this may affect household savings. However, the most important factor is the fact that, in the current SNA and in ESA95, only claims against funded pension schemes are recognised as assets. Ownership of real estate, which for many households is a substitute for financial assets, is also important, as are the features of mortgages and the fiscal treatment of debt. In view of these factors, the observed differences between the data on financial wealth for Swiss households and the figures for the EU15 appear reasonable. Switzerland has traditionally been a high income country. Almost universal coverage of workers in funded pension schemes was introduced in 1984 and funded pension schemes were already widespread beforehand. The comparably high level of loans can be attributed to the fact that there is no need to repay mortgages, which account for 90% of total loans, and that interest payments are deductible from taxable income. The market value of real estate owned by households cannot be compared since no sound data is available for Switzerland at present. However, about 15% of the assets of pension funds and insurance companies are invested in real estate, mostly residential buildings. This indirect ownership of residential buildings appears as part of household financial assets.

Table 1

Year-end stocks of financial assets and liabilities of households and NPISHs

Data for 2003	Switzerland		EU15 ¹	US
	EUR billions	EUR per capita	EUR per capita	EUR per capita
1. Financial assets				
Currency and deposits	240	32 889	15 449	11 636
Debt securities	87	11 964	4 012	6 062
Shares and other equity	219	29 997	12 213	43 273
Insurance technical reserves	424	58 055	16 473	29 097
Other financial assets	1 278	1 703
Total	972	132 905	49 425	91 770
2. Liabilities				
Loans	341	46 624	14 856	25 188
Other liabilities	1 253	962
Total	341	46 624	16 109	26 150
3. Net financial assets	631	86 281	33 316	65 620

¹ Excluding Ireland and Luxembourg (no data available at the time of writing).

Sources: Eurostat, OECD, Swiss National Bank.

3. Data sources used for the household sector in the Swiss financial accounts

The major data sources for the household sector in the Swiss financial accounts are the banks' balance sheets, securities survey statistics and statistics on pension funds and insurance. Details are shown in the list below. This is a condensed version of the description provided in the *Swiss Financial Accounts* (available on www.snb.ch, Publications).

Financial instrument	Data sources
Deposits	Deposits with commercial banks in Switzerland and fiduciary investments abroad, as per sectoral classification of bank balance sheets; deposits with PostFinance, as per SNB estimates.
Debt securities	Debt securities issued by domestic and foreign borrowers and held in custody accounts at bank offices in Switzerland, as per securities survey statistics.
Shares and other equity	Shares, participation certificates and mutual fund shares issued by domestic and foreign borrowers and held in custody accounts at bank offices in Switzerland, as per securities survey statistics.
Insurance technical reserves	<p>Net equity in all single and unit-linked life insurance contracts concluded in Switzerland, as per insurance statistics; 90% of net equity in Swiss pension funds (including collective insurance contracts with life insurance corporations), as per pension fund statistics, insurance statistics and government accounts.</p> <p>Prepayments of insurance premiums and reserves for outstanding claims as per insurance statistics.</p>
Loans	Loans by commercial banks in Switzerland, as per bank balance sheets (including liabilities from automobile leasing); mortgages issued by insurance corporations and pension funds, as per pension fund statistics and insurance statistics; leasing liabilities towards non-banks arising out of private automobile leasing arrangements, as per statistics issued by the Swiss Leasing Association.

Comments on the distinction between resident and non-resident households in bank balance sheet data and in securities survey statistics:

Generally, the permanent domicile of customers is the relevant criterion when banks are required to distinguish between positions vis-à-vis residents and those vis-à-vis non-residents. Mortgages are an exception to this rule. In the case of mortgages, the location of the real estate which serves as collateral is relevant. Thus some loans to non-residents are included in the data for domestic households. However, while real estate owned by non-residents is a significant factor for some of the most attractive parts of Switzerland, it is not very important in an economy-wide context. The magnitude of the misclassification is at most 3%. This estimate is based on an estimate of real estate owned by non-resident individuals made for the figures on the Swiss international investment position, assuming that mortgages account for, at most, 50% of the real estate value.

Comments on how the domestic share of insurance technical reserves is estimated:

Net equity in Swiss pension funds (including collective insurance contracts with life insurance corporations) is divided up between domestic households and the rest of the world on the basis of the premiums and benefits attributable to these two sectors. The ratio is 90% to 10% (households to rest of the world).

Comments on participating interests:

Currently only shares held in custody accounts are included in household assets. This approach neglects a significant part of household assets. In particular, participating interests in unquoted small and medium-sized enterprises are not likely to be held in custody accounts.

No data are available for unquoted shares and other equity for non-financial corporations. The Swiss Federal Statistical Office collects balance sheet data from a sample of non-financial corporations, but a sufficiently accurate projection of the sample data for non-financial corporations to the level of the economy as a whole is currently not feasible. A comprehensive revision of company statistics as a whole is under way but this will take several years.

4. Comparisons with data sources used abroad

As in Switzerland, bank balance sheet data, securities survey statistics as well as statistics on pension funds and insurance are major data sources for financial accounts in other countries. However, the share of total assets and liabilities covered by these domestic sources is likely to differ from one country to another. This is significant because it is hard to obtain information from institutions abroad. Filling the gaps with information obtained directly from households is difficult. Several countries conduct household surveys to obtain information on the distribution of assets and liabilities, but as far as I am aware these data are not used as a primary source for financial accounts.

An indication of the magnitude of the statistical problem is that, according to the *Financial Times* (6 July 2006), the German finance ministry assumes that resident households in Germany hold assets of EUR 300 billion (directly) abroad. This amounts to EUR 3,600 per capita or 8% of total financial assets. For Swiss households in general, it is likely that domestic sources account for a comparatively high share of total financial wealth. Due to banking secrecy, there is little incentive to avoid taxes by holding deposits and securities in custody abroad, and the domestic financial sector is also very competitive in other respects. There is, however, a certain problem with rich immigrants, as discussed in the next section.

As noted in the previous section, participating interests in unquoted small and medium-sized enterprises are not yet included in the Swiss figures for household assets. It is hard to

assess the magnitude of this gap, both in absolute terms and in relation to other countries. Accounting for unquoted shares is known to be a challenge - not only in Switzerland but in many other countries too. Unfortunately, the extent to which shares and other equity are covered, and what is missing, is often difficult to establish on the basis of published metadata. A reasonable indicator for the magnitude of the gap in the Swiss data may be the data available for Belgium. The Belgian financial accounts are based on a full set of balance sheets for all corporations. Moreover, data for quoted and unquoted shares are published separately. In Belgium, unquoted shares owned by households account for 9% of the total financial assets of households.

5. Which part of the wealth of rich individuals is captured in the Swiss financial accounts?

The business magazine *Bilanz* publishes an annual list of the richest individuals in Switzerland. This list is a useful way of cross-checking the accuracy of the financial accounts. Two groups of people can be distinguished. The first group are established residents or people who have been in Switzerland for a reasonably long period of time, at least, and who have participating interests in large enterprises (quoted or unquoted) with significant economic activity in Switzerland and head offices situated in the country. The second group consists of people who, in many cases, have only recently taken up residence and whose participating interests in Switzerland are either limited to enterprises which manage their wealth or are non-existent. Regarding data collection for financial accounts, there are two particular problems with the second group. First, the rich individuals who have only recently become residents are more likely to hold a significant part of their wealth with institutions abroad than the rest of the population. The best example is Ingvar Kamprad, the owner of IKEA, with a net worth of EUR 14 billion and currently the richest Swiss resident. According to *The Economist* (13 May 2006), most of his wealth is managed by Dutch institutions. Second, some domestic enterprises owned by the latter group of residents are hard to identify. No licence is required for financial holding companies, and company registers often do not reveal the owners of the enterprises.

From the section on the data sources, it is clear that assets which individuals hold directly with institutions abroad, as well as liabilities against individuals on the part of institutions abroad, are not covered by the household sector of the Swiss financial accounts at present. At the same time, the international positions of the (identified) domestic enterprises are registered fully in the non-financial corporation and financial corporation sectors. This complete coverage is achieved by including data from the direct investment survey and data from a survey on deposits and loans with foreign counterparties and securities of foreign issuers that are not held in domestic custody accounts. For the non-financial corporation and financial corporation sectors, these two data sources are used to complement bank balance sheet data and the data from securities survey statistics. What is currently missing in the financial accounts is the link between the individuals and their enterprises, since the relevant participating interests are not normally held in custody accounts. Conceptually, this is the same problem as the missing participating interests in unquoted small and medium sized enterprises mentioned in section three.

In further developments to the Swiss financial accounts, it is intended to account fully for the financial links between the household sector and the domestic corporation sector. However, the Swiss National Bank statistics department has no plans at present to capture that part of wealth which individuals hold directly with institutions abroad. In theory, the gap could be eliminated if individuals were obliged to fill in the direct investment survey and the survey on deposits and loans with foreign counterparties and securities of foreign issuers not held in domestic custody accounts. However, we do not consider this feasible in practice.

I have already mentioned the fact that a part of the financial wealth of rich immigrants is missing in Swiss data for households. Another question is whether immigration might be a major cause of the international differences in household assets described in section two. A useful indicator in this respect is the sum of debt securities in foreign currencies plus the shares issued by foreign entities and held in domestic custody accounts. In view of the statistical sources that are currently being used, any significant effect from immigration is most likely to be through these kinds of assets. In fact, these assets account for 8% of total financial assets of households. Thus, the effect of immigration on the currently published figures for Swiss household wealth is moderate at most.

6. Conclusions

An international comparison of data on financial wealth of households reveals that, for total financial assets, for liabilities and for net financial assets, Swiss per capita figures are significantly higher than those for the EU15. This also applies for all major financial asset categories individually. Figures for US households generally lie between the values for the EU15 and those for Switzerland.

Statistical sources both for Switzerland and for other countries are incomplete. On the one hand, Swiss sources are relatively complete for deposits and for debt securities. The reason is the comparatively high share of total deposits and debt securities held by Swiss households with domestic institutions. On the other hand, the gaps for shares and other equity are more substantial in Switzerland than in other countries. Unquoted shares of domestic corporations are currently not included in Swiss data and direct holdings of rich immigrants with institutions abroad are more important for shares and other equity than for deposits and debt securities. These facts have to be taken into account when making international comparisons at the level of individual financial instruments. At the level of total financial assets, total liabilities and net financial assets, however, it is not likely that the general picture sketched above would change fundamentally if the data problems were fixed.

Swiss data on shares owned by households need to be improved. This can be done by completing the link between the household sector and the non-financial and financial corporations sectors, as well as by making an estimate for the shares of small and medium-sized non-financial enterprises. In addition, an effort should be made to complement the data on financial assets and liabilities with data on non-financial assets, in order to arrive at a complete assessment of household wealth.

Appendix:
Year-end stocks of financial assets and liabilities of households and NPISHs in EU countries

Data for 2003, EUR per capita

	Belgium	Netherlands	U.K.	Italy	France	Germany	Sweden	Denmark	Austria	Finland	Spain	Greece	Portugal
1. Financial assets													
Currency and deposits	20 657	16 969	18 923	13 674	15 344	16 952	8 257	14 751	21 045	9 689	11 972	10 385	10 878
Debt securities	11 958	2 806	1 151	11 103	911	5 141	1 251	4 435	2 945	346	910	2 932	2 516
Loans	0	184	163	0	411	0	148	4	7	124	0	0	1
Shares and other equity	19 791	13 149	10 696	17 497	11 729	10 650	16 360	14 481	6 089	12 318	11 326	5 956	8 108
Insurance technical reserves	12 556	43 112	36 864	8 155	15 131	14 132	15 106	31 094	7 773	6 392	4 580	584	4 419
Other accounts receivable	620	0	2 152	287	1 953	683	5 258	1 157	274	899	1 049	706	574
Total	65 583	76 219	69 949	50 716	45 480	47 557	46 381	65 921	38 133	29 768	29 836	20 563	26 496
2. Liabilities													
Securities other than shares			75		7			465					
Loans	10 482	30 395	22 884	5 895	10 500	18 817	17 917	36 112	13 495	10 454	10 805	3 747	9 771
Shares and other equity					75								
Insurance technical reserves				485									
Other accounts payable	762	-1 091	2 043	1 364	1 990	115	342	3 617	30	697	1 199	1 518	1 969
Total	11 244	29 303	25 002	7 745	12 572	18 932	18 259	40 195	13 525	11 151	12 004	5 265	11 740
3. Net financial assets	54 338	46 916	44 947	42 971	32 907	28 625	28 121	25 727	24 608	18 617	17 832	15 298	14 756

Source: Eurostat.