Economic Research &
Corporate Development

Allianz
Global Wealth Report 2011

Allianz Global Wealth Report 2011

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Foreword

The personal wealth and debt situation last year was characterized by four main aspects: financial assets have climbed again across the board thanks to the strong rebound in the global economy. At the same time, however, the disparities in wealth development are becoming more acute, particularly in the euro area, where the impact of the sovereign debt crisis took the heaviest toll. On the other hand, the debt ratio among private households remains on a downward trajectory, meaning that the much-trumpeted need for deleveraging has now long been a reality for many households. Finally, the globalization of the wealth middle class is now also starting to spread its wings and encompass the wealth upper class, too.

The picture that the "Allianz Global Wealth Report 2011" paints of global savings behaviors is a multi-faceted one, and it is difficult to identify a common denominator for the many trends that have emerged. In actual fact, the last few years have left us with only two constants: the unrelenting race to catch up among the world's poorer countries and the mounting risk aversion and wait-and-see position among investors. While the first trend is an encouraging one in principle, we should not indulge ourselves in illusion: in absolute terms the differences remain enormous; for the "saver on the street" any genuine convergence in the average wealth situation is unlikely to materialize before the next decade.

The second trend is generally more problematic. Although investors' wait-and-see position, liquidity preference and avoidance of any risk is understandable in a climate marred by uncertainty on the markets, this sentiment threatens to prove counterproductive in the long term given the dramatic consequences of demographic change and the pressing need for private provision: the desire to "seek refuge" in low-risk investments means that investors are denying themselves adequate returns, which defeats the objective of long-term asset accumulation. So much is at stake in the current efforts to stabilize the financial markets and consolidate state budgets: ultimately, the most important task on the to-do list is restoring confidence in the financial markets and in long-term investment among private households so that they can surmount the challenge posed by demographic change.

For the Allianz Group, as a global financial services provider, these developments and the issues they entail are naturally of considerable interest. This is why the second issue of the "Allianz Global Wealth Report" takes another detailed look at the global wealth and debt situation of private households based on international data. It offers a cornucopia of information and comparisons that shed light on how the world saves.

I am convinced that, in doing so, the report manages to raise even more awareness of what is an important issue and that this heightened awareness can bring forth suggestions and impetus on ways to improve savings patterns.

Michael Diekmann
Chairman of the Board of Management of Allianz SE

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Executive summary

Consequences of the financial crisis have been digested

The strong rebound in the global economy allowed the financial markets to recover last year and the global gross financial assets of private households made considerable gains to the tune of around 6%. At EUR 95,300bn, financial assets in the 50 countries covered by our analysis at the end of 2010 had returned to well in excess of the pre-crisis level (+3.3%) for the first time. Global financial assets have been growing at an average rate of 4.1% a year since 2000, slower than the growth in nominal economic output. At 3.2% over the past ten years, per capita growth in financial assets has been on a par with average global inflation of a good 3%.

In order to paint a more sophisticated picture of global wealth distribution by country, the Allianz Global Wealth Report has split the countries evaluated into three wealth classes, similar to the income classes used by the World Bank: high wealth countries (HWC) with average per capita wealth of more than EUR 36,200; middle wealth countries (MWC), with average per capita wealth of between EUR 6,000 and EUR 36,200; and low wealth countries (LWC), with average per capita wealth of less than EUR 6,000.

Huge global prosperity gap ...

Wealth is distributed very unevenly throughout the world. Even today, just under 90% of global financial assets are still in the hands of private households in HWCs, although these countries are home to only around 20% of the global population. The global prosperity gap is immense from a per capita perspective, too: global per capita financial assets averaged EUR 20,150 at the end of 2010. At EUR 90,080, the figure for the HWCs was many times greater than for the LWCs, where per capita financial assets averaged only EUR 2,100. People in MWCs had average financial assets worth EUR 10,540.

...but the poor are catching up

Despite the vast differences, however, the last ten years have not been a lost decade for the world's poorer populations. Per capita wealth in the LWCs has been growing by 17% a year since 2000, almost seven times faster than in the HWCs. Based on current exchange rates at the beginning of the decade financial assets in the HWCs were still 159 times as high as in the LWCs, a factor that has since been reduced to 43. These enormous differences in growth are closely linked to the varying impact of the stock market crashes, particularly that triggered by the recent financial crisis. The world's poorer countries have escaped these slumps virtually unscathed: average per capita financial assets in the LWCs, for example, are already 50% higher than they were in 2007, whereas in the HWCs, financial assets are still lingering at a level that is 2.3% below the pre-crisis level.

Eastern European wealth is growing fastest

A regional analysis returns the expected result: on the one hand, we have the rich regions of North America, western Europe and Australia, with average per capita wealth of between EUR 65,000 and EUR 110,000, and on the other, there are the poorer countries of Asia, Latin America and eastern Europe, where the same figure comes in at only somewhere between EUR 3,500 and EUR 8,000; without the three Asian HWCs (Japan, Taiwan and Singapore), the corresponding value for Asia's emerging markets actually comes in at only EUR 2,600. On the other hand, the eastern European EU members alone clock up average per capita assets of EUR 7,960.

Eastern European households (region as a whole) have also produced the highest growth rate over the past decade: per capita assets have been growing at an average rate of a good 16% a year, with developments in Latin America (+14.4%) and the Asian emerging markets (+13.5%) looking similarly dynamic. What is more, the financial crisis did not deal any particularly severe blow to the latter two regions and growth in the period from 2007 onwards has been almost just as high as it was pre-2007. In eastern Europe, by contrast, the growth rate has been sliced in half since 2007.

Conservative asset structure in poor countries

One of the reasons behind the marked differences in the pace of growth owing to the varying degree of susceptibility to crisis also lies in asset structure. In the HWCs, financial assets are distributed more or less evenly among the three major asset classes: bank deposits, insurance policies/pensions and securities, although the latter still dominate with a share of 37%. In the LWCs, by far the majority of assets (72%) are held in bank deposits – as was already the case before the outbreak of the financial crisis – and in MWCs, too, bank deposits still account for more than 40% of all financial assets.

Nevertheless, more security-focused than return-oriented investment strategies have since become something of a global trend. Bank deposits have upped their share of global financial assets by more than four percentage points over the past decade and have see above-average gains in richer regions like Australia, western Europe and North America. But in terms of the need for long-term wealth accumulation, the tendency to "flee" to low-risk investments appears counterproductive. This is why a fast solution to the debt crises is an absolute must if investor confidence is to make a comeback.

Deleveraging progress

As with savings habits, the differences in borrowing behavior are similarly pronounced. Global private household debt comes in at 67.5% of economic output. But while this figure stands at an average of 88% for the HWCs, it is only 19.8% for the LWCs. This means that private debt is primarily a problem affecting households in rich countries, and nowhere are private debt levels higher than in Australia and New Zealand, where private debt equates to a total of 111% of GDP. Debt momentum has, however, slowed considerably in recent years; in some countries – primarily in the US – private household debt has actually been on the decline in absolute terms. As a result of these efforts, the debt ratio (debt as a percentage of economic output) has dropped by 3.5 percentage points since reaching its peak in late 2007. This means that overall, at least as far as private households are concerned, progress is being made on the deleveraging front.

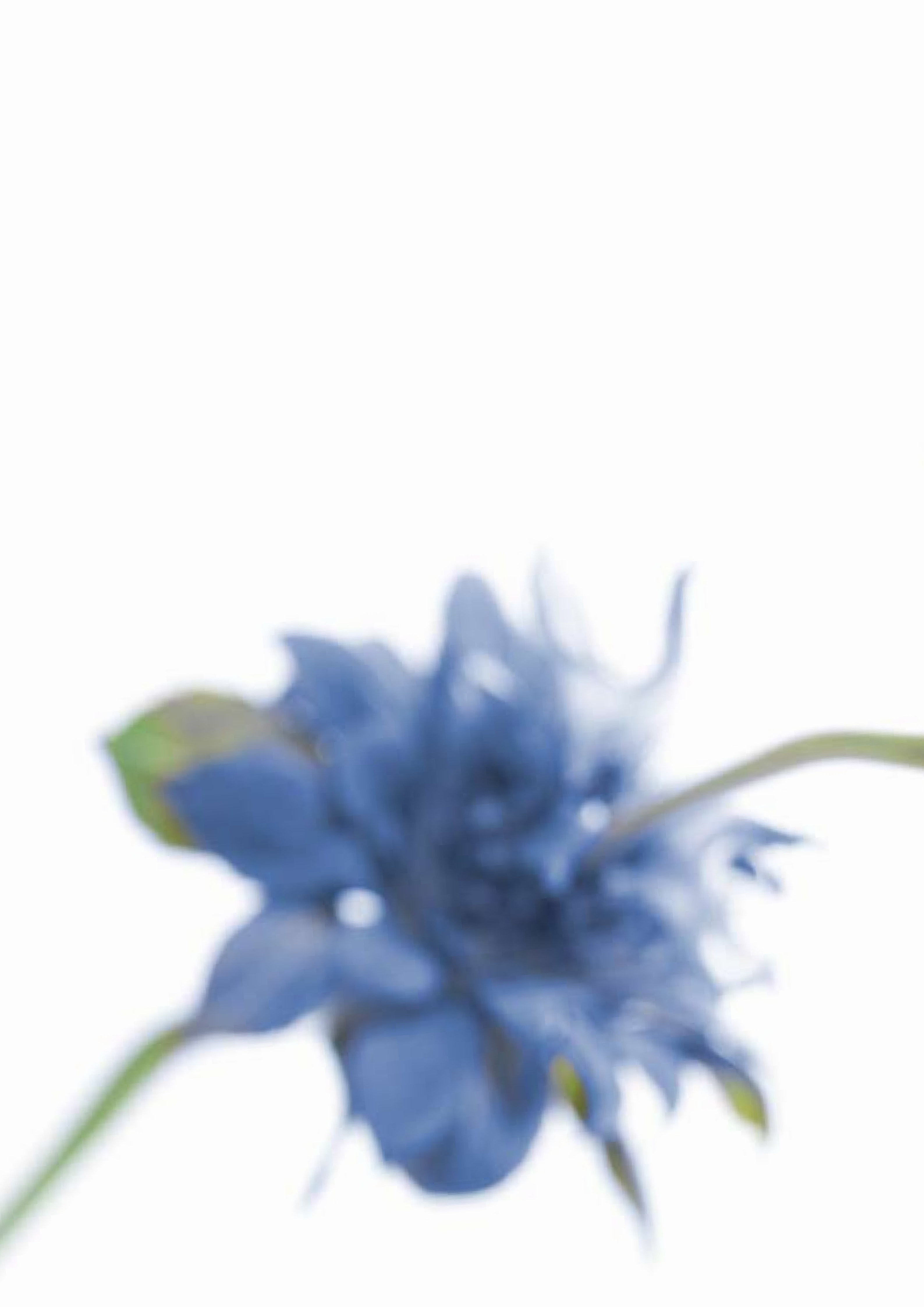
As a result, net financial asset growth over the past two years has again been outpacing the growth in gross financial assets for the first time. This does not, however, apply to the decade as a whole; over the past ten years, the growth in net financial assets has averaged 3.3% a year, lagging behind the growth in gross financial assets (4.1%). In relation to economic output, net financial assets in all regions - with the exception of Latin America and the Asian emerging markets - have deteriorated significantly since 2000.

570 million people fall into the wealth middle class

The analysis of wealth distribution by country neglects to take account of differences within individual countries. Consequently, the Allianz Global Wealth Report has also calculated the average per capita wealth per population decile within the countries analyzed. According to this calculation, in 2010 570 million people worldwide belonged to the middle class of wealth owners (per capita financial assets of between EUR 6,000 and EUR 36,200) – roughly 20 million more than last year. More than half of them were not to be found in the rich countries (HWC). 520 million people in the world can be deemed to belong to the wealth upper class. It is now the case that 55 million of these are not living in the world's industrialized nations.[1] The wealth upper class is now following in the footsteps of the wealth middle class in terms of globalization.

Not least given the above, it proves revealing to adopt an approach that allows country-specific factors to be assessed and analyzed in a regional context. The second part of the Allianz Global Wealth Report is therefore dedicated to presenting the development of financial assets in individual regions.

1 Due to exchange rate effects these results differ slightly from those of the last year's issue of the Allianz Global Wealth Report.



Development of global financial assets:

Asset growth as a result of deleveraging

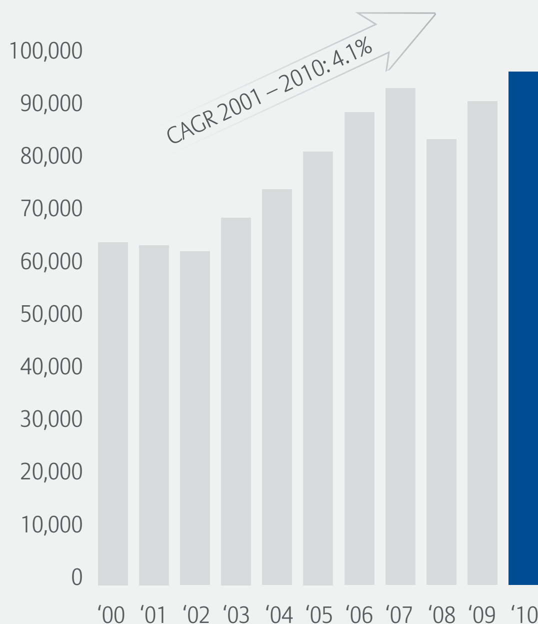
The marked global economic upswing has paid dividends for savers as well: in 2010, gross global financial assets climbed back up to above the 2007 pre-crisis level for the first time. But even now, with the financial crisis behind us, the challenges facing private households are not set to become any less pressing; in Europe, in particular, the debt crisis sent out new shock waves that have certainly left their mark on assets in the countries affected. All in all, continued uncertainty, the shaky predicament of state finances and the emerging "pensions crisis" triggered by demographic change have resulted in a marked change in savings habits, sparking corresponding shifts in investment portfolios. On the other hand, the emerging markets continued to race ahead with their catch up work, which also gives rise to different debt momentum. Whereas many of the world's industrialized nations focused more on deleveraging, meaning that net financial asset growth clearly outstripped the growth in gross financial assets, personal debt levels on the emerging markets rose further, in tandem with strong overall economic performance. As is the case with the assets themselves, however, the differences in absolute terms remain considerable.

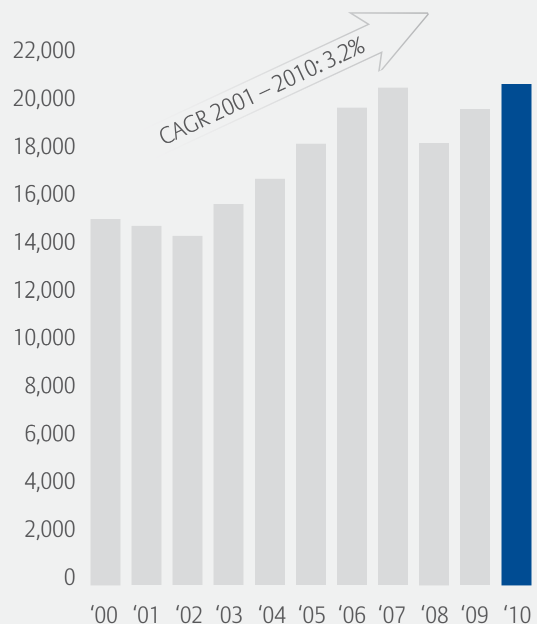
Consequences of the financial crisis have been digested

The gross global financial assets of private households once again showed substantial growth last year, climbing by 6.2% (2009: 8.5%) to total EUR 95,300 billion. This made up for the losses incurred as a result of the financial crisis, putting financial assets 3.3% ahead of the high of EUR 92,200 billion reached at the end of 2007.

All in all, global financial assets have been growing at an average rate of 4.1% a year since 2000, somewhat slower than the growth in global economic output, which has increased by around 5.5% a year in nominal terms over the

Consequences of the financial crisis have been digested





CAGR = Compound Annual Growth Rate
Source: National Central Banks and Statistical Offices, UN, Allianz SE.

same period. Although the immediate afterpains of the financial crisis have now subsided, this growth differential shows the long-term impact that the massive stock market slumps provoked by the Lehman shock – and the earlier collapse at the beginning of the decade when the dotcom bubble burst – had on capital formation. If we assume that asset growth over the last ten years matched the average growth in nominal economic output, financial assets would be around EUR 13,400 billion, or 14.1%, higher today.

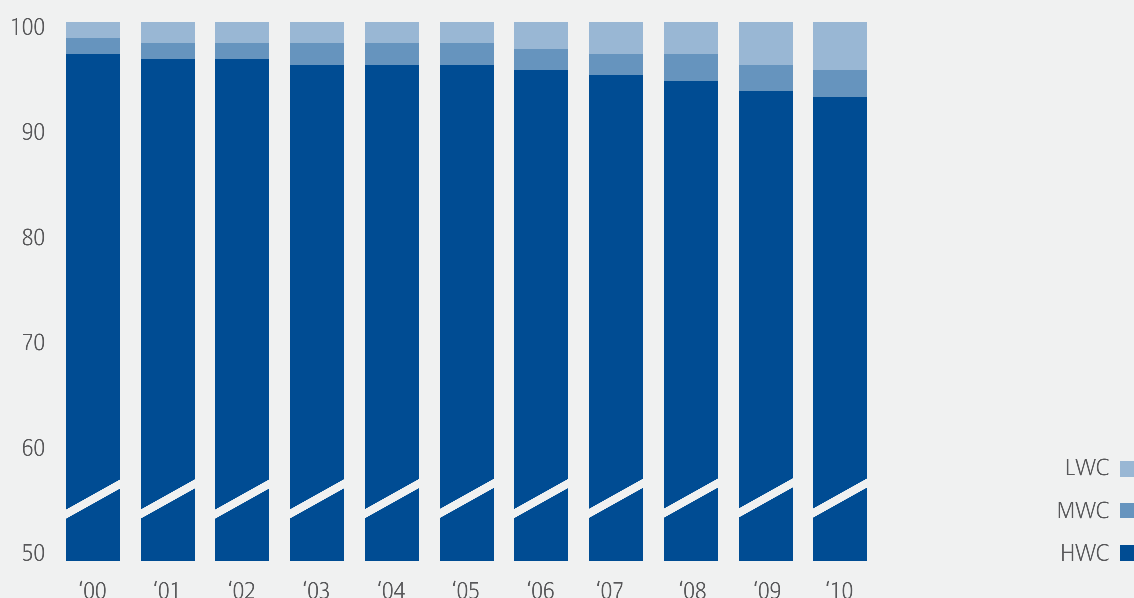
The subdued development is all the more evident if we look at private financial assets in per capita terms. In 2010, around EUR 20,150 could be attributed to each global citizen, a figure that was up by 5.3% on 2009. This means that the previous high reported in 2007 (EUR 20,000 per capita) was actually outstripped by almost 1%. All in all, however, per capita financial assets have been increasing by only 3.2% a year since the beginning of the new millennium, i.e. at roughly the same pace as average inflation, which comes in at 3% globally. This moderate growth rate reflects not only the consequences of the financial crisis, but also the unrelenting growth of the global population.

Analysis by wealth class

In order to paint a more sophisticated picture of global wealth distribution by country, the Allianz Global Wealth Report has split the countries evaluated into three wealth classes, similar to the income classes used by the World Bank: high wealth countries (HWC) with average per capita wealth of more than EUR 36,200; middle wealth countries (MWC), per capita wealth of between EUR 6,000 and EUR 36,200; and low wealth countries (LWC), per capita wealth of less than EUR 6,000 (please refer to Appendix A for information on how the individual wealth classes are defined).

Power shift

Share of total global financial assets, by country groups in %



Source: National Central Banks and Statistical Offices, UNU WIDER, World Bank, Allianz SE.

Huge global prosperity gap

The result is anything but surprising. Wealth is distributed very unevenly throughout the world. It is still the case that 87% of gross global financial assets are in the hands of private households in the HWCs – although these countries account for only 20% of the total population and just two thirds of global economic output. The trend is, nevertheless, moving in the "right" direction: the HWCs' share of the global wealth cake has shrunk by eight percentage points since 2000, meaning that poorer countries are gaining ground.

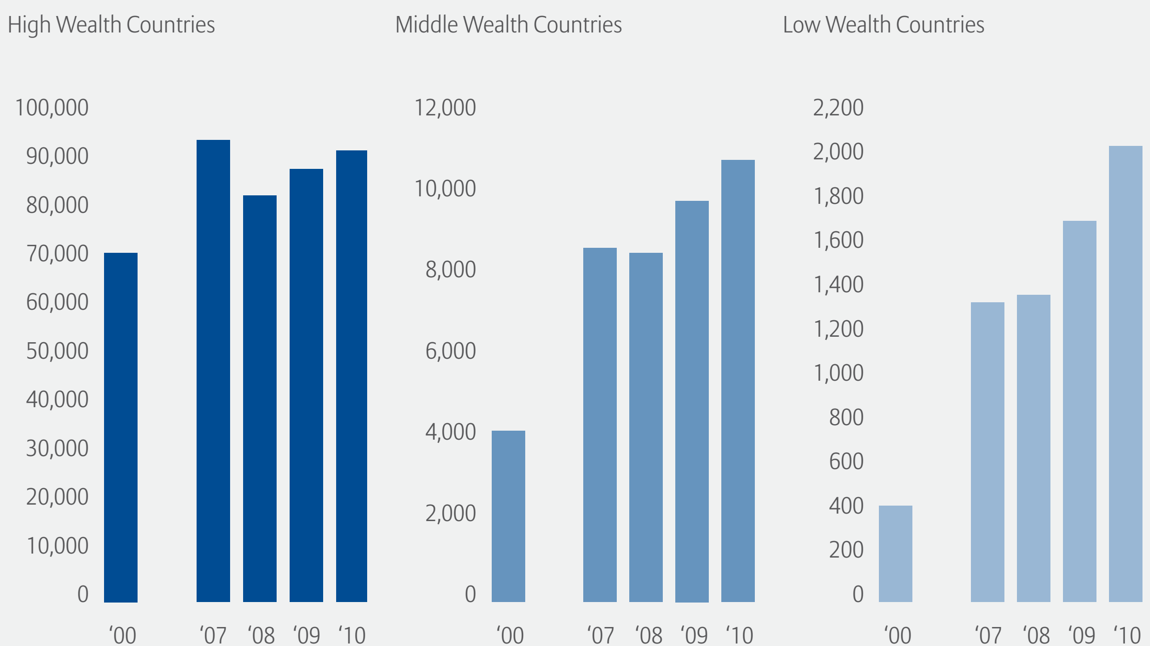
The global prosperity gap is huge from a per capita perspective, too. At EUR 90,080, per capita wealth in the HWCs at the end of 2010 was several times greater than in the LWCs, where it averaged only EUR 2,100. People in MWCs had average financial assets worth EUR 10,540.

Poorer countries are catching up

Despite these vast differences, however, the last ten years have not been a lost decade for the world's poorer countries. Per capita wealth in the LWCs has been growing by almost 17% a year since 2000, almost seven times faster than in the HWCs. The MWCs are also still showing extremely high growth, with an increase of 10%. These sizeable differences in growth are closely linked to the varying impact of the two stock market crashes. The assets of poorer countries managed to escape these crashes virtually unscathed. This becomes particularly clear if we compare the development in financial assets in the HWCs since the most recent financial crisis directly with the development in the LWCs: while gross per capita financial assets in the poorer countries have risen by more than 50% since the end of 2007, average per capita financial assets in the HWCs were still 2.3% *lower* than the pre-crisis level at the end of 2010.

Big prosperity gap

Financial assets per capita in EUR



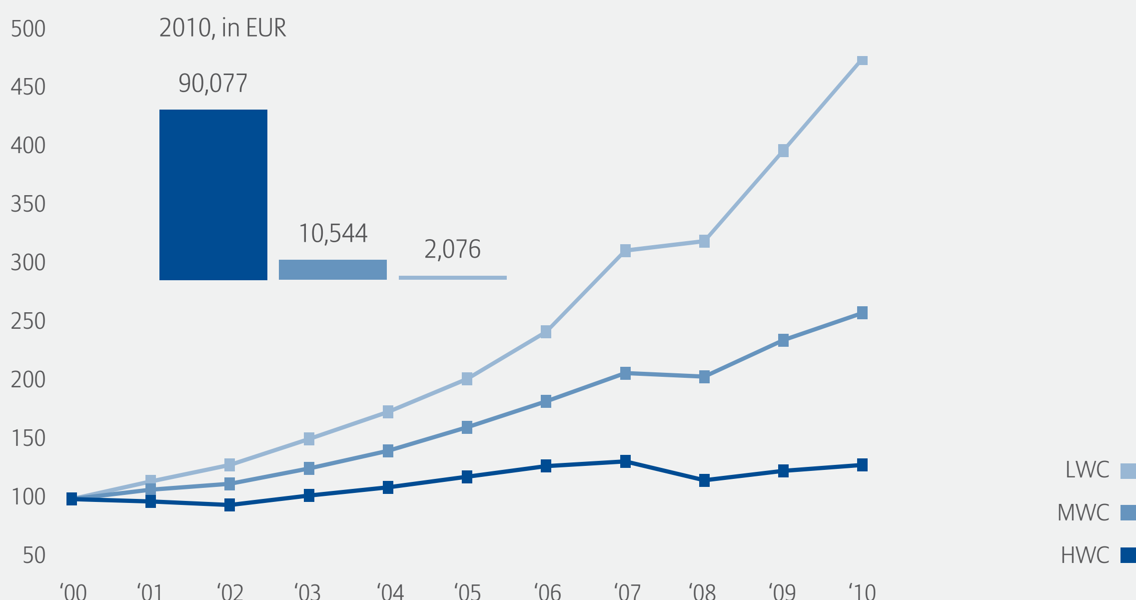
Source: National Central Banks and Statistical Offices, UNU WIDER, World Bank, Allianz SE.

This uneven development means that the "inequality factor" between the world's richer and poorer countries, which was still hovering at 159 in 2000, has now been pushed down to 43, a development that is, without a doubt, impressive and highlights some degree of convergence of financial assets per capita, at least in ***relative*** terms. After all, if we look at the flip side of the coin, the ***absolute*** gap in per capita financial assets has widened even further, from around EUR 69,000 in 2000 to EUR 88,000 today – in spite of the signs of narrowing that emerged during some phases of the financial crisis. Even if the difference in growth momentum seen over the past ten years were to persist in the future – uninterrupted catch-up trend on the one hand and financial crises at periodic intervals on the other – it would be 2026 before the absolute differences would start to become less pronounced. Despite the formidable progress made in many poorer countries like China or India, the chasm between rich and poor within the countries will remain enormous for the foreseeable future.

Most HWCs are located in North America and western Europe. As far as the other regions of the world are concerned, only Australia, Japan, Singapore and Taiwan have made it into the club of rich countries. Consequently, the global wealth map paints a predictable picture; on the one hand, we have the rich countries of North America, western Europe and Australia, with average per capita wealth ranging from EUR 66,000 to EUR 110,000, and on the other, there are the poorer countries of Asia, Latin America and eastern Europe, where the same figure comes in at only between EUR 3,500 and EUR 8,000. Without the three Asian HWCs (Japan, Taiwan and Singapore), however, Asian emerging markets' per capita wealth would come in at only EUR 2,600. On the other hand, eastern Europe achieves a value of EUR 7,960, provided that we include only the EU member states. The similarly high average per capita assets of EUR 6,000 in Latin America reflect the progress that this region has made in recent years.

"Convergence" of financial assets per capita

Index (2000=100)



Source: National Central Banks and Statistical Offices, UNU WIDER, World Bank, Allianz SE.

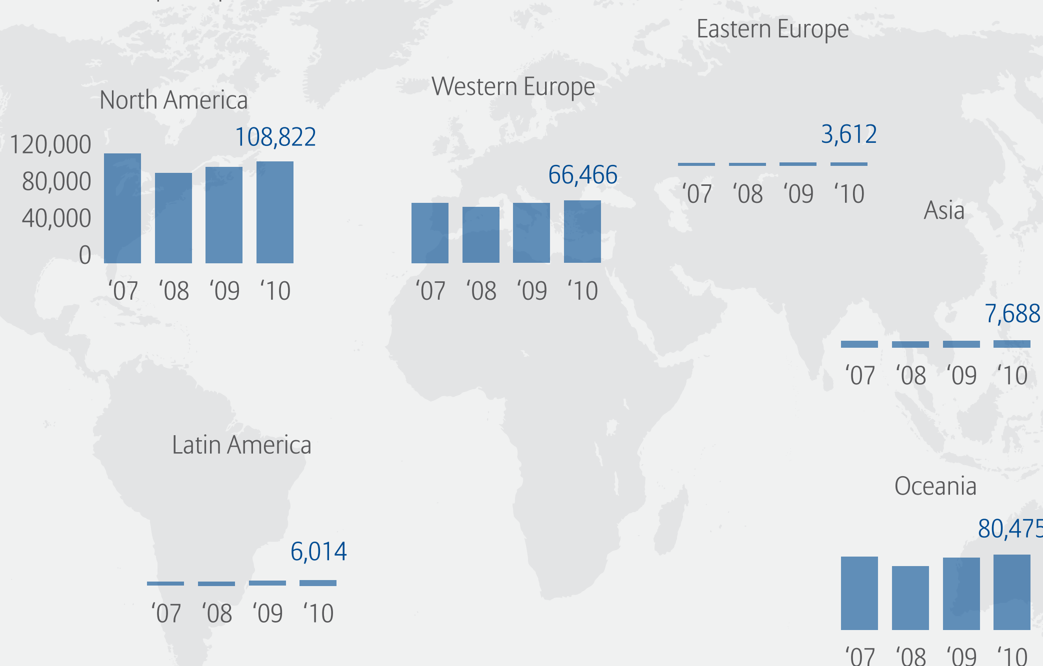
Eastern European wealth is growing fastest

Eastern European households (region as a whole) have witnessed the strongest growth in per capita wealth over the past decade, with an average annual growth rate of more than 16%. Eastern Europe also fared well on average in the face of the financial crisis and by the end of 2010, per capita assets were already up by one third on the pre-crisis level. Nevertheless, it is impossible to overlook the repercussions of the financial crisis. Ever since the crisis hit, the annual growth rate has been virtually sawn in half, from more than 19% before the crisis (average annual growth rate in the years 2000 to 2007) to around 10% after the crisis (average annual growth rate in the years 2007 to 2010).

By contrast, the emerging markets of Asia (Asia without HWC) and Latin America have escaped virtually unscathed, with average annual growth rates of 12.9% and 12.4% respectively, only a whisker away from the pre-crisis level. The low value for Asia as a whole is solely attributable to the standstill in Japan, by far the richest country in the region, where per capita wealth has been growing by only 0.6% on average since 2000.

Global imbalances

Financial assets per capita in EUR, 2010

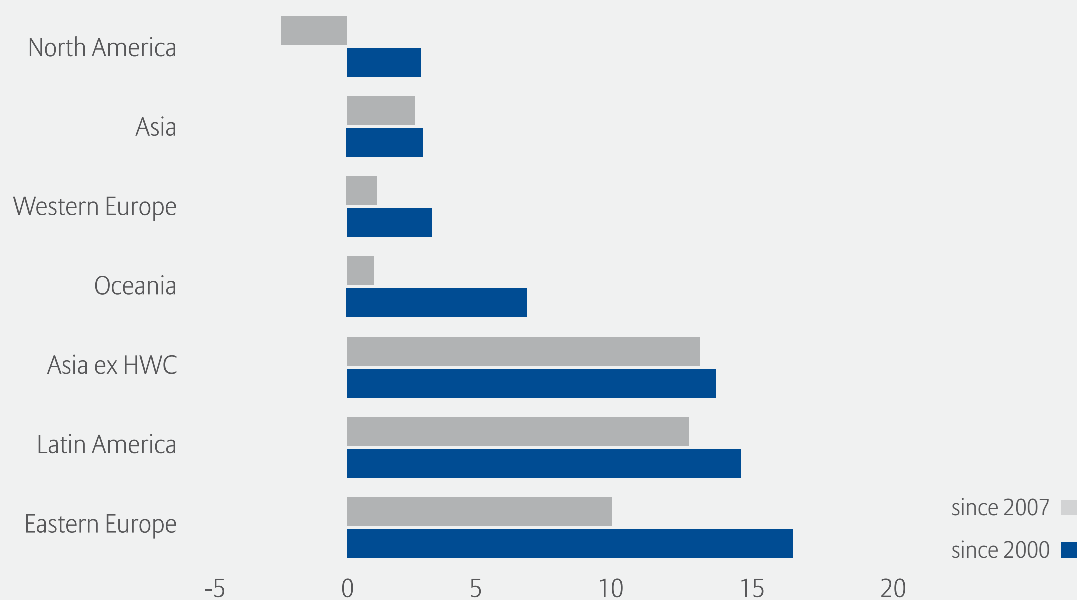


Source: National Central Banks and Statistical Offices, UN, Allianz SE.

All in all, the regional analysis also shows that it is precisely the poorer countries that have been witnessing a dramatic increase in wealth over the past decade. The situation in the rich regions tells the very opposite story. Not only has the growth in per capita financial assets been far slower over the past decade, particularly in North America and western Europe, where growth comes in at around 3%, the setback inflicted on these regions by the financial crisis was also much heftier: in North America, gross per capita financial assets are still down on the level seen in 2007 (-7.2%), which is attributable solely to the weak development in the US (-8.4%). In western Europe and Oceania, signs of at least slight growth are starting to emerge again on the whole. In addition to the US, however, five out of six other countries whose per capita financial assets are still much lower than they were before the financial crisis are euro zone members: Besides Japan (-3%), these are Greece (-16.4%), Spain (-9.8%), Ireland (-7.7%), Italy (-0.9%) and Estonia (-0.5%).

Comparison of growth: Champion eastern Europe

Average annual growth of financial assets per capita in %



Source: National Central Banks and Statistical Offices, UN, Allianz SE.

Conservative wealth structure in poorer countries

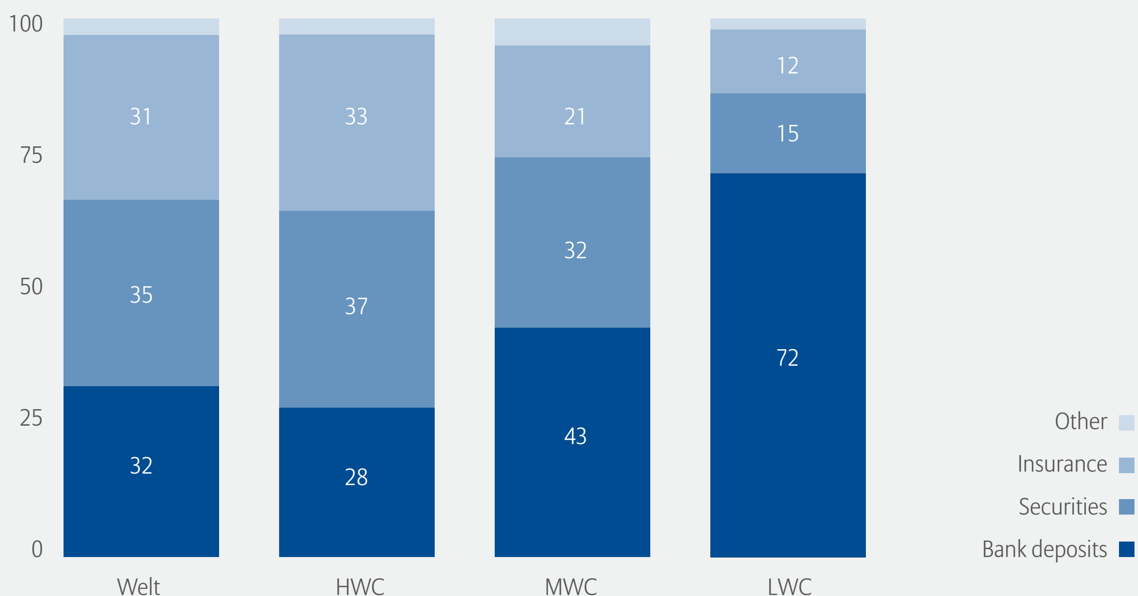
The reasons why the impact on financial assets has been so varied lie, for one, in the nature of the crisis itself – the 2008 financial crisis was a crisis that affected developed markets as opposed to emerging markets (unlike with previous crises). For another, differences in savings habits before the crisis also explain the radical differences in asset structures and debt dynamics.

It is relatively easy to see the link between asset structures and susceptibility to crisis. The higher the proportion of volatile capital market instruments in a portfolio, the greater the negative impact of losses in the value of these securities on overall performance. This is why private households in the US and Greece, for example, were hit so hard: before the crisis (late 2007), securities accounted for more than 50% and more than 40% of financial assets in these two countries respectively.

There are significant differences between the country groups on the whole as far as asset structures are concerned. In the HWCs, financial assets are distributed more or less evenly among the three major asset classes: bank deposits, insurance policies/pensions and securities, although the latter dominate with a share of 37%. In the LWCs, by far the majority of assets (72%) are held in bank deposits – as was already the case before the outbreak of the financial crisis – and in MWCs, too, bank deposits still account for more than 40% of all financial assets. There is no doubt that this extremely risk-averse asset structure has helped the world's poorer countries – even though it was not, of course, a conscious investment decision or a direct consequence of the financial crisis, but rather the result of the prevailing circumstances, i.e. the maturity of the individual financial systems, in the majority of cases.

Conservative asset structure in poorer countries

Asset classes as % of total global financial assets, 2010



Source: National Central Banks and Statistical Offices, Allianz SE.

Increase in risk aversion across the globe

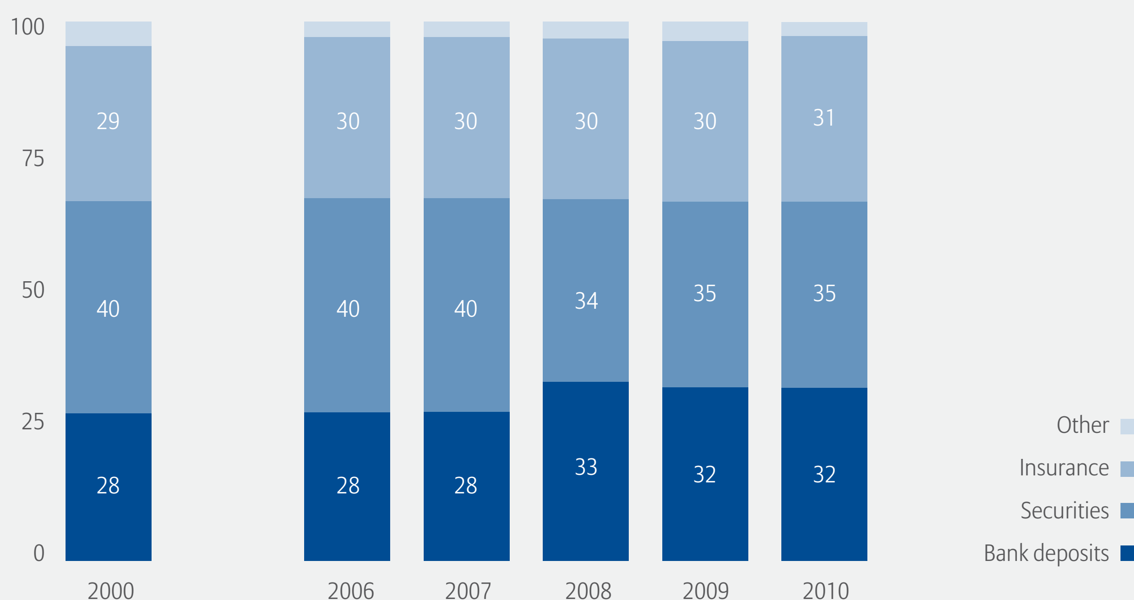
The financial and debt crisis has meant that the increased investor focus on security as opposed to on returns is by no means a characteristic that describes only the world's poorer countries. This trend is now being observed across the globe. While securities have become much less popular among investors, bank deposits have upped their share of global financial assets by more than 4 percentage points over the last decade. This reflects the increasing mood of risk aversion among investors globally. This does not, however, apply equally to all regions and countries. In actual fact, the global figures hide some very striking regional differences.

Bank deposits, for example, have been enjoying strong growth in richer regions such as Oceania, western Europe and North America, in particular. Here, where many households already have substantial assets, the fear of loss is acute; at the same time, these regions are (or were) firmly in the firing line during the recent crises. This has fueled considerable uncertainty surrounding what is in store for the capital markets, luring investors into assuming a wait-and-see stance and sticking by a preference for liquidity. In many poorer regions, on the other hand, especially in Latin America, bank deposits are gradually starting to lose their appeal. Developments on the financial markets are encouraging households to move away from simpler savings models and towards investments that beckon with promises of higher returns.

Securities, however, are proving virtually unable to capitalize on this trend, losing ground in all global regions, even in the poorer ones. This comes in spite of the fact that losses in these regions are, at least, far less substantial,

Increasing risk aversion

Asset classes as % of total global financial assets



Source: National Central Banks and Statistical Offices, Allianz SE.

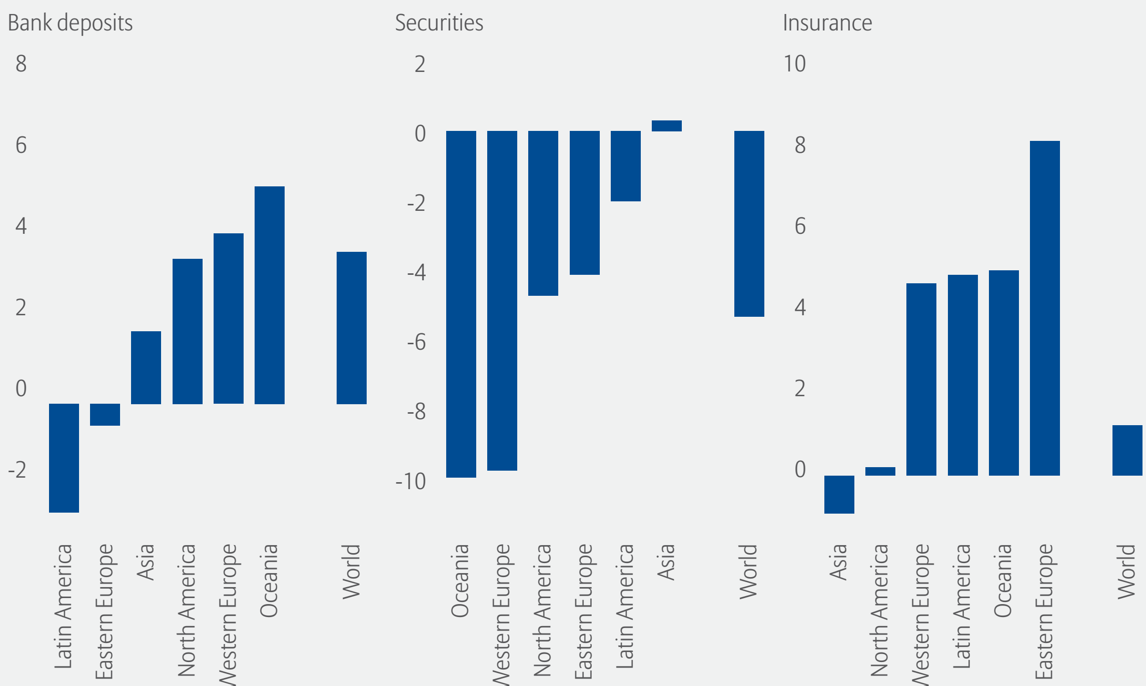
thanks mainly to improved stock market performance. This trend towards "superior" investment products, on the other hand, is proving a positive one for insurance and pension companies. There is no region in which this is more pronounced than in eastern Europe, where this asset class has been given an additional boost by the far-reaching pension reforms implemented in recent years. The story in Latin America is a similar one, whereas in Asia, developments are being overshadowed mainly by the widespread stagnation in Japan.

The fact that insurance and pension products are barely gaining market share in a global comparison is due primarily to the climate on the world's two biggest markets for these products, Japan and the US. Although insurance and pension products have formed a key component of retirement provision in the US for some time now, they have been unable to further expand their position in recent years. What is more, these products are not necessarily seen as a safe haven for turbulent times, because many, such as variable annuities, are explicitly tied to the capital market.

In western Europe, on the other hand, the starting position was quite different. Western Europeans, used to generous state pensions for decades, have only recently started to realize that the promises made by their governments will be virtually impossible to keep in the long run, with demographic change and spiraling sovereign debt lurking in the background. Many countries have already started to reduce the amounts promised to their future pensioners, meaning that private provision is becoming an absolute must for anyone who wants to maintain their standard of living in old age. Many investors have reacted to this trend by investing more in insurance and pension products, some of which are also being subsidized by the state in the form of fiscal incentives.

Asset classes benefit differently

Change of asset classes' share of total assets between 2000 and 2010 in percentage points



Source: National Central Banks and Statistical Offices, Allianz SE.

Looking at the dramatic changes in the age structure of many European countries, however, it remains to be seen whether the reforms and the reactions in terms of savings habits will prove sufficient. Our calculations definitely suggest that the "pension gap" is still very much present. If no further changes are made to the overall (tax) environment, there is a real danger that many private households will fail to accumulate the level of savings that they need for the future.

The financial and debt crisis has made it all the more imperative for savers to take action. The continued risk aversion among investors is understandable given the uncertainty that is plaguing the markets. But as far as the need for long-term wealth accumulation is concerned, the tendency to "flee" to low-risk investments is counterproductive. The fact that savers are shying away from investments that offer the sort of returns they need means that they have to save even harder in order to create a sufficiently comfortable financial cushion. A responsible approach to provision ultimately involves a certain degree of risk-taking.

It is clear that, with regard to the current drives to make the financial market more stable and consolidate government budgets, there is more at stake than making banks bear their share of the crisis costs, curbing speculation or meeting deficit targets. The bigger, more important task on the to-do list is restoring confidence in the financial markets and in long-term investment among private households so that they can surmount the challenge posed by demographic change.

After all, a closer look at risk attitudes among private households shows that, while risk appetite is shaped by a large number of factors, economic crises play a significant role. If the trend towards increasing risk aversion that has largely dominated the last 15 years continues unperturbed, the question will, eventually, arise as to whether "timid" societies will still be able to take the right action when faced with complex challenges (see the following box "Composite Country Index of Propensity to Risk (CIPR)").

Composite Country Index of Propensity to Risk (CIPR)

The CIPR allows certain risk profiles to be allocated to individuals societies at aggregate level. This is done by looking at the factors that influence individual risk behavior, i.e. how individuals react to uncertainty, as identified in empirical studies. These include factors such as education, occupation, income, gender and age: statistically significant differences in behavioral patterns emerge depending on how these factors vary.

Assuming that these variables not only affect how individuals react to risks, but also have an impact on the behavior of entire groups, the values can be tallied up using a simple three-tier “risk propensity scale” (risk-averse, risk-neutral, risk-seeking) to produce a comprehensive country index, the CIPR. For the western European countries, as well as for the US and Japan, we have calculated the CIPR for the period from 1995 to 2010.

The results are interesting. First of all, we can see marked fluctuation over time. In particular, the increase in risk aversion in times of crisis is an unmistakable trend, for example in the aftermath of the terrorist attacks of September 2001 or in the wake of the most recent global financial and economic crisis. In most of the countries that we had under the microscope, risk aversion has generally been on the rise in recent years, with only two countries bucking this trend: France and Japan. While both developments may appear surprising at first glance, they certainly tie in with recent social processes that can be explained by increasing risk appetite/ greater confidence as regards the future in spite of a climate of uncertainty.

France, by way of example, has had a higher birth rate than Germany for years now, even though - unlike in the Nordic countries, for example - this is not necessarily explained by substantially more child-friendly family policies; this is why voices seeking to explain the trend generally point towards a different “attitude” towards starting a family. The CIPR allows this difference in attitudes to be measured and shows that these “soft” factors presumably are, indeed, a major factor in the equation.

Japan, on the other hand, proved something of a surprise in terms of its population’s reaction to the devastating earthquake and ensuing tsunami and nuclear disaster in the spring: level-headed in the midst of the catastrophe, unshaken and keen to embrace reform as the reconstruction work commenced. In actual fact, two parallel worlds seem to have emerged in Japan in recent years: on the one hand, we have the country’s self-absorbed political system, while on the other, we see a society that is looking increasingly courageous when it comes to getting to grips with challenges and change. Given the general political stagnation, the individuals that make up Japan’s society had little choice but to conjure up more entrepreneurial spirit than they have shown in the past. With conditions such as these providing the backdrop, the reconstruction efforts in the areas hit by the tragedy and the demise of the country’s unwavering faith in nuclear power could prove to be a real opportunity for Japan.

After all, the cliché of a rusty Japan that refuses to let go of the success recipes of yesteryear is no longer a fitting one. In a comparison of the average CIPR for the last 15 years, Japan is now one of the world’s top 5, making Japanese society one of the five societies with the greatest risk appetites in our analysis. The other members of the “top 5”, by contrast, come as less of a surprise: the US still leads the field, followed by southern European countries, which reaped considerable benefits from the launch of the euro in the period analyzed: boom years are carefree years. At the other end of the scale, we have Germany, another predictable example: the proverbial “German angst” is also mirrored in the CIPR values.

The CIPR country risk profiles can also be used to analyze the investment decisions made by private households. In this respect, we can see a stable correlation between the CIPR and the proportion of total assets invested in bank deposits and securities: In the case of bank deposits, most countries reveal a positive correlation - higher CIPR values, i.e. greater risk aversion, are associated with a higher proportion of bank deposits in investment portfolios - whereas by contrast, a negative correlation is prominent for securities. This shows that, for the western industrialized nations that have been analyzed here, the shifts in asset composition seen over the past decade - bank deposits have gained ground at the expense of securities - are, in fact, due to changes in risk behavior.

If we turn to insurance and pensions, on the other hand, the findings are less clear. There is no evident correlation pattern between the CIPR and the share of investment portfolios, with just as many countries showing a positive link as a negative one. This phenomenon can be attributed to the different product characteristics in individual countries. In some countries, unit-linked insurance products play a dominant role, i.e. the (tax-incentivized) insurance wrapper serves primarily to enable investment on the stock market; as a result - and as with securities - the correlation is a negative one: greater risk aversion results in fewer investments in these asset classes. In other countries that are dominated more by conventional insurance policies, the link is precisely the opposite. These differences also explain why no clear trend has emerged in recent years, at least when we look at the proportion of global assets invested in insurance policies and pensions.

CIPR index: country ranking based on average propensity to risk over the past 15 years*

Rank*	Country	Average value (1995-2009)	Variance
1	US	-0.037	0.024
2	Italy	0.068	0.051
3	Spain	0.072	0.051
4	Greece	0.092	0.046
5	Japan	0.107	0.043
6	Sweden	0.109	0.033
7	Austria	0.110	0.023
8	UK	0.121	0.030
9	France	0.152	0.052
10	Ireland	0.152	0.044
11	Netherlands	0.160	0.067
12	Belgium	0.163	0.056
13	Switzerland	0.167	0.023
14	Norway	0.174	0.011
15	Denmark	0.176	0.045
16	Portugal	0.183	0.026
17	Finland	0.191	0.042
18	Germany	0.241	0.050

For details on the CIPR, how it is calculated and applied, refer to Allianz Economic Research & Corporate Development, The Composite Country Index of Propensity to Risk – CIPR, Working Paper 147, 2011.

*) ordered by risk aversion level: negative values indicate risk seeking behavior; values next to zero indicate risk neutrality; positive values indicate risk aversion.
Source: Allianz SE.

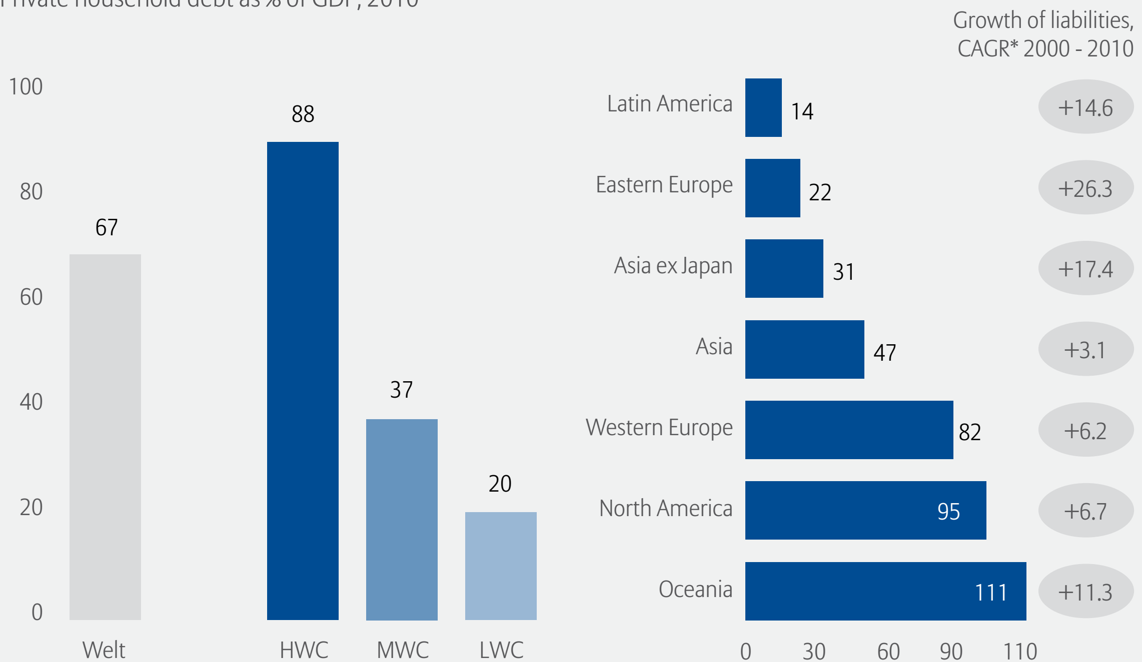
Running up debt in rich countries

The differences in borrowing behavior are similarly pronounced to those affecting asset structures. Global private household debt came in at 67.5% of economic output at the end of 2010. But while this value stands at 88% for the HWCs, it is only 19.8% for the LWCs. Private debt is therefore primarily a phenomenon affecting rich countries – although higher incomes mean more capital formation, they also entail higher debt levels. Nowhere were the debt levels of private households higher than in Australia and New Zealand, where this sort of debt corresponded to 111% of GDP.

Oceania is the only richer region in the world where debt has been growing at double-digit rates on average over the past decade. In all other cases, there are clear differences between richer and poorer regions in terms of the dynamics of debt. By far the biggest debt culprits are eastern European households, with average debt growth to the tune of 26% a year. This breathtaking growth is attributable primarily to the opening of the banking markets as a result of accession to the EU and the low-interest loans in foreign currencies (Swiss francs or euros) which enjoyed a long stint of popularity. The financial crisis, however, has made radical changes to this trend. Whereas 2009 brought virtual stagnation, debt in 2010 grew by “only” 10%.

Private debt – a problem of the HWC

Private household debt as % of GDP, 2010



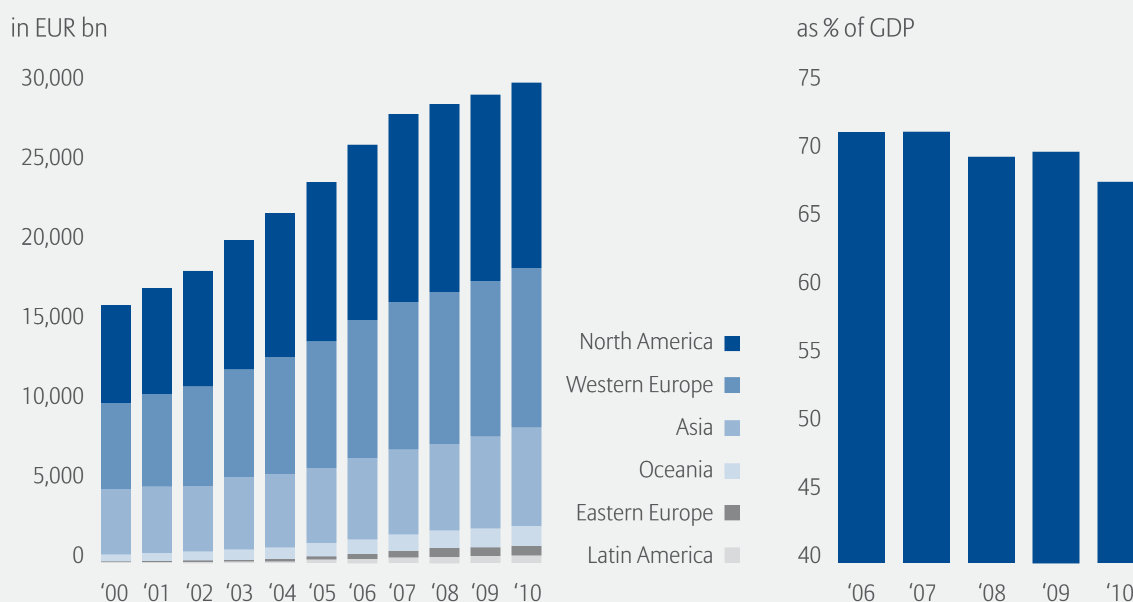
*CAGR = Compound Annual Growth Rate

Source: National Central Banks and Statistical Offices, UNU WIDER, World Bank, Allianz SE.

Eastern Europe is by no means an isolated case when it comes to the slowdown in debt accumulation in the aftermath of the financial crisis. This phenomenon is now being observed across the globe. In the US, which is still the world's largest "debt market", households have actually reduced their debt on the whole over the past three years – partially thanks to mortgage defaults and writedowns –, meaning that debt levels are now sitting at just under 3% ***below*** the pre-crisis level, which is certainly no mean feat. In addition to the US, there are five other countries in which loans have been reduced in absolute terms during this period: Japan, Germany, Ireland, Latvia and Kazakhstan. As a result of this turnaround in debt momentum, the debt ratio (debt as a percentage of economic output) has dropped by 3.5 percentage points since reaching its peak in late 2007. The much-trumpeted "deleveraging" that all market players have been encouraged to champion since the financial crisis is, at least, being quite successfully put into practice by private households.

Dynamic of indebtedness stopped

Development of global debt burden

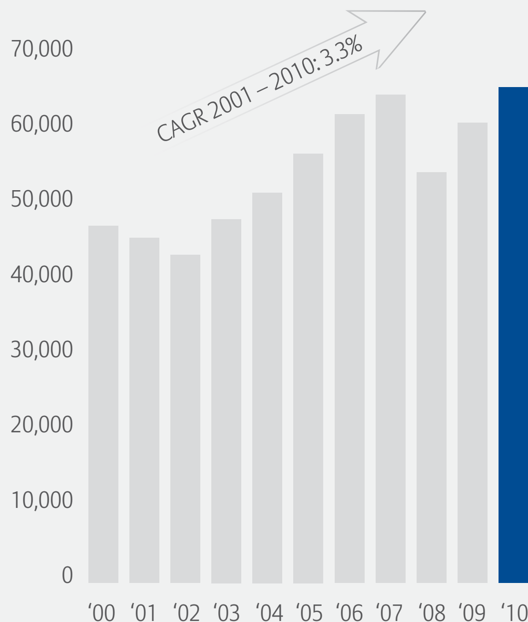


Source: National Central Banks and Statistical Offices, Allianz SE.

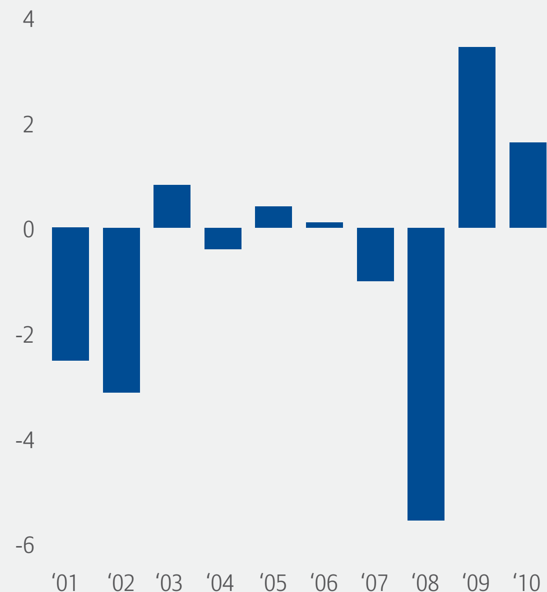
This has also sparked a sharp increase in net financial assets of 10% over the past two years. In all regions of the world, net financial asset growth has outstripped its gross counterpart in both 2009 and 2010 (the sole exception being Oceania in 2010). Looking at the decade as a whole, however, the development in financial assets has still been dragging its heels, with an average annual growth rate of 3.3% compared to 4.1% for gross financial assets. In a per capita comparison, the rates come in at 2.4% and 3.2% respectively; in North America, average per capita growth totaled only 1.7% compared to 2.7% for gross financial assets per year, with the rate for western Europe coming in at 1.9% compared to 3.1% gross. These figures highlight the fact that the deleveraging process among private households in richer countries is likely to be far from over. Years of excess cannot be corrected in the space of two years.

Net financial assets increasing faster since the crisis

Net financial assets in EUR bn



Differences in growth between net and gross financial assets in percentage points

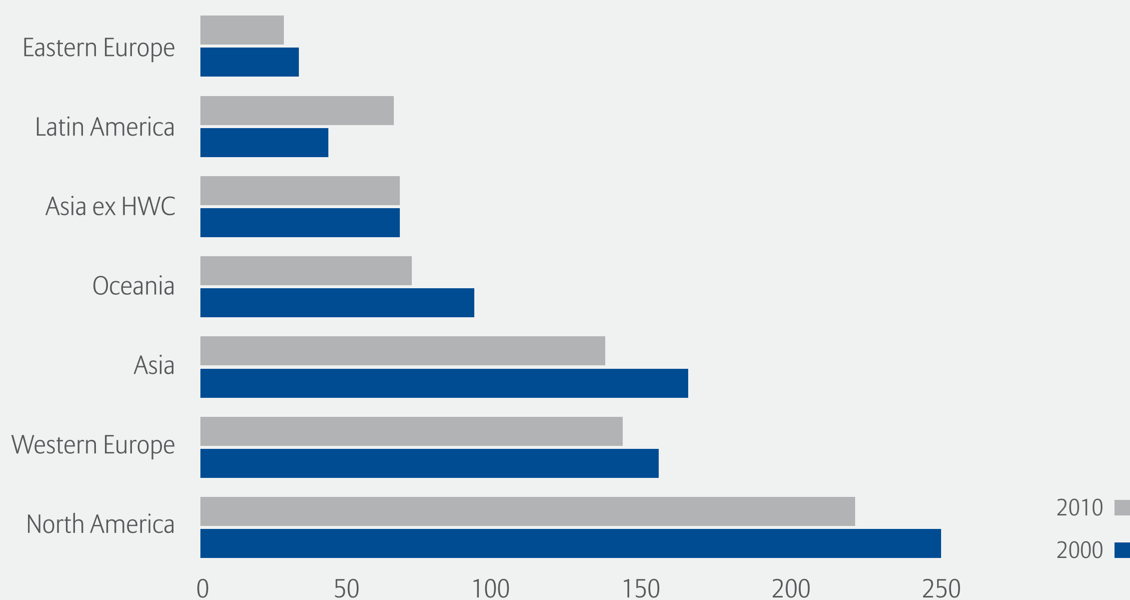


Source: National Central Banks and Statistical Offices, Allianz SE.

Finally, the negative impact of the high debt levels has left a clear mark on the development of net financial assets compared with economic output as well. There is only one region that has managed to improve this indicator over the last ten years: Latin America. Private households on Asia's emerging markets have at least managed to maintain their position in this respect, but all other regions have suffered drastic setbacks. This means that, in spite of asset growth, the conclusion reached at the end of the decade is a sobering one: on average, the asset situation of the vast majority of households has deteriorated and they are in a worse position than they were ten years ago relative to economic strength.

Net financial assets trailing behind economic output

Net financial assets as % of GDP



Source: National Central Banks and Statistical Offices, Allianz SE.

How global financial
assets are distributed:
How big is the
world's middle
class in terms of
wealth?

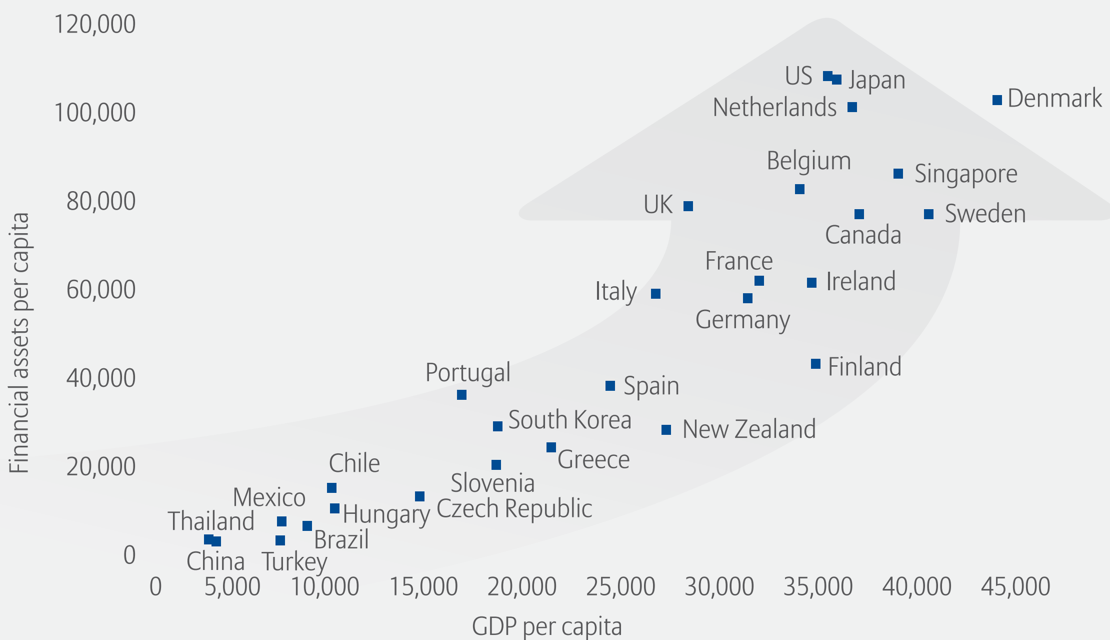
Social classes are normally identified in terms of income, meaning that the middle class is defined by how much it earns. By contrast, there is no system that divides society into "wealth classes."

But there is certainly a link between disposable income and wealth. Households have to exceed a certain income level before accumulating wealth is even an option.

As a general rule, people in lower income groups and some of the (income) middle class have either no, or only very few assets. This means that the terms "income middle class" and "wealth middle class" do not refer to the same group of people; rather, the distribution of income and wealth vary considerably: while around one third of the population earns half of the population's total income, only 10% of the population owns half of its assets on average.

Strong correlation between economic output and wealth

Financial assets of households and GDP per capita in EUR, 2010



Source: National Central Banks and Statistical Offices, UN, Allianz SE.

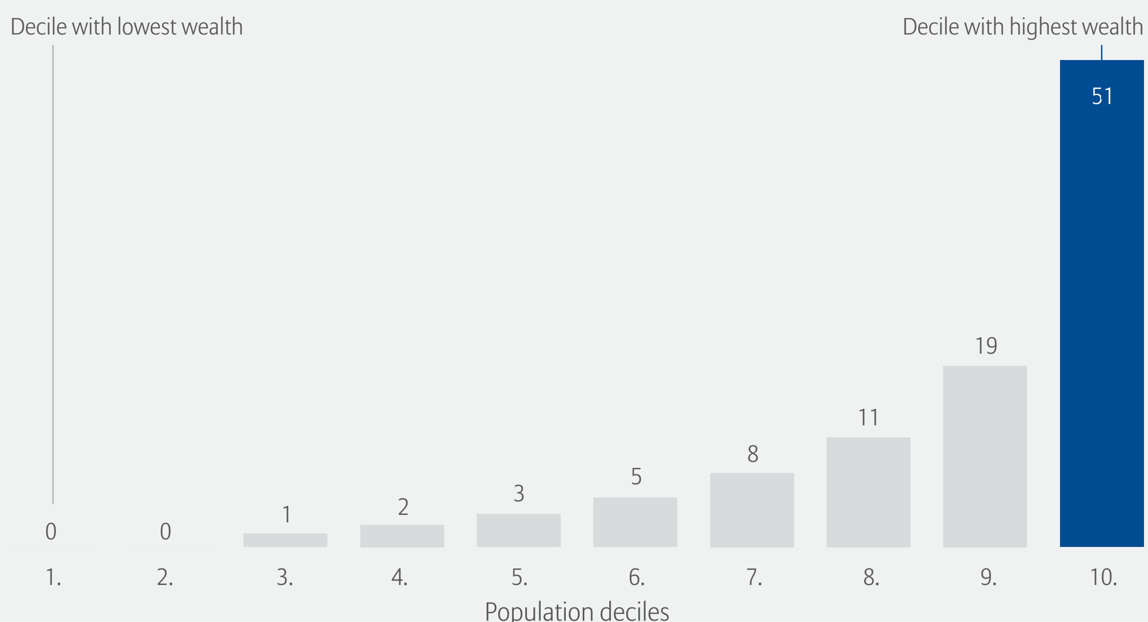
Consequently, our definition of the global wealth middle class is based not on the standard income classes, but on global average per capita wealth, which stood at EUR 20,150 at the end of 2010. We have defined the middle wealth countries (MWCs) as those countries that own between 30% and 180% of average global per capita wealth. In 2010, this corresponded to average per capita wealth of between EUR 6,000 and EUR 36,200 (please refer to Appendix A to see how the wealth thresholds were defined).

Group of middle wealth countries is still expanding

Out of the countries we have analyzed, this means that 16 countries "qualified" as Middle Wealth Countries (MWC) in 2010; three more than in the previous year. Brazil, Mexico and Latvia managed to leap into the MWC group. As in the previous year, the MWCs still include Chile in Latin America, Malaysia and South Korea in Asia, the Czech Republic, Hungary, Estonia, Lithuania, Poland, Slovakia, Slovenia and Croatia in eastern Europe, along with New Zealand; Greece also remains the only country in the EU-15 to be assigned to the MWC group. All in all, 490 million people live in the MWC countries, around 310 million more than in the previous year as the populous countries Brazil and Mexico arrived in the middle class. A virtually unchanged 920 million live in the high wealth countries (HWC, average per capita wealth of more than EUR 36,200), while 3.3 billion people live in the world's low wealth countries (LWC, per capita wealth of less than EUR 6,000) – which still include China and India.

Uneven distribution

Share of global financial assets (50 countries, 4.7bn people), by population deciles in %



Source: National Central Banks and Statistical Offices, UNU WIDER, World Bank, Allianz SE.

The group of HWCs is unchanged as against the previous year; in addition to the world's established industrialized nations, it also includes Singapore and Taiwan. At the end of 2010, these countries boasted average wealth of a good EUR 90,000 in a group that ranges from Portugal, which has made it into the club by the skin of its teeth with average wealth of EUR 36,850 to Switzerland, with average wealth of EUR 207,400. The latter also benefited from the considerable gains made by the Swiss franc against the euro in 2010.

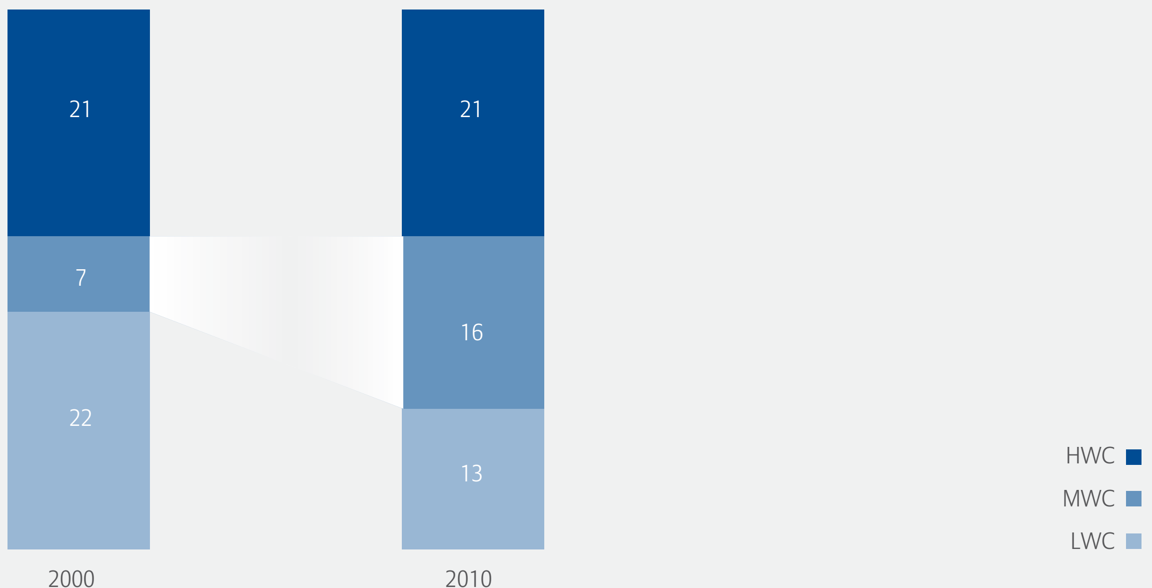
Although looking only at average per capita wealth and how countries can be split into low, middle and high wealth countries allows the world to be roughly split into categories, this only provides limited information on how many people across the globe fall into the middle wealth bracket. We have performed a country-specific analysis to ensure that we also take account of individuals in the middle wealth class who are living in poorer countries.

570 million people fall into the wealth middle class

In order to do so, we have to make assumptions as to how wealth is distributed within a country. In their studies, Davies et al. (2009) showed that, despite the differences, there is a stable link between income and wealth distribution. We have

A wealth middle class is developing

Number of countries in wealth classes



Source: National Central Banks and Statistical Offices, UNU WIDER, World Bank, Allianz SE.

used this link to draw conclusions as to wealth distribution in the countries we have analyzed based on income distribution levels in the countries in question. This involved "converting" income deciles into wealth deciles to calculate the average wealth per population decile.

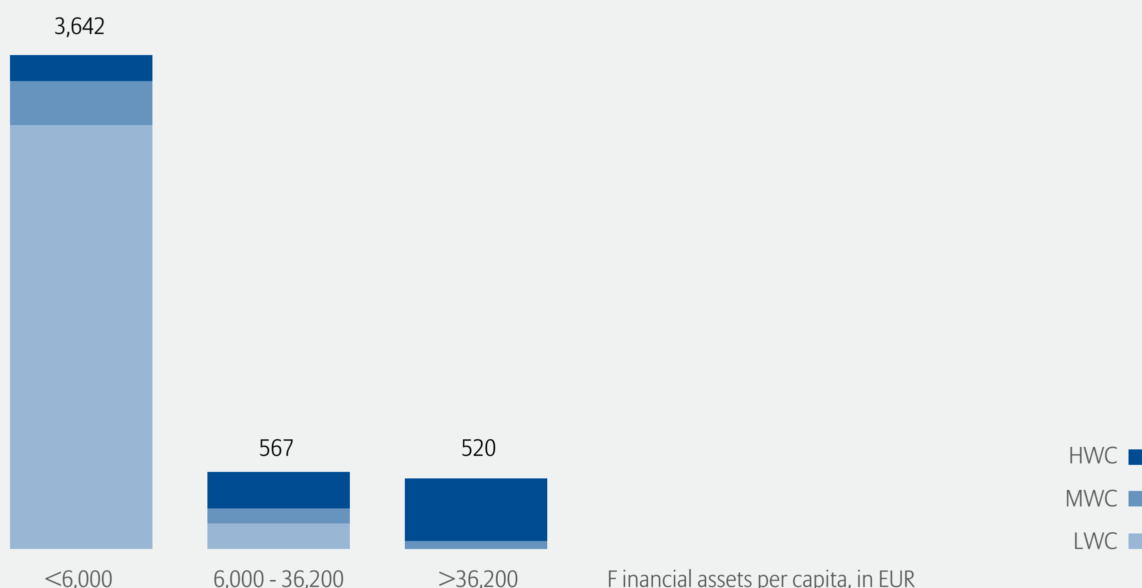
By doing so, we can identify the proportion of the population in the middle or high wealth bracket in poorer countries, provided that, on average, at least one tenth of the population surpasses the threshold value.

Based on this calculation, a total of 570 million people across the globe were members of the wealth middle class at the end of 2010 (2000: a good 300 million) – roughly 20 million more than last year. The growth of the wealth middle class continues unabated. 190 million of these people lived in LWCs and 110 million in MWCs, meaning that more than half of the global middle class were ***not*** to be found in the rich countries (HWCs).

On the other hand, the global "wealth upper class" grew by only 5 million people to a total of 520 million people. However, around 55 million people or roughly 10% of the rich do not live in developed countries. After the last decade was characterized by a more and more globalized wealth middle class it seems as if now a similar process is about to begin an echelon higher.

Over 1bn people around the globe own more than EUR 6,000

Population (50 countries analyzed) in million

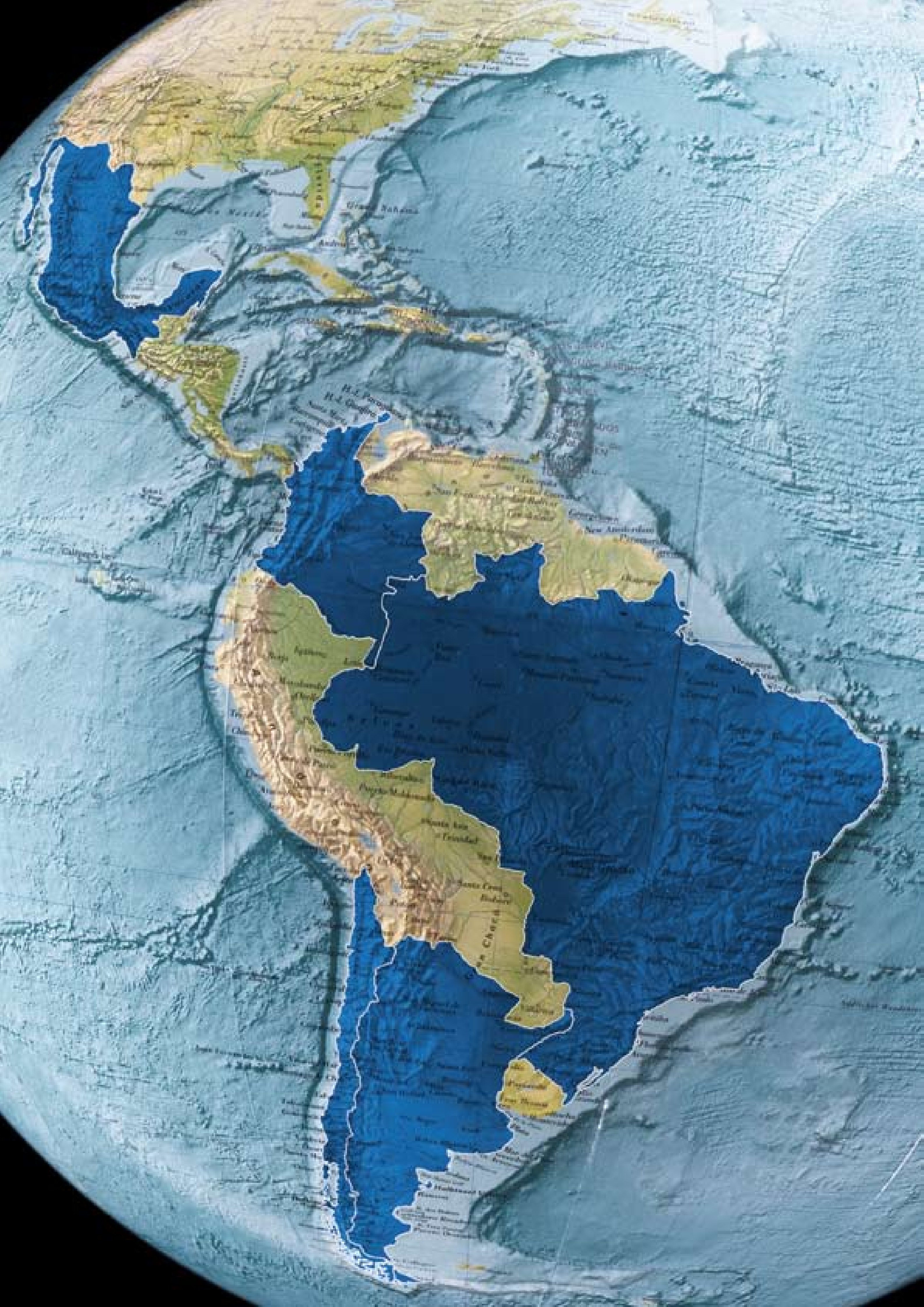


Source: National Central Banks and Statistical Offices, UNU WIDER, World Bank, Allianz SE.

Regional differences:

Financial assets in individual regions

38 Latin America
44 North America
52 Western Europe
62 Eastern Europe
72 Asia
80 Oceania



Latin America

Population

Total	410 million
Proportion of the region as a whole	72%
Proportion of the global population	5.9%

GDP

Total	EUR 3,090 billion
Proportion of the region as a whole	83%
Proportion of global GDP	6.3%

Financial assets of private households

Total	EUR 2,470 billion
Average	EUR 6,010 per capita
Proportion of global financial assets	2.6%
Debt (as % of GDP)	14%

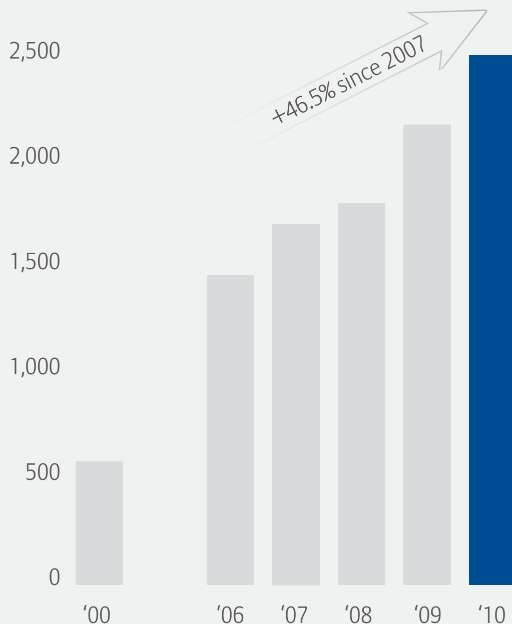
Wealth middle class continues to grow...

In the five Latin American countries featured in our analysis, the financial assets of private households grew by a good 15% in 2010. So whereas the pace of growth slowed slightly compared with the previous year – a development that dovetailed global wealth development – the rate of 15% was more than twice as high as the global average. Leaving Japan out of the equation, Asia was the only region that reported higher growth (+16.4%). At the end of 2010, the financial assets of Latin American households totaled EUR 2,470 billion, which equates to average per capita assets in excess of EUR 6,000.

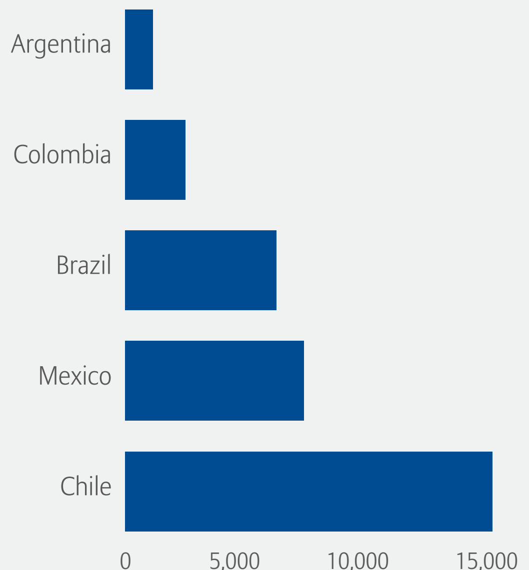
As expected, Mexico managed to make the leap into the MWC group last year. With average per capita assets of EUR 7,410, this puts Mexico in second place in the region, behind Chile. But Brazil, too, the most populous country in Latin America, also managed to climb into the MWC group, even if it was a very close call. Positive social momentum has emerged within the individual societies as well: last year, a total of more than 12 million people living in this region were able to leave the lower wealth class, meaning that today, a good 13% of Latin Americans fall into the middle wealth bracket (around 56 million people). There are also 32 million south Americans who can be classed as having substantial wealth by global standards.

Latin America sprinting on

Financial assets in EUR bn



Financial assets per capita in EUR, 2010



Source: National Central Banks and Statistical Offices, UN, Allianz SE.

...but the wealth gap is greater than anywhere else in the world

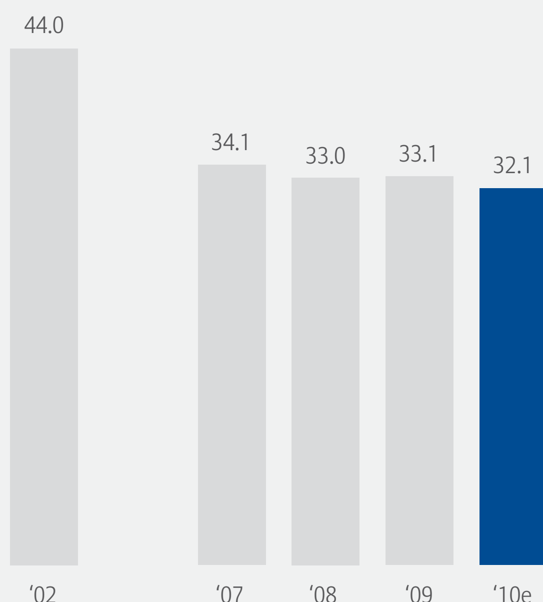
While there is no doubt that the emergence of a growing wealth middle class is an encouraging development, the last four decades have done nothing to change the fact that Latin America is home to the greatest inequalities in the world in terms of income distribution. This is also reflected in the manner in which wealth is distributed. Although income concentration has been waning in recent years[2], the richest ten percent of the population in the Latin American countries we looked at hold between 60% and almost 70% of the total wealth. By way of comparison: the same figure for Germany and the US comes in at 44% and 55% respectively.

Argentina, Brazil and Chile have proved very successful at combating poverty. Ever since 2000, the poverty rate in Chile has been almost sliced in half and in 2009, "only" a good 11% of the Argentine population was living in poverty, compared with more than four times this amount only seven years earlier. In Brazil, the same rate was cut by almost 13 percentage points during the same period, although it remains a reality that every fourth Brazilian lives in poverty. There is also good news from the ***Economic Commission for Latin America and the Caribbean***: in the crisis-ridden year of 2009, the poverty rate in the entire Latin American and Caribbean region increased only slightly as against the previous year. Compared with earlier crises, these countries showed marked progress in getting to grips with the social consequences of economic distress.

2 In Chile and Brazil, for example, the Gini coefficient has fallen by around 7% and almost 10% respectively over the past ten years.

Clear signs of success in the fight against poverty

Latin America and the Caribbean, poverty rate in %



Poverty rate 2002 and 2009 in %

*2008 **2001 ***2000

Source: Economic Commission for Latin America and the Caribbean (ECLAC), Social Panorama of Latin America 2010.

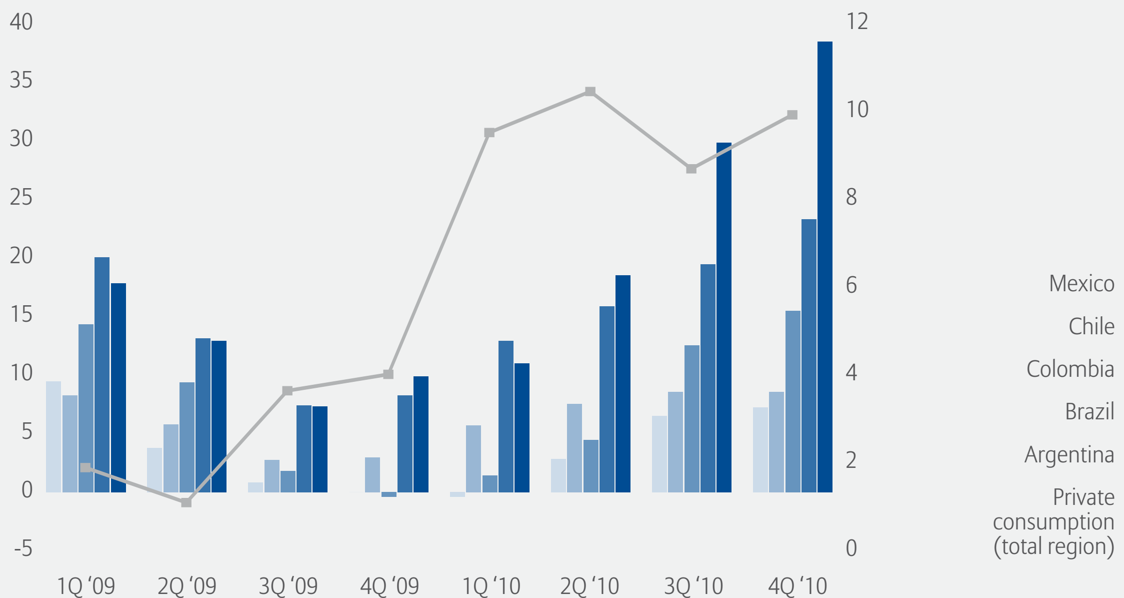
Consumption picking up speed again

While the impact of the financial and economic crisis on Latin America was far less pronounced than on the industrialized nations, real economic output in the region slid by 2% in 2009, in the midst of the crisis. Owing to its economic dependence on the US, Mexico was dealt the heftiest blow in a regional comparison. By the end of last year, however, the country had recovered thanks to rising demand from the US meaning that, at the end of 2010, economic output had climbed to above the pre-crisis level again. The region made a relatively rapid recovery on the whole compared to other OECD countries, with gains of 6.7% last year. Major impetus came, not least, from private households. In the course of 2010, lending to the private sector rose considerably and households started to ramp up their consumer spending again. Households in Argentina, for example, also benefited from improved labor market conditions, which came hand-in-hand with wage increases.

With an unemployment rate of just under 5.4% at the end of last year, the Mexican labor market appears to be in relatively good shape compared to its US or European counterparts. This picture is, however, distorted by the high proportion of people counted as not being in employment who, with no unemployment insurance to fall back on, have fled to the black market and, as a result, do not make any appearance in the official statistics. In the year of the crisis, more than 440,000 people working in the formal sector, where they were registered for social security, lost their jobs. One encouraging sign is the fact that more than 500,000 new jobs were created last year.

Credit to private sector goes up – consumption picks up

Credit to private sector (lhs) and consumption expenditures (rhs), yoy in %



Source: National Central Banks and Statistical Offices, Datastream, Allianz SE.

Assets of Mexican households, which have traditionally invested most of their wealth in securities, also benefited from the sustained stock market recovery. Whereas at the end of last year, the Dow Jones was still down by more than 18% on the high recorded in 2007, Mexico's leading IPC index made substantial gains: in the second half of the year, in particular, the IPC found itself on a steep incline, putting it more than 17% ahead of the pre-crisis level when 2010 drew to a close. Securities expanded their share of private household portfolios accordingly to almost 83%, which is actually ever so slightly higher than the value recorded at the end of 2007. This sets Mexico well apart from its neighbor to the south, where households prefer more conservative forms of investment, such as bank deposits and insurance policies.

North America

Population

Total	352 million
Proportion of the global population	5.1%

GDP

Total	EUR 12,140 billion
Proportion of global GDP	26%

Financial assets of private households

Total	EUR 38,250 billion
Average	EUR 108,820 per capita
Proportion of global financial assets	40%
Debt (as % of GDP)	95%

North America remains the world's richest region – a good 40% of global financial assets can be attributed to the approximately 350 million inhabitants of Canada and the US. In an international comparison, the financial assets of private households in this region actually showed slightly above-average growth last year, coming in at just short of EUR 38.3 trillion at the end of 2010.

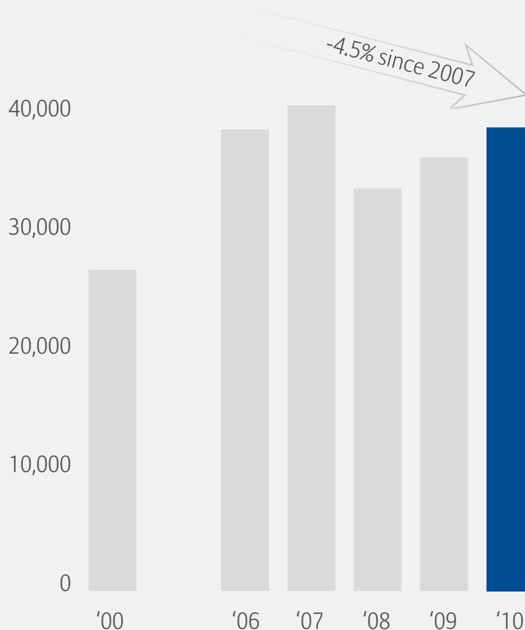
The trends in these two neighboring countries, however, followed anything but a parallel course. At 7.2%, the growth rate in the US was almost double the rate seen in Canada, a trend that is likely to have been driven largely by catch-up effects. After all, America's households, which found themselves at the epicenter of the global financial and economic crisis, have considerable ground to make up: in 2008, they were hit by what was by far the most dramatic slump of the post-war era on a scale of almost 18.5%.

This corresponds to losses totaling just shy of EUR 7 trillion, or almost EUR 23,500 per capita. Even today, financial assets are still down by EUR 2.1 trillion on the pre-crisis level; in per capita terms, the loss translates into around EUR 10,200 or 8.4%. Nevertheless, with per capita financial assets of EUR 111,900 at the end of 2010, Americans still occupy second place in the ranking list of the world's richest households, which is headed by Switzerland.

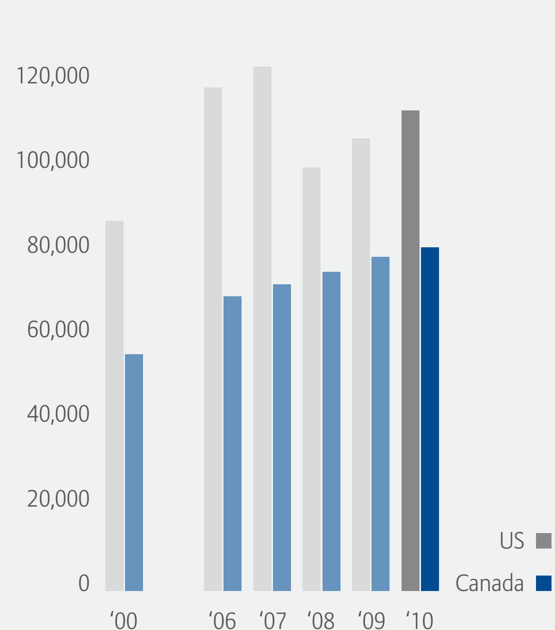
But where would US household assets be sitting if the financial crisis had never happened? A straightforward linear regression model that tracks the development of actual assets from 1990 to 2007 using an estimated straight line (R^2=0.94) puts hypothetical financial assets at EUR 123,290 per capita at the end of 2010.

Regional financial assets

Financial assets in North America in EUR bn



Financial assets per capita in EUR



Source: Board of Governors of the Federal Reserve System, Statistics Canada, UN, Allianz SE.

While at the time of the housing bubble actual assets were still sitting above the trend, the difference today is a negative one of EUR 11,400 per capita – this is ultimately the “price” that each and every American is having to pay for the excesses of the past. This once again highlights the fundamental problem of bubbles: not only do bubbles themselves prove to be short-lived, the inevitable adjustment that follows also overshoots, i.e. developments fall back to well behind the trend that was actually to be expected. Despite a (short-term) illusory boom, the individuals affected are, all in all, in a worse position at the end of the day because the losses suffered are enduring; stable, sustainable development, on the other hand, results in higher levels of prosperity.

With per capita assets of just under EUR 80,000 at the end of 2010, Canadian households were significantly worse off than their US counterparts, but suffered less hefty losses as a result of the crisis; even in the crisis-ridden year of 2008, total financial assets in Canada climbed by almost 5%. A total of 176 million people in the “high wealth” category live in North America, with 106 million people in the middle wealth bracket. Together, this corresponds to 80% of the population in this region.

US households stabilize debt burden

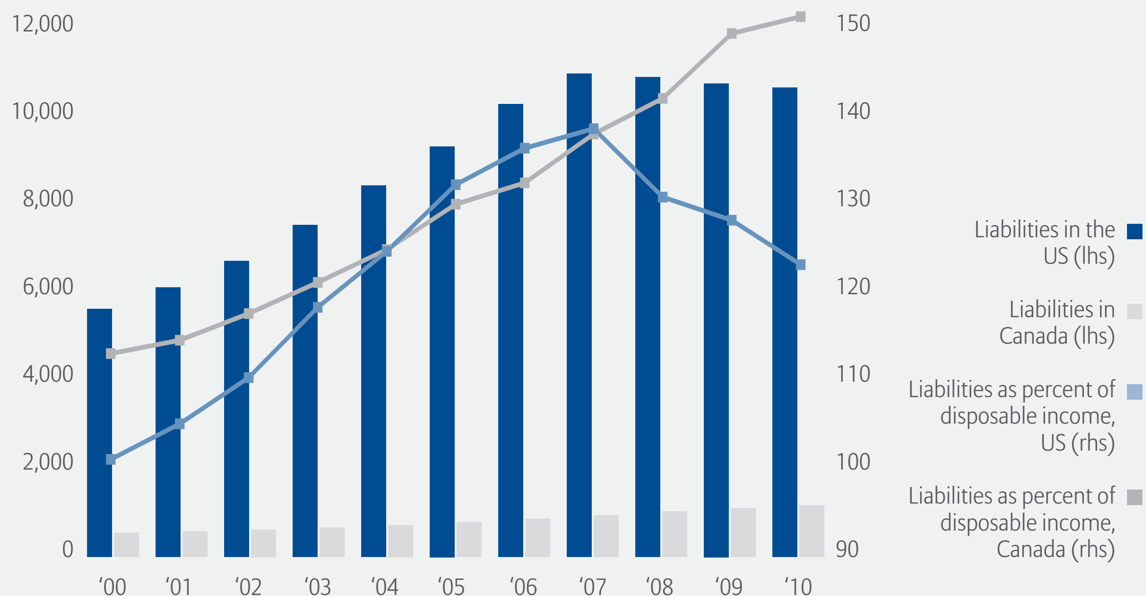
US households have, however, learnt their lesson from the crisis. Not only are they more risk-averse than they were before the crisis, they are also starting to rein in their debt burden. They have reduced their liabilities for what is now the third year running – also thanks to considerable payment defaults and write-downs on property loans – bringing them to a level that was 2.9% below the pre-crisis level at the end of 2010. Since reaching a historical high of more than 102% of GDP in 2009, private debt has thus fallen by 7 percentage points.

Thanks to an – albeit modest – recovery on the labor market, disposable incomes climbed by 3.1% after a very skimpy increase of only 0.75% in the previous year. With income levels on the rise, consumer spending had also climbed by 3.5% by the end of 2010 after households tightened their belts in 2009 and curbed their spending. The volume of consumer loans taken out, on the other hand, has been on the decline over the past two years, down by a total of 6%.

Although the savings rate in 2010 was down slightly on a year earlier at 5.7% of disposable income, it remains at a relatively high level and should be compatible with the long-term reduction in the debt burden. After all, and in spite of the progress made in recent years, debt levels among private households, measured as a proportion of their disposable incomes, remain alarmingly high: although US households have managed to push the ratio down from almost 140% to just under 123% within the space of three years, the debt ratio should, in general, be closer

Reduction of debt burden in the US

Liabilities of private households in EUR bn and as percent of disposable income



Source: Board of Governors of the Federal Reserve System, Statistics Canada, UN, Allianz SE.

to the 100% mark to keep debt servicing at a manageable level, even in an environment characterized by rising interest rates. This means that the deleveraging process is far from over.

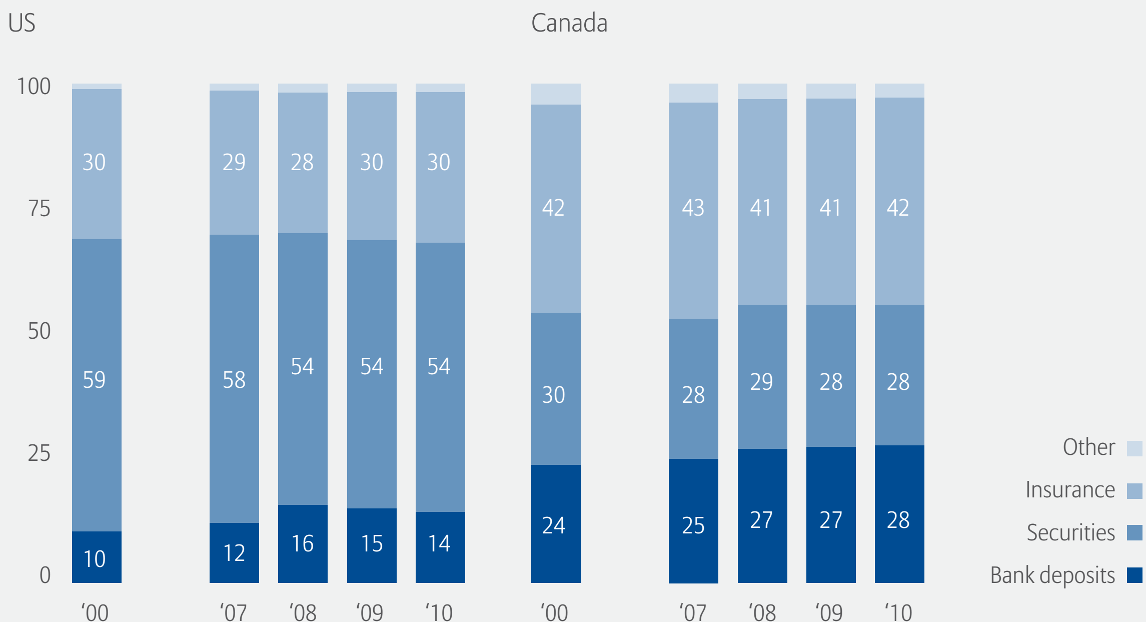
Canadians, on the other hand, still do not appear to have achieved a turnaround as far as debt reduction is concerned. 2010 saw the country's private households remain on the personal debt path, increasing their liabilities by more than 6%. The personal debt ratio, measured as a percentage of GDP, came in at 94% in both 2010 and 2009. The relative proportion of disposable income had climbed to as much as more than 150% by the end of 2010. At least the annual growth rate in liabilities has tapered off somewhat since the financial crisis, after sitting at 10% in 2007. One encouraging development is the increase in the savings rate during the same period, from only 2.8% to a figure that recently came in at 4.8% of disposable income. Over the past three years, the average growth rate in disposable income has marginally outstripped the growth in consumer spending, allowing households to build up a financial nest egg.

Asset structure virtually unchanged

A glance at the asset structure of both countries shows that there were virtually no shifts between individual asset classes in 2010. While American households continued to invest the lion's share of their financial assets in securities and the inflow of funds into bank deposits, which skyrocketed during the financial crisis, waned, Canadians proved far more conservative in their investment strategy. Canadians would appear to have a greater preference for liquidity in the sense that bank deposits are almost twice as significant as a component of Canadian asset portfolios as they are for US portfolios. But even in the US, the proportion of financial assets accounted for by bank deposits was at a level last seen in the mid-1990s. US households were keen to exploit the – admittedly still feeble – stock market recovery to sell part of their direct shareholdings. Pension funds, on the other hand, once again saw rising inflows, most likely due to the slight dip in unemployment in the course of last year.

More conservative investment strategy in Canada

Asset classes as % of total financial assets



Source: Board of Governors of the Federal Reserve System, Statistics Canada, UN, Allianz SE.

Skagerrak
Göteborg
Kopenhagen
Malmö
Stettin
Riga
Vilnius
Königsberg
Minsk
Gomel
Warschau
Posen
Kiew
Krakau
Lemberg
Bratislava
Debrecen
Budapest
Chisinau
Odessa
Sewastopol
Zagreb
Klausenburg
Braila
Bukarest
Belgrad
Sarajevo
Bologna
Marseille
Barcelona
Balearen
Podgorica
Tirana
Bari
Varna
Sofia
Bosporus
Istanbul
Bursa
Ankara
Izmir
Konya
Antalya
Athen
Patras
Kreta
Nikosia
Tunis
Sfax
Djerba
Tripolis
Algier
Constantine
K. Blanc
Kap Bon
Neapel
Palermo
Tyrrhen. M.
Tallinn
Pskow
St. Peter
Helsinki
Tampere
Turku
Härnösand
Bottnischer Meerbusen
Oulu
Finn. Meerb.
Ladoga-see
Peipus-see
Orkney In.
Edinburgh
London
Southampton
Amsterdam
Hamm
Berlin
Köln
Leipzig
Le Havre
Paris
Prag
Kachowskaer Stausee
Dnjepropetr
2211
459
Gotld.
Ägäisches Meer
Olymp
Donau
Saharaatlas
Ouargla

Western Europe

Population

Total	407 million
Proportion of the global population	5.9%

GDP

Total	EUR 12,060 billion
Proportion of global GDP	25%

Financial assets of private households

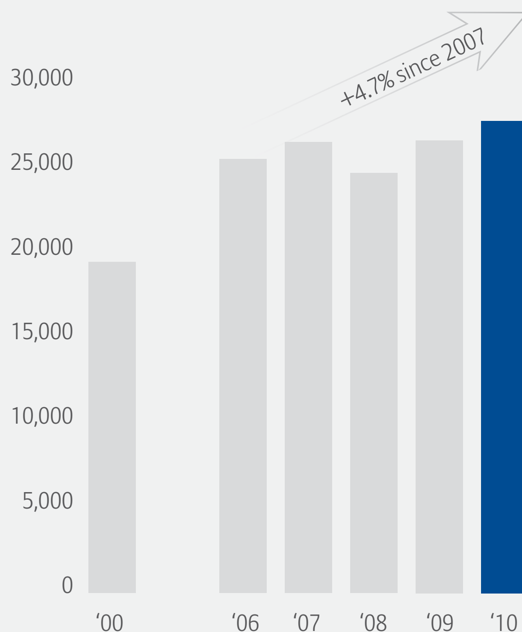
Total	EUR 27,040 billion
Average	EUR 66,470 per capita
Proportion of global financial assets	28%
Debt (as % of GDP)	82%

All in all, western Europe's private households have more than compensated for the financial losses thrust upon them by the financial crisis. Although asset growth slowed in 2010 on a year-on-year basis by just under 3.5 percentage points, the region's total financial assets were almost 4.7% higher at the end of 2010 than in the pre-crisis days at the end of 2007.

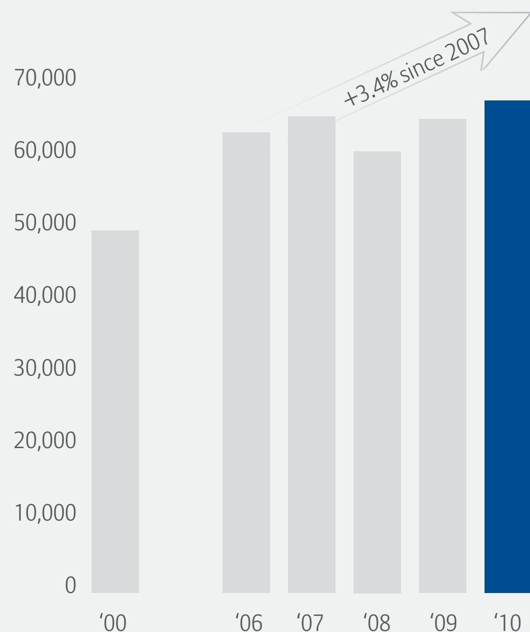
The 2010 trend was, however, a two-faced one. The year was particularly positive from a Scandinavian perspective. Financial assets in Scandinavia showed above-average growth rates, sometimes stretching into the double digits, in a regional comparison. Swedish households led the field with growth of 10.6%, closely followed by Denmark (+10.5%), Finland (+8.2%) and Norway (+6.6%). In terms of per capita assets, the Danes easily managed to maintain their status as the second-richest households in Europe, with assets worth around EUR 107,000. The only country that can top Denmark is Switzerland which, as in 2009, enjoyed the world's highest per capita assets of EUR 207,400. Other countries also outstripped the average growth rate of just under 4.3%, namely Belgium (+6.4%), Germany (+5.7%), the UK (+5.7%), Austria (+4.9%), Switzerland (+4.6%) and France (+4.3%).

Financial assets in western Europe above pre-crisis level

Financial assets in EUR bn



Financial assets per capita in EUR



Source: National Central Banks and Statistical Offices, UN, Allianz SE.

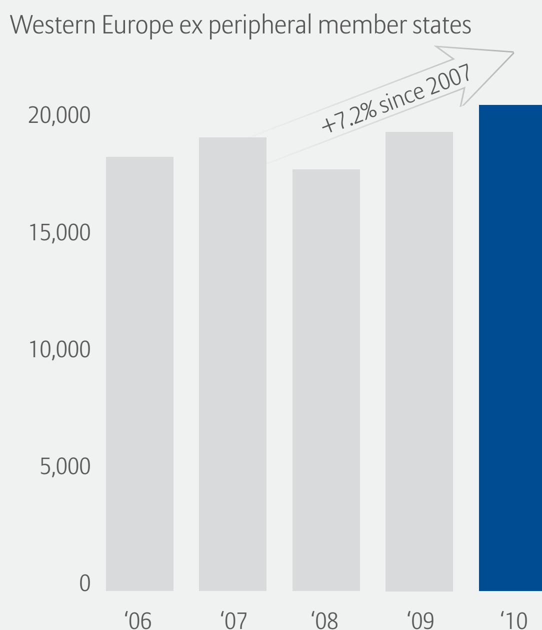
On the other hand, private households in some countries have still not managed to make up for the bitter losses suffered in the wake of the financial crisis. Given the differences in economic strength within the euro area, it comes as no surprise that these countries are, without exception, located on Europe's periphery. The sovereign debt crisis has taken its toll and left its mark not least on the wallets of private households. The Greeks have been the hardest hit, having to digest losses of a good 3.9% last year. This means that, at the end of 2010, Greek financial assets were 15.9% off the pre-crisis level. Since the end of 2009, the Greek leading index, the FTSE/ATHEX 20 Price Index, has been heading south again following a brief period of recovery and lost around 41% in the course of 2010. It is estimated that the securities portfolios of Greek households have lost a good 17% in value. Bank deposits also fell by 0.8%, or just shy of EUR 2 billion. This reflects the growing lack of trust in the stability of the Greek banking system: deposits with Greek banks are being transferred to bank accounts in other eurozone countries, exchanged for gold or simply withdrawn to be stored in cash. Overall, last year saw private households shifting their sight and savings deposits with Greek banks into short-time deposits.

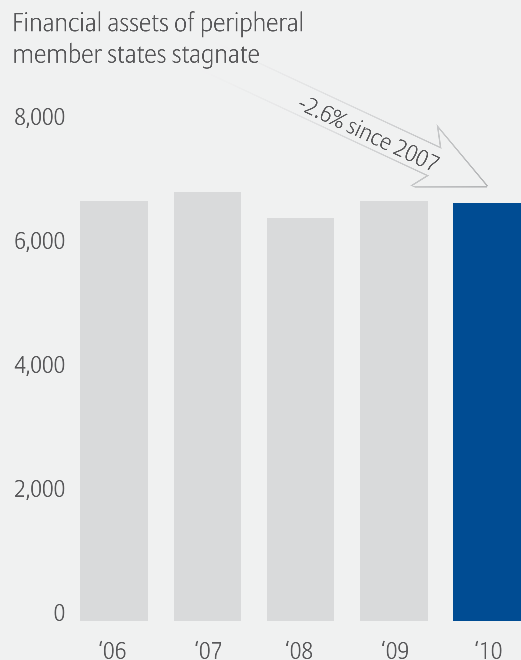
But it is not just Greece that is still grappling with the consequences of the worst financial and economic crisis since 1929. Households in Spain and Ireland also have catch-up work to do before they can return to the asset levels seen in 2007. When 2010 came to an end, Spanish financial assets were 7.2%, and Irish financial assets 2.8%, lower than they were before the crisis.

In terms of per capita assets, households in the peripheral member states were still trailing well behind the regional average of EUR 66,470, with average assets of EUR 48,500. The only country on Europe's periphery that managed to achieve slightly positive growth in per capita assets, namely 1.1%, was Portugal. For households in Greece (-4.1%), Ireland (-1.7%), Italy (-1.0%) and Spain (-0.5%), on the other hand, 2010 was a year that ended in the red. The poor performance of the local equity markets ultimately had an impact on the securities held by private households, too. This means that the division of the eurozone into high-growth "core countries" and lower-growth "peripheral countries" is now reflected in financial asset development as well.

Asset development reflects economic imbalances

Financial assets in EUR bn





Source: National Central Banks and Statistical Offices, Allianz SE.

Share of the population that enjoys high wealth remains stable

In December 2010, western Europe was home to an estimated 180 million people in the high wealth bracket. Just as in the year before, this corresponds to 44% of all western European households. Just under three-quarters of these people live in the five largest economies: Germany, France, the UK, Italy and Spain.

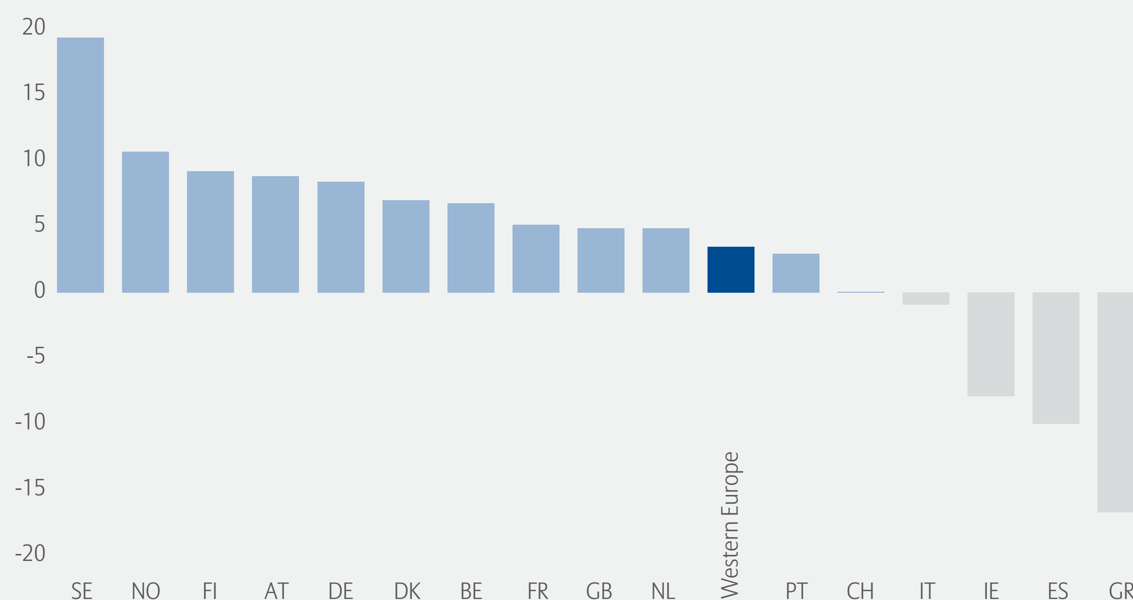
There were slight shifts in the lower/middle wealth classes in 2010. In Greece, 40% of the population (2009: 30%) now belong to the low-wealth population group. At the same time, it is now the case that only one tenth of the Swiss population (2009: one fifth) has little, or no assets. This low proportion is something that only Japan can rival in a global comparison.

Continued trend towards security

Last year, households did not make any marked changes in their asset structure. Western Europeans continued to favor security and still held most of their financial assets in insurance policies. The share of portfolios attributable to this asset class increased again slightly in 2010, bringing it up to over 36% at the end of the year, a good 1.5 percentage points higher than the pre-crisis level. This is likely due to the growing awareness of the need to make more independent provisions for old age. The significance of state pensions, which make up the lion's share of income in old age in most of these countries, is on the wane due to tight budgets and pension reforms.

Tracks of the crisis still visible in some countries

Change of financial assets per capita since 2007 in %

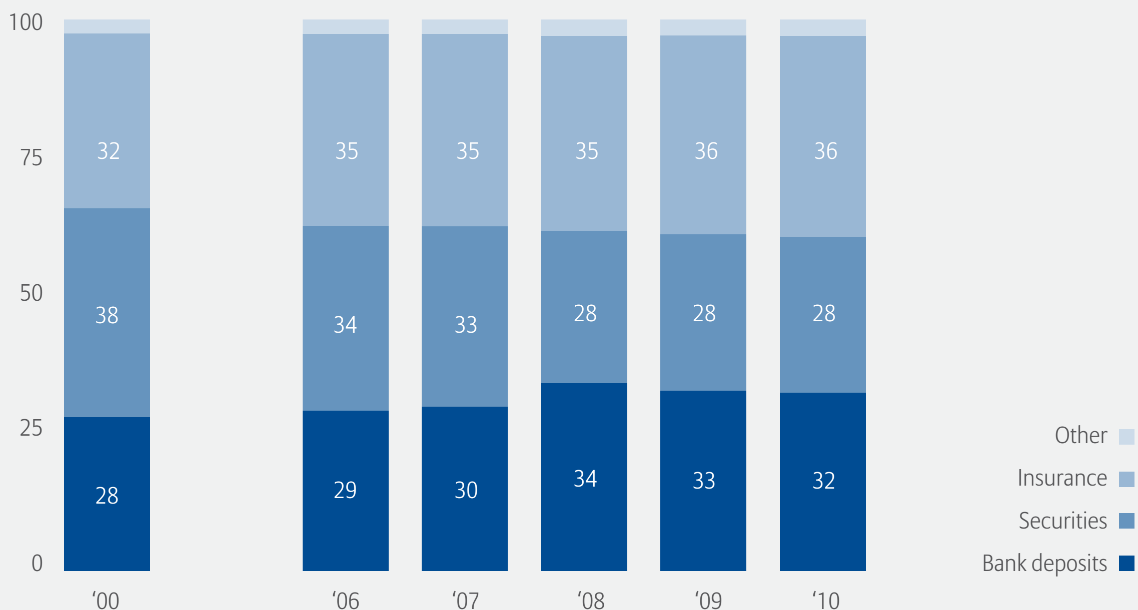


Source: National Central Banks and Statistical Offices, Allianz SE.

This trend has mainly been at the expense of bank deposits, which offer little appeal as a form of investment in an environment of sustained low interest rates, meaning that they reported only below-average growth on the whole. At around 32%, however, the proportion of bank deposits can still be considered high in a historical comparison. There is no sign of the money pumped into banks by those seeking a supposed safe haven when the crisis hit two years ago being pulled back out. Investors remain relatively keen to value liquidity – behavior that is hardly surprising given the uncertainty as to how the debt crisis will develop.

The proportion of financial assets accounted for by securities was virtually unchanged at the end of the year, coming in at a good 28%. The outbreak of the debt crisis in the euro area provoked turbulence on the capital markets. Although most of the region's stock markets started to pick up speed again in the second half of the year, many companies were unable to fully compensate for the losses incurred in the first six months. The Eurostoxx 50 actually closed the year down by 5.8%. The performance of the DAX, on the other hand, was quite different. From the middle of the year onwards, the DAX continued on the growth path with resolute spirit, gaining as much as at least 16% in the course of the year. Outside of the single currency area, stock market development in Scandinavia was particularly dynamic. The leading indices in Denmark, Sweden and Norway closed the year up by 35.9%, 13.8% and 21.4% respectively.

Insurance still dominates the portfolio
Asset classes as % of total financial assets



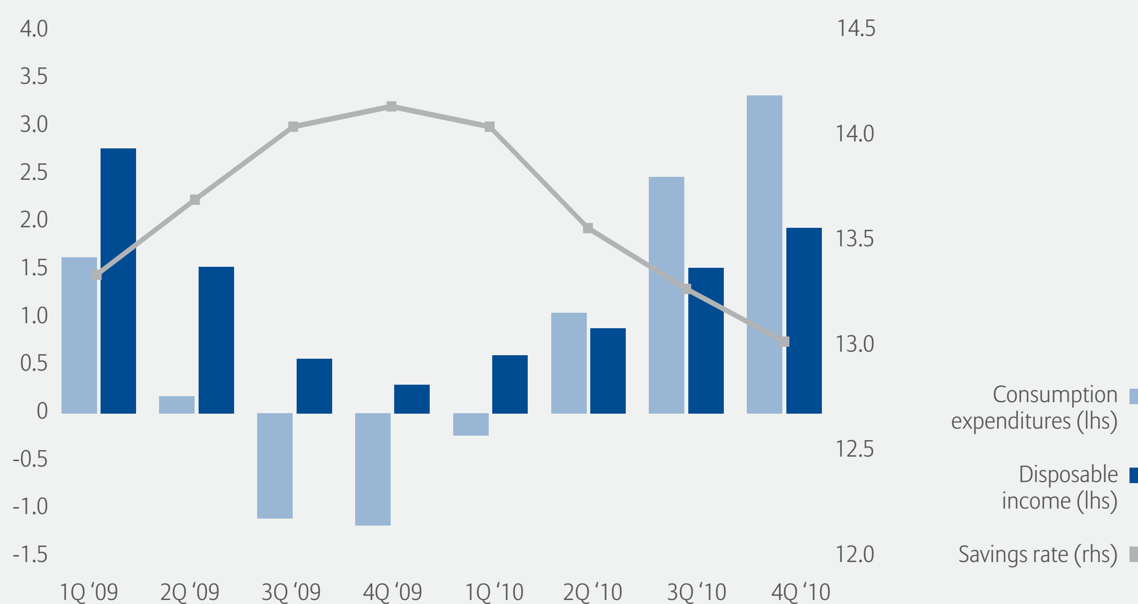
Source: National Central Banks and Statistical Offices, Allianz SE.

Households are saving less

For the first time since mid-2008, last year brought a turnaround in the savings rate. Consumer spending rose continually as the year progressed, outstripping the growth in disposable income throughout the last three quarters. This means, western European households reduced their savings rate bit by bit to 13% at the end of 2010, well down on the prior-year level of just under 14.2%. The same trend emerged across the entire euro area. After the savings rate had climbed to as high as 14.6% in Q4 2009, it continued to drop off in the course of 2010, coming in at 13.4% in the closing quarter. A glance at the investment decisions of private households, which are still being extremely cautious and security-oriented, suggests that this stance cannot necessarily be attributed to households brimming with confidence about the future. Rather – at least in the core countries – the trend is more likely a reaction to the strong economic growth and associated income gains.

Inverse development compared with the previous year

Gross savings rate and rate of change of the components, yoy in %*



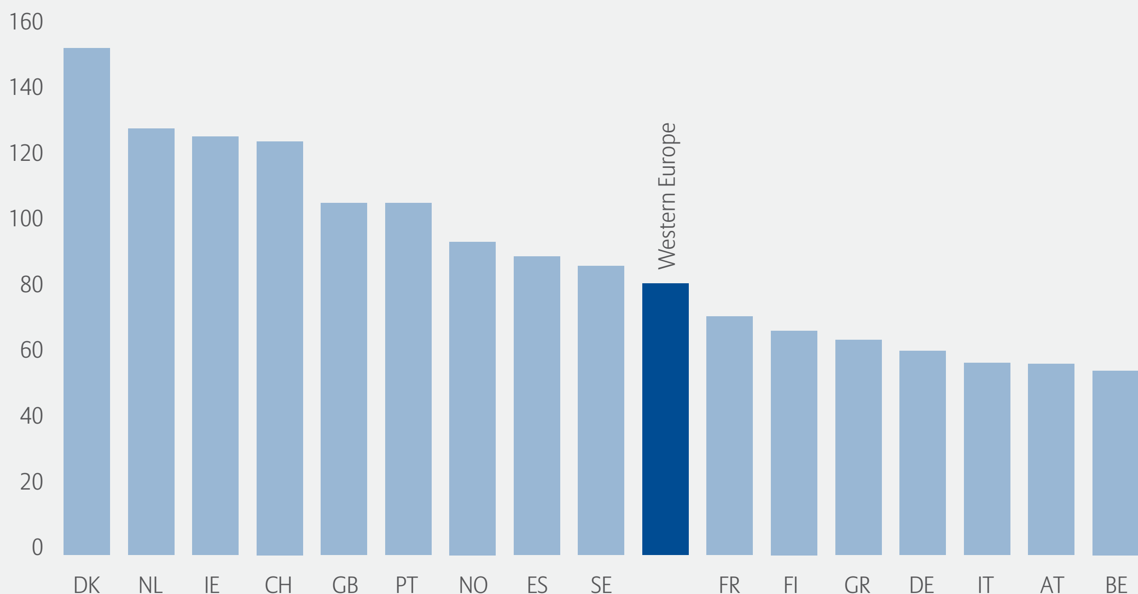
*without Greece, Ireland and Switzerland

Source: Eurostat, Allianz SE.

By way of example, the lower savings rate by no means signaled a return to old debt habits. Quite the contrary: it was associated with a relative decline in personal debt levels. In terms of gross domestic product, debt among western European households had fallen by 0.3 percentage points on average at the end of last year, coming in at 82% at the end of 2010. Yet again, an exception is Greece, where the rate climbed by 7.7 percentage points. So the fundamental problem rears its head with personal debt, too: as soon as general economic activity starts to wane, the relative debt burden initially increases. Having said that, personal debt levels in Greece are still at a relatively low level. Denmark has been leading the debt ratio field since 2005, although even the Danes have managed to slice more than 5 percentage points off their personal debt levels.

Private debt ratio dropped on average

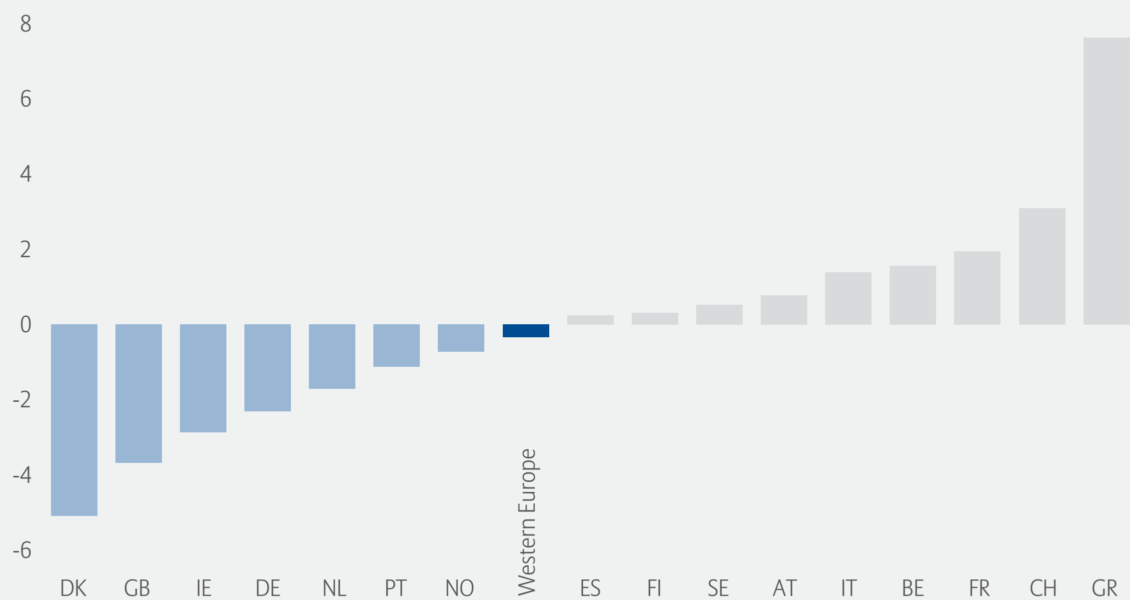
Liabilities of private households as % of GDP, 2010



Source: National Central Banks and Statistical Offices, Allianz SE.

Private debt ratio dropped on average

Change over previous year in percentage points



Source: National Central Banks and Statistical Offices, Allianz SE.

Eastern Europe

Population

Total	383 million
Proportion of the global population	5.6%

GDP

Total	EUR 2,800 billion
Proportion of global GDP	6%

Financial assets of private households

Total	EUR 1,380 billion
Average	EUR 3,610 per capita
Proportion of global financial assets	1.5%
Debt (as % of GDP)	22%

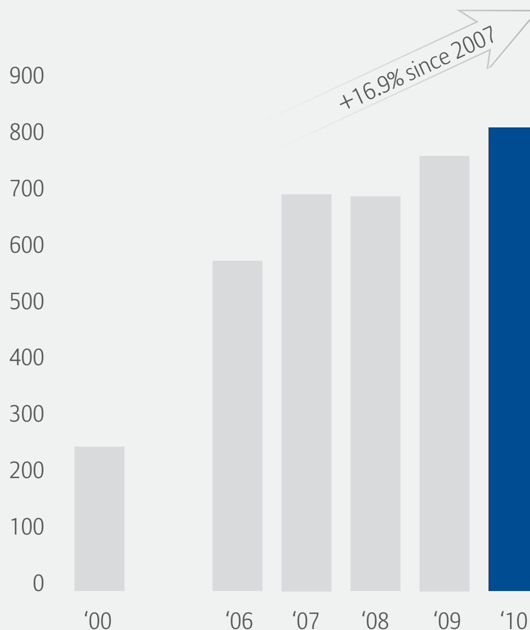
Eastern European EU members remain on the path to growth

For private households in the ten eastern European EU member states, 2010 closed with growth in their financial assets coming in at 6.5%. This increase is slightly above the rise in global financial assets, but down by 3.8 percentage points in a year-on-year comparison. The leader of the growth pack is Romania, where financial assets increased by more than 21%. As a consequence, the poorest country in the region is no longer Romania, but its neighbor Bulgaria. Although Bulgaria has managed to make up for the losses incurred as a result of the financial crisis, like Romania it failed to secure promotion to the ranks of the MWCs. One encouraging development, on the other hand, is the example of Latvia which, after still lingering among the LWCs in 2009, managed to move up to the MWC ranks last year. This was a noteworthy achievement given the weak macroeconomic environment – the economy contracted by 0.4% in real terms and, at 16% at the end of the 2010, Latvia's unemployment rate was neck-and-neck with Lithuania's as the highest in the region.

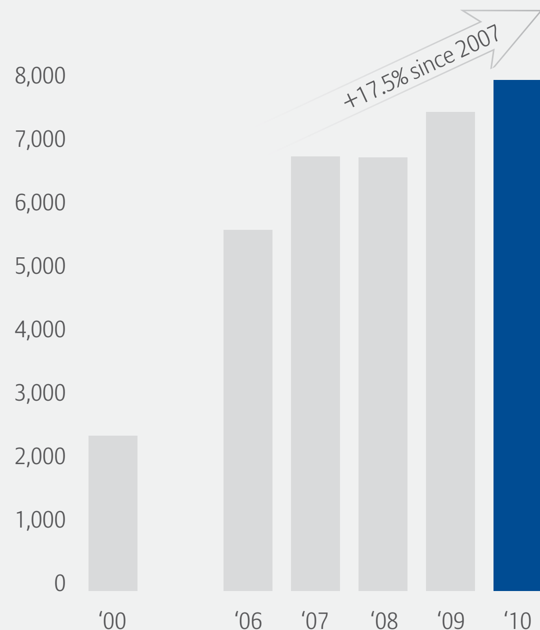
In respect of per capita financial assets, Slovenian households remain in pole position. They enjoy average assets worth EUR 20,640 and were able to widen the gap separating them from Estonia, which occupies second place, to more than 31%. This means that, in a comparison with western Europe, Slovenia is now trailing Greece, the country at the bottom of the western Europe league, by only around 16%. In Romania, the most populous country in the region after Poland, average per capita financial assets total EUR 5,270, meaning that Romanians have precisely one third less than the average citizen

Financial assets of eastern European member states

Financial assets in EUR bn



Financial assets per capita in EUR



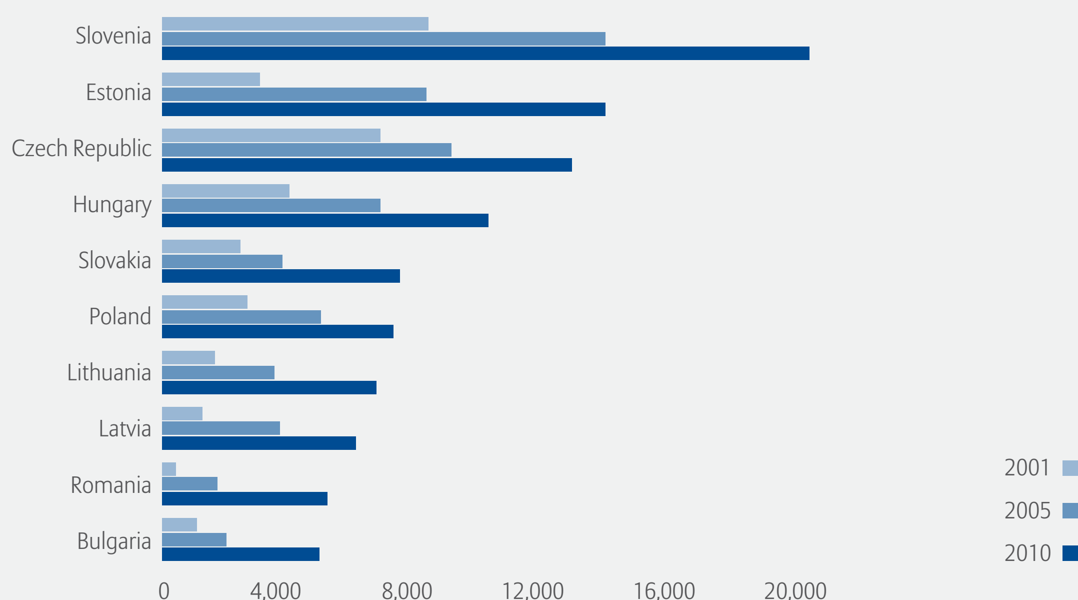
Source: National Central Banks and Statistical Offices, UN, Allianz SE.

in the region. Looking at the big picture, the differences between the eastern and western European EU member states are immense. Whereas eastern European households account for 2.1% of the population of the 50 countries covered by our analysis but only 0.8% of global financial assets, western Europeans, who account for 8.6% of the population, hold more than 28% of global wealth. And even today, despite the dramatic growth spurt seen over the last decade, almost 70% of eastern European EU citizens fall into the low wealth group.

Hungary in focus

Hungary found itself at the center of particular interest in 2010. In spite of harsh criticism both at home and from abroad, the government led by Prime Minister Viktor Orbán basically nationalized the private, funded pillar of the country's retirement provision system. The assets worth just under 3,000 billion Hungarian Forints (EUR 10.7 billion) saved by around 3 million citizens are to be used to reduce both the state pension insurance deficit and the country's sovereign debt. The impact of the large-scale intervention on the future savings behavior of private households is impossible to predict at present. But for many people living in Hungary, this blow is unlikely to be the only cause for concern. A large number of private debtors are still struggling to pay back foreign currency loans taken out when the Swiss franc was on a roll. The proportion of overdue mortgage loans, for example,

Financial assets per capita, EU-member states
in EUR

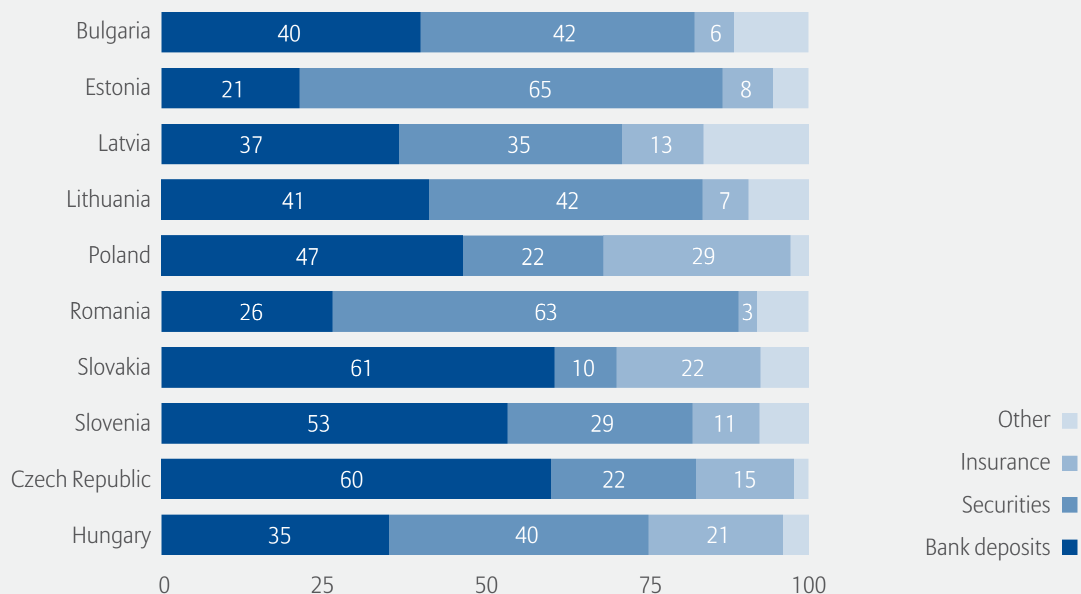


Source: National Central Banks and Statistical Offices, UN, Allianz SE.

has risen from 0.8% at the end of 2008 to 9.6%. In August 2010, the Hungarian government finally passed a law prohibiting the country's citizens from taking out mortgage loans in foreign currencies. The new legislation was responsible for a further slowdown in lending on the supply side; on the demand side of the equation, a historically high unemployment rate of a good 11%, coupled with high personal debt, put a damper on lending among private households. All in all, economic development in Hungary was a fairly muted affair. Although the economy reaped benefits from the upswing in Germany, the region's most important export market, it grew by only 1.2% in real terms. Despite the prospect of tax cuts, private households are unlikely to contribute much to any upturn in economic activity in the medium term: rising inflation (4.9% in 2010) means that the lower tax burden will be of only marginal benefit to households. Although asset growth in 2010 was slightly below the regional average, at 5.8%, it is not surprising overall given the developments described above.

Huge differences in asset structure

Asset classes as % of total financial assets, 2010



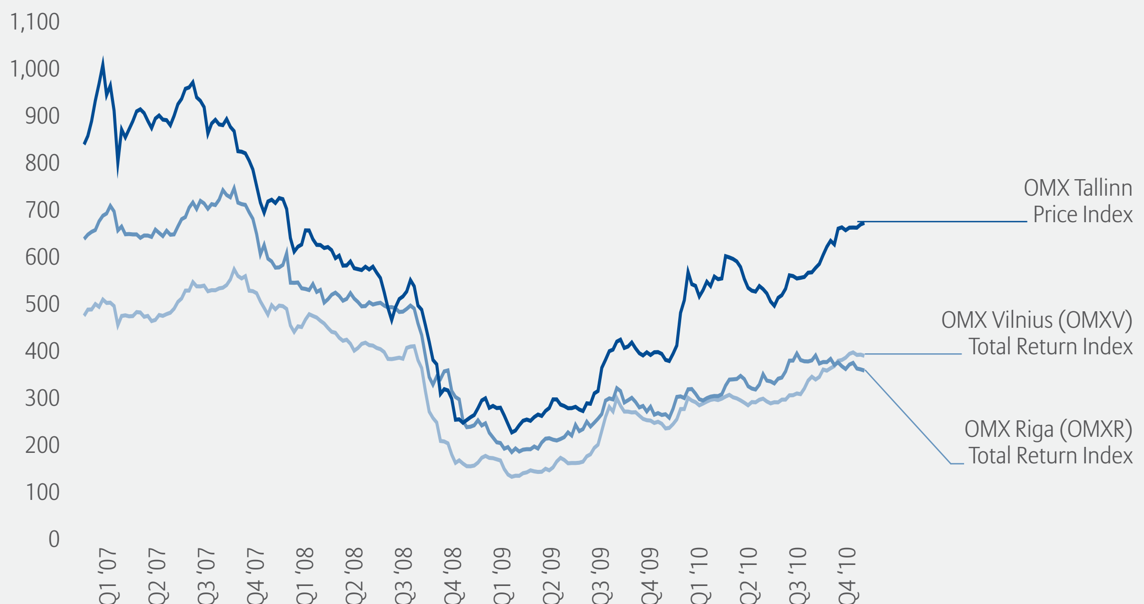
Source: National Central Banks and Statistical Offices, Allianz SE.

Insurance enjoying higher growth than any other asset class

The receivables of private households from life insurers and pension funds grew by more than 15% last year, meaning that the insurance sector enjoyed higher growth than any other asset class. Nevertheless, at 1.5%, the life insurance market penetration rate, i.e. the ratio of gross written premiums to GDP, was still well below the western European average of 5.6% in 2010. This shows just how much catch-up work this sector still has to do. Bank deposits continue to dominate household portfolios with a share in excess of 44%. Securities lost some ground as a proportion of total financial assets (1 percentage point), accounting for a good 32% at the end of the year. Particularly in the securities segment, there would appear to be no uniform pattern that fits all of the EU's eastern European members: while they account for around 9% of financial assets in Slovakia, the figure for Romania is just shy of 63% and more than 65% in Estonia. As far as Romania is concerned, the asset structure is owed primarily to the fact that many private households own small and medium-sized businesses. What is more, assets held in securities have benefited from the economic upswing seen in recent years and the associated share price performance.

Last year, stock market performance in the region was a very mixed bag indeed. Leading indices in the Baltic states, in particular, made a marked recovery in the course of the year. In Latvia, for example, the OMX Riga Total Return Index gained a good 41%. Lithuania's OMX Vilnius Total Return Index climbed by more than 56% while the Estonian OMX Tallinn Price Index clocked up an increase of almost 73%. This growth was, however, achieved from a relatively low starting point, as all three indices were hit by dramatic slumps up to March 2009 of over 70% compared with their highs from 2007. The leading indices in Bulgaria (-15.2%), Slovakia (-13.7%) and Slovenia (-13.5%), on the other hand, reported losses. By contrast, the Warsaw General Price Index in Poland (+18.8%), Romania's Bet (L) Price Index (+12.3%) and the Czech Republic's Prague SE PX Price Index (+9.6%) made it through the year rather well. In Hungary, too, the Budapest (BUX) Price Index closed the year up by 0.5%: In spite of this positive development, none of these indices are even close to rivaling the highs they reached in 2007. In 2010, financial assets held in securities were still more than 10% below the pre-crisis level, after growth of just under 10% in 2009 and 3.6% last year.

Baltic markets again on course for growth



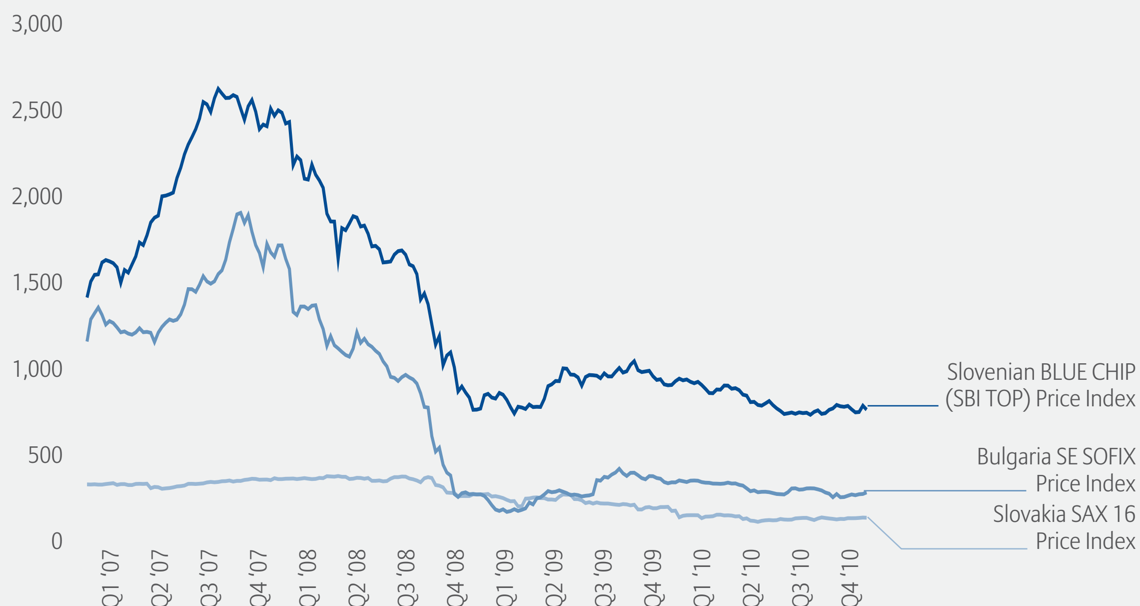
Source: Datastream.

Eastern European countries outside of the EU

Since 2000, a total of 22 million people from Croatia, Turkey, Russia, Kazakhstan and Ukraine managed to make the leap into the global wealth middle class. This corresponds to a good 8% of the aggregate population of this group of countries. Nevertheless, the EU accession candidate Croatia remained the only MWC country in this group in 2010. Turkey, on the other hand, which launched accession negotiations back in the fall of 2005, at the same time as Croatia, is still a far cry from achieving MWC status. Turkish households had average financial assets totaling EUR 2,530 per capita in 2010, only 42% of the minimum wealth needed to move up and join the MWC group. In Croatia, private households saw their financial assets grow by more than 9%, pushing per capita assets up to EUR 10,160, almost on a par with Hungarian households.

The further east you go, however, the greater the discrepancy separating these countries from their EU members remains. In absolute terms, the financial assets of Ukrainian households are the lowest, with per capita assets of approx. EUR 900. The wealth differential in eastern Europe becomes glaringly obvious if you consider that Ukrainians only have around 4% of the financial assets that their Slovenian counterparts have. Per capita financial assets are also comparatively low in Kazakhstan (just under EUR 1,100) and Russia (around EUR 2,000).

Losses in Bulgaria, Slovenia and Slovakia



Source: Datastream.

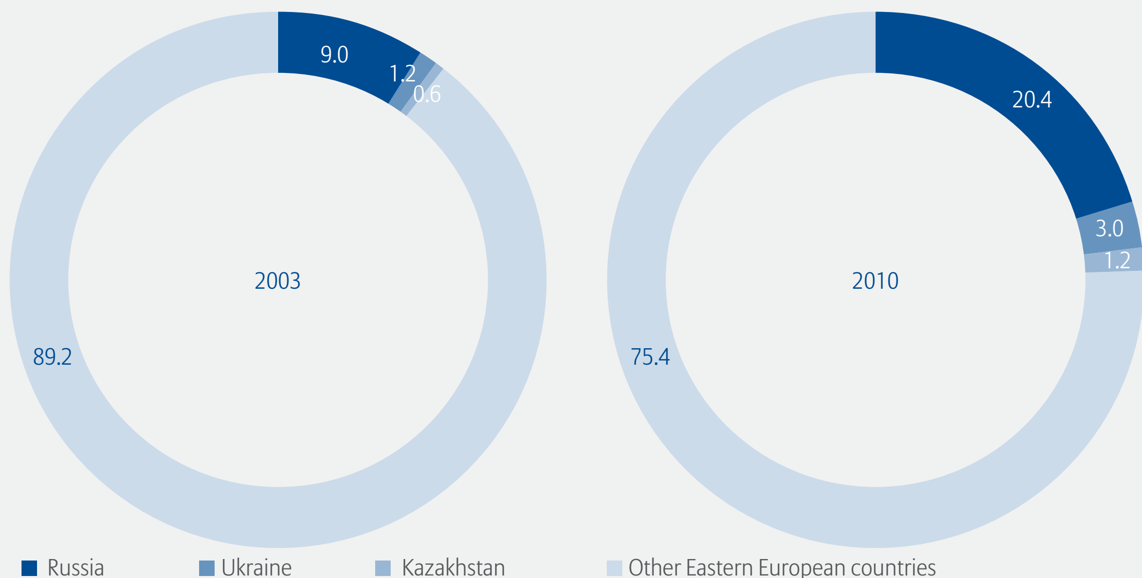
Developments in the real economy curbed private households' propensity to save. Weather induced supply shocks hit them hard. Crop failures in Kazakhstan, Ukraine and Russia caused by drought and forest fires drove food prices up. The International Monetary Fund's Food Price Index, for example, climbed by more than 11% in the course of 2010. Rising fuel prices also put pressure on private household budgets. In Russia, the consumer price index climbed by 6.8%, having risen by 11.8% in the previous year.

Despite the persistent wealth differences separating these countries from the EU's eastern European member states, households in Kazakhstan, Ukraine and Russia gained considerable ground in terms of regional financial assets. Since 2003, these three countries' aggregate share of financial assets in eastern Europe as a whole has risen by more than 13 percentage points, putting it at almost 25% by the end of 2010.

Power shift

Russia, Ukraine and Kazakhstan catch up

Share of regional financial assets 2003 and 2010 in %



Source: National Central Banks and Statistical Offices, Allianz SE.

Asia

Population

Total	3,101 million
Proportion of the region as a whole	82%
Proportion of the global population	45%

GDP

Total	EUR 12,970 billion
Proportion of the region as a whole	94%
Proportion of global GDP	25%

Financial assets of private households

Total	EUR 23,837 billion
Average	EUR 7,688 per capita
Proportion of global financial assets	25%
Debt (as % of GDP)	47%

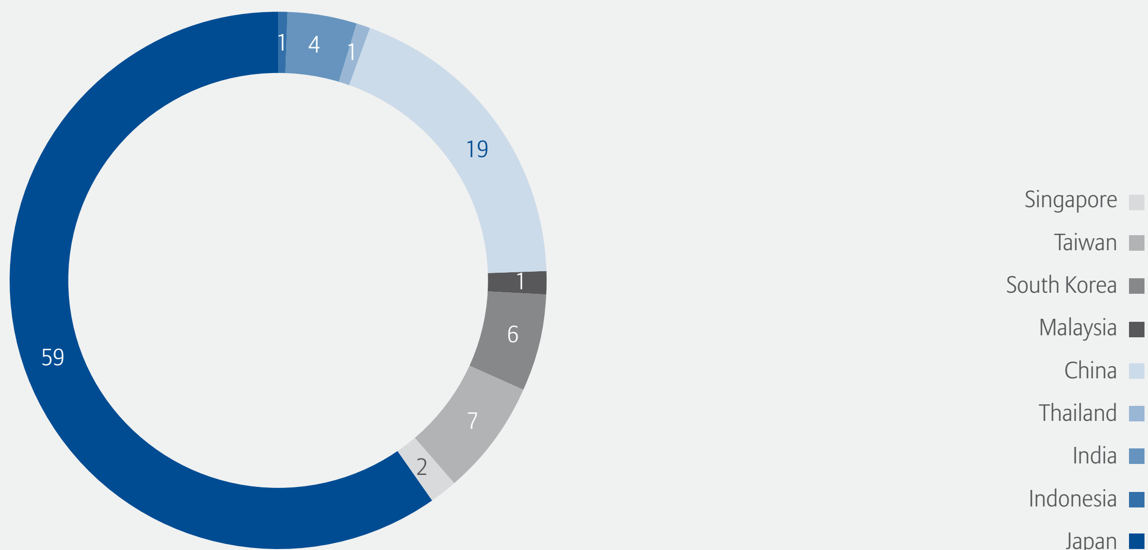
Last year, financial assets in the nine Asian countries covered by our analysis[3] climbed by 5.9% to the equivalent of EUR 23.8 trillion. As far as the growth rates and the volume of financial assets are concerned, however, the disparities between the individual countries are still, not surprisingly, striking. With EUR 14,170 billion, private households in Japan accounted for around 59% of the total financial assets in these countries. Second in line, albeit with a large gap separating first from second place, are private households in China, which held 19% of total financial assets, or the equivalent of EUR 4,460 billion. Private households in Indonesia came bottom of the league, with total financial assets of just shy of EUR 170 billion based on the information available.

And yet, despite the gaping disparity, there is no hiding the fact that the trend that has been observed for a number of years now continued unperturbed in 2010: Japan's share of the region's total financial assets has been slowly but surely on the wane. A decade ago, it was still sitting at 80%. This is due not only to the fact that the economic catch-up process has since put many private households in Asia's up-and-coming economies in a position to accumulate financial assets. The trend is also explained by

3 China, India, Indonesia, Japan, Malaysia, Singapore, South Korea, Taiwan and Thailand.

Japan - Country with the highest financial assets

Distribution of households' financial assets, by country 2010 in %



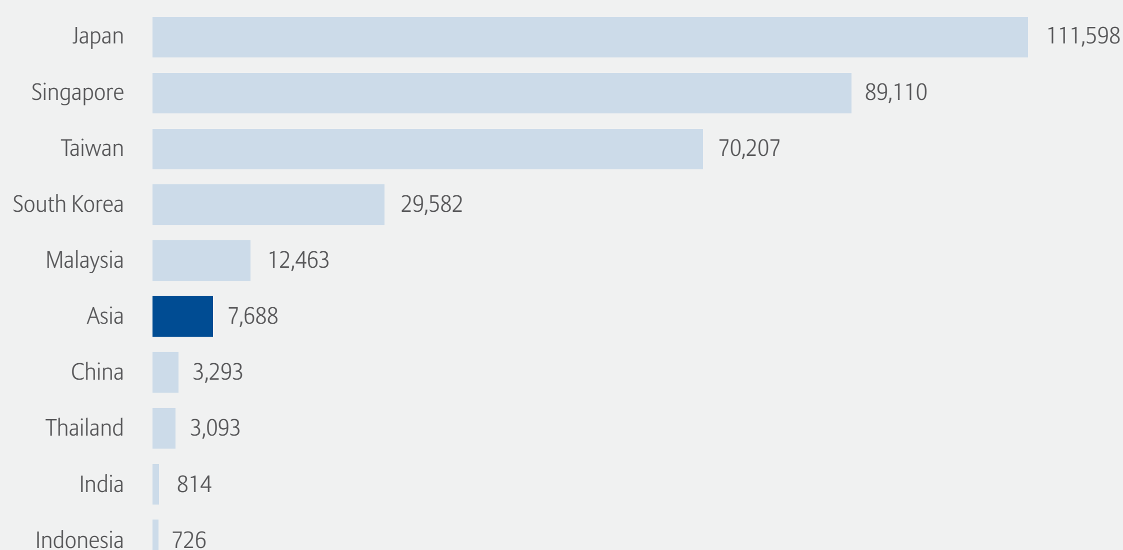
Sources: National central banks and financial supervisory authorities, SSE, IRDA, BIS, Datastream.

the fact that Japanese financial assets have been growing at an average rate of only 0.6% a year over the past ten years, compared with an average growth rate of 12.8% for the region as a whole (leaving Japan out of the equation) over the same period. This means that, with the exception of Japan, all of the Asian countries covered by our analysis have also digested the implications of the financial crisis. Whereas the financial assets of Japanese private households are still EUR 815 billion down on the high reached in 2006, putting them on a par with 2004, assets in other Asian countries have already clearly surpassed the pre-crisis level. This trend has been aggravated by the fact that the tentative recovery in the financial assets of Japanese private households did not continue in 2010. On the contrary, after growth of just under 2.4% in 2009 - which was already low in a regional comparison - financial assets actually took a slight knock of 0.2% in 2010. On Asia's emerging markets, including Singapore and Taiwan, on the other hand, assets grew by 16.4%.

A glance at the development of per capita financial assets also suggests that the differences between the individual countries are becoming less pronounced. In this respect, however, the order is a different one to that that applies to total financial assets: Japan still dominates the picture here, with each Japanese citizen boasting average gross financial assets of EUR 111,600 in 2010. In Singapore, average gross per capita financial assets came in at EUR 89,110 in 2010, while in Taiwan, they tallied up to EUR 70,210. The average financial assets of a Chinese citizen, on the other hand, stood at EUR 3,290, just 3% of the financial assets held by an average Japanese individual. Indonesia had the lowest per capita financial assets at EUR 725.

Japan has the wealthiest inhabitants

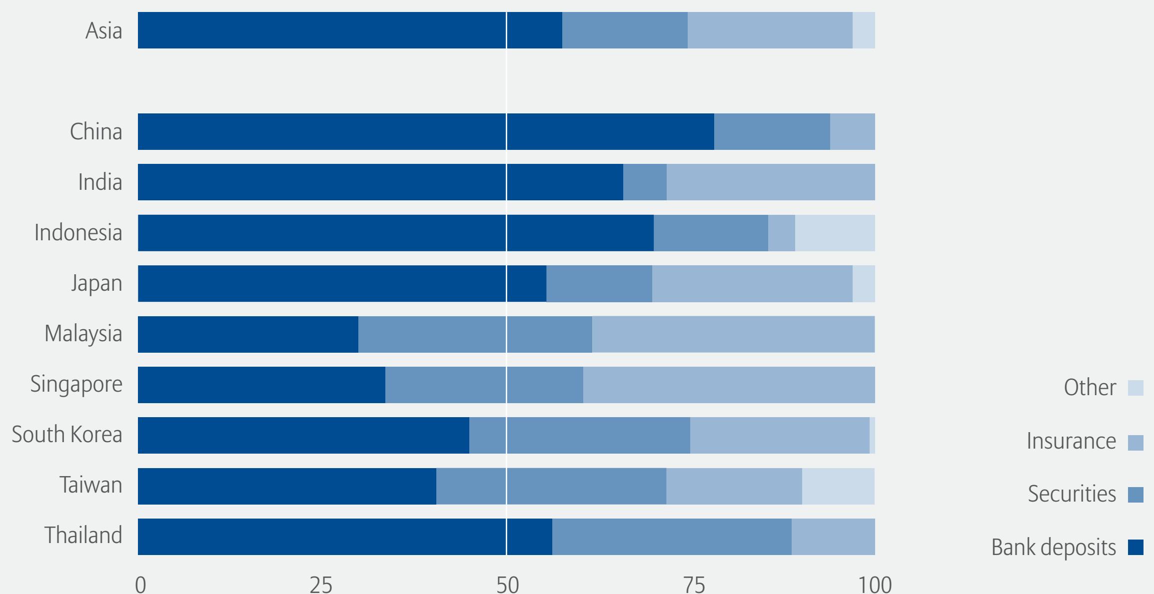
Financial assets per capita, 2010, in EUR



Sources: National central banks and financial supervisory authorities, SSE, IRDA, BIS, Datastream.

Looking at the average for all of the countries included in our analysis, per capita financial assets stood at EUR 7,688 in 2010, up by 4.9% on 2009. At the same time, the number of people in Asia with financial assets of between EUR 6,000 and EUR 36,200, putting them in the middle financial asset bracket, is likely to have risen by 3.4 million to total 216 million; 135 million of these people are likely to be living in China. An estimated 113 million people had financial assets in excess of EUR 36,200 last year. Out of these high-wealth individuals, around 89 million live in Japan, almost 10 million in South Korea, 9 million in Taiwan, just under 3 million in Malaysia and 2.5 million in Singapore. Particularly on the emerging markets, however, financial assets are likely to be distributed relatively unevenly. At the end of 2008, for example, the average savings of a Chinese city-dweller were five times as high as the savings of an average member of the rural population.[4]

4 Someone living in a Chinese city in 2008 had average savings equivalent to EUR 3,280, whereas in the country's rural regions, an average citizen's savings came in at a mere EUR 657. Cf. Almanac of China's Finance and Banking 2009, p. 401.



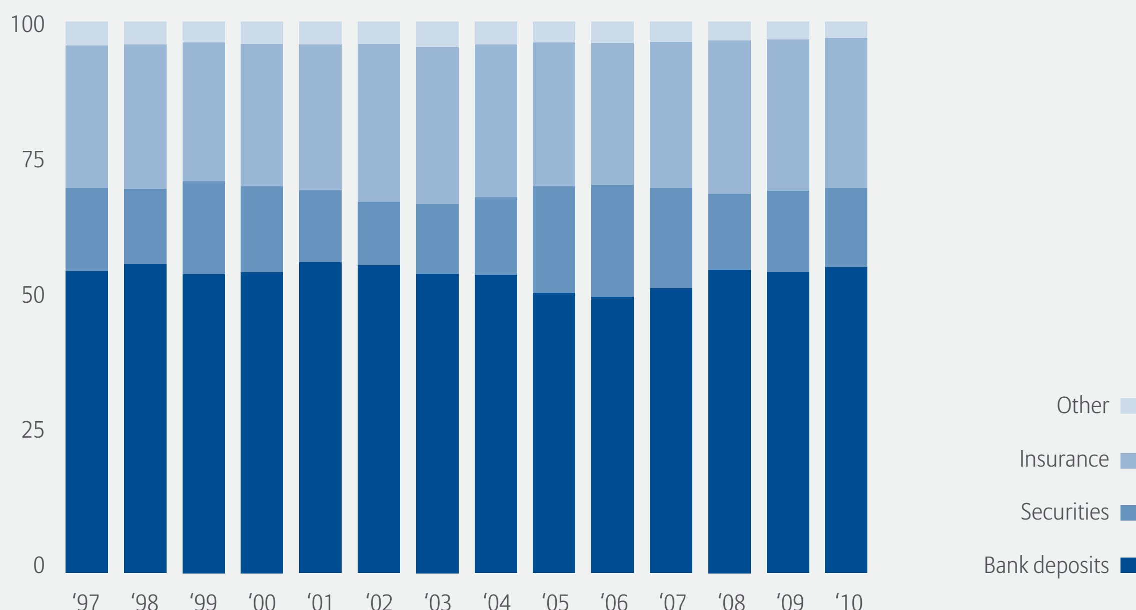
Sources: National central banks and financial supervisory authorities, SSE, IRDA, BIS, Datastream.

The level of average per capita financial assets correlates not only with an economy's maturity, but also with the sophistication of the financial system. The more developed the latter, the more differentiated the investment structure tends to be. By way of example, the fact that around 58% of Asia's total financial assets are held in time deposits and bank deposits echoes what is, in some cases, the pressing need for further development in the financial systems of the individual countries. But a country-by-country analysis shows marked differences in this respect, too: whereas Indonesian private households still have more than 70% of their financial assets tied up in cash and bank deposits, receivables from insurance companies and pension funds dominate the financial asset landscape in Singapore and Malaysia, where they account for a chunk of just under 40% and 36% respectively. In Taiwan and South Korea, term and bank deposits may be the dominant individual form of investment, but they account for a share of far less than 50%. One exception to this rule is Japan.

Although Japan ranks among the world's richest countries, Japanese households have more than half of their financial assets invested with banks in time and savings deposits. Receivables from life insurance companies and pension funds are the second most important asset class with a 27% slice of the cake. Fixed-income securities and equities, on the other hand, are far less likely to be considered as a possible means of investment: at the close of 2010, they accounted for 14% of total financial assets, after having climbed to a temporary high of 20% prior to the outbreak of the financial crisis.

Japan: Conservative investment structure

Asset structure, asset classes as % of total financial assets



Source: Bank of Japan.

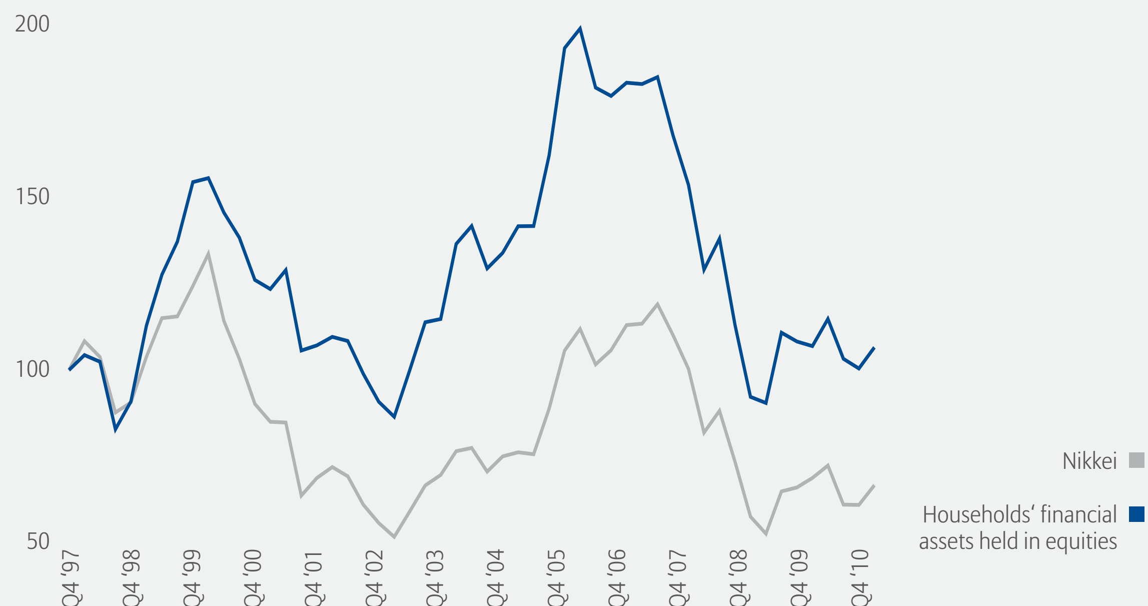
This was driven primarily by the development in the shareholdings of private households[5] in Japan. With the advent of the new economy in the late 1990s, the increase in the value of financial assets invested in shares[6] far outpaced the growth of the Nikkei Index, climbing to a peak of EUR 850 billion in equivalent terms in the spring of 2000, just before the new economy bubble burst. The ensuing downward slide was accelerated by the financial market crash triggered by the events of September 11, 2001, nudging assets held in equities down to below the 1997 level by the end of 2002. The recovery that followed, however, was far more pronounced than the revival of the market as a whole. Assets held in equities doubled within the space of four years and, by early 2006, had risen to a high corresponding to EUR 1,080 billion, or 11.5% of total financial assets. The two years that followed, however, saw equity assets take another tumble in reaction to the financial crisis and the slump in share prices on the Japanese stock markets and by the end of 2008, they were back down below the 1997 value again. Despite a short-lived recovery in 2009, the end of 2010 saw financial assets sitting at EUR 580 billion, the same level as in early 1998. This does, however, mean that the shareholdings of private households still far outperformed the Nikkei index itself, which, by the end of 2010, was only 67.4% of its old 1997 self.

5 including private non-profit organizations.

6 in this case: excluding indirect shareholdings in the form of investment units.

Japan: Equities are not first choice

Development of the Nikkei and households' financial assets held in equities and shares (1997 = 100)



*inlcuding private non-profit organizations
Sources: Bank of Japan, Datastream.

In addition to the poor stock market performance, the fact that the interest rates payable on deposits has been low for years now is another factor explaining the weak growth in Japanese financial assets. What is more, the savings rate of private households was in constant decline for years, coming in at as little as 2.2% in 2008. Although, according to data supplied by the OECD, the savings rate has been on the rise again over the past two years, totaling 6.5% in 2010, it is still well down on the 1999 level of 10%.

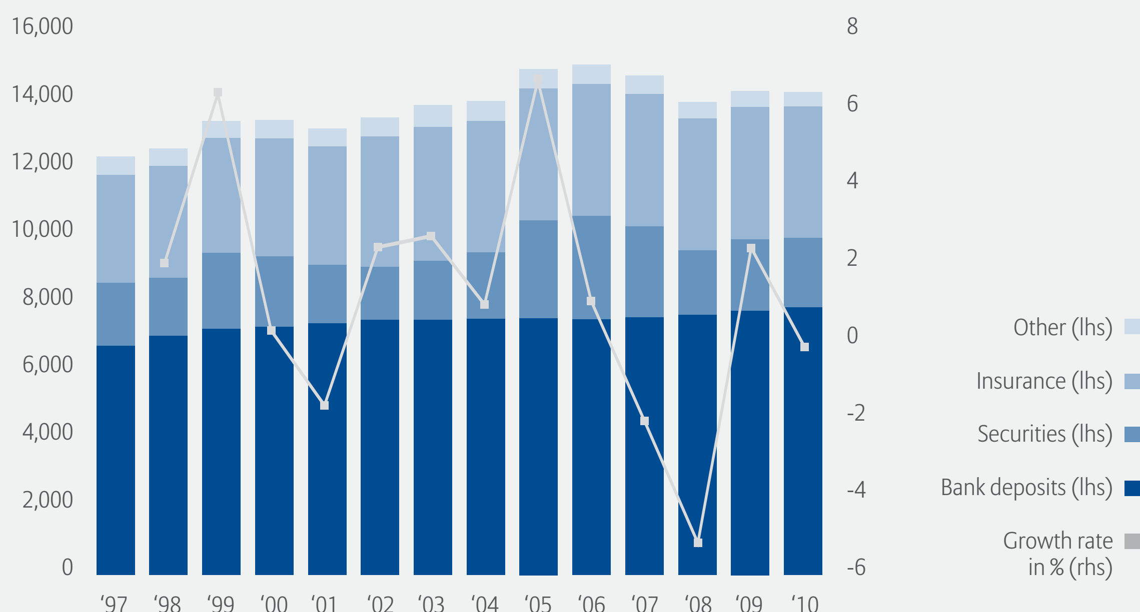
In the up-and-coming economies of Asia, the fast pace of growth in financial assets on the one hand, and the consensus that a functional financial system is a prerequisite for further economic development on the other, has since spurred the powers that be on to step up their efforts to develop the financial system. In India, for example, the expansion of the banking system in the north-east of the country is one of the topics on the agenda, the aim being to make it easier for small local companies to access loans, whereas in China, the growing spread of life insurance products has pushed investor protection further into the spotlight of the country's insurance supervision activities. In Singapore, the deposit protection system has given the country's powerful banking system the attention it deserves: the system, which was actually conceived as a temporary measure in response to the financial crisis and was supposed to be done away with after 12 months, was not only established as a permanent feature but was also given a further boost by the decision to lift the guaranteed maximum amount from the equivalent of EUR 11,640 to EUR 29,100.[7]

Given the above, the disparities between the Asian countries in terms of the financial assets of private households are likely to become even less pronounced in the future. Nevertheless, Japan is expected to retain its crown as the richest country in the region for the foreseeable future.

7 Cf. MAS Annual Report 2010/2011, p. 28.

Japan: Slight decrease of financial assets in 2010

Financial assets of private households, by asset class (in EUR bn) and growth (in %)



Source: Bank of Japan.

Oceania

Population

Total	26 million
Proportion of the global population	0.4%

GDP

Total	EUR 1,140 billion
Proportion of global GDP	2.2%

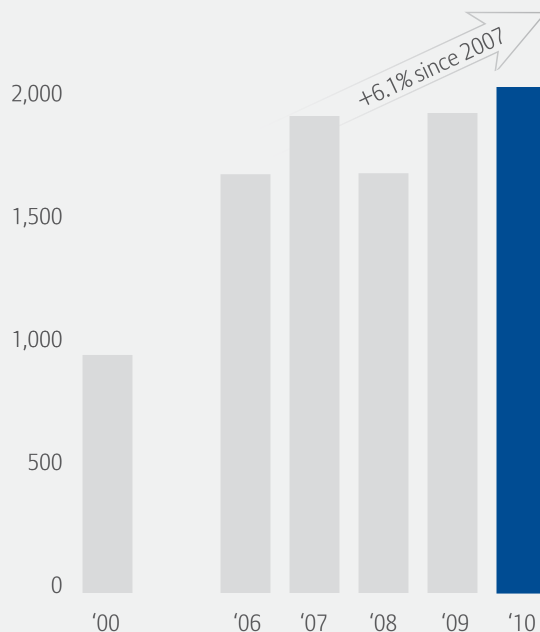
Financial assets of private households

Total	EUR 2,080 billion
Average	EUR 80,480 per capita
Proportion of global financial assets	2.2%
Debt (as % of GDP)	111%

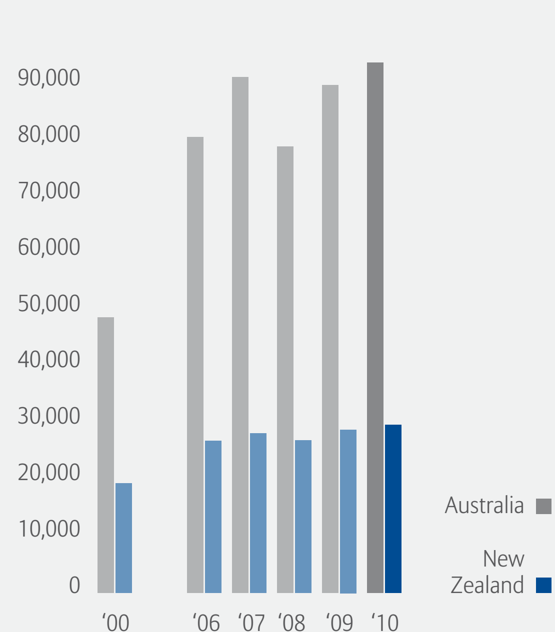
Out of the almost 26 million people living in Australia and New Zealand, more than half were considered to be in the high wealth bracket at the end of 2010. Ten years previously, the same figure had still been sitting at just under 45%. Total financial assets in the region bypassed the EUR 2,000 billion mark for the first time at the end of the last year. Following the record growth witnessed in the last decade, which peaked at almost 14.5% in 2009, growth slowed to a good 5.4% in 2010 but exceeded the growth seen in the industrialized nations. A glance at per capita financial assets shows that the differences between these two neighboring countries remain apparent: whereas Australians already have slightly more than EUR 90,000 per capita, the financial assets of people living in New Zealand come in with EUR 28,820 on average at less than one third of this figure. The latter, however, had managed to make up for the losses inflicted by the financial crisis in as early as 2009. By the end of 2010, per capita wealth was almost 5.3% higher than before the crisis. New Zealand will, however, require a bit more time before it can be classed as an HWC. The average financial assets held by the country's citizens were a good 20% below the minimum level required to make it into the upper wealth segment.

Regional financial assets

Financial assets in EUR bn



Financial assets per capita in EUR bn



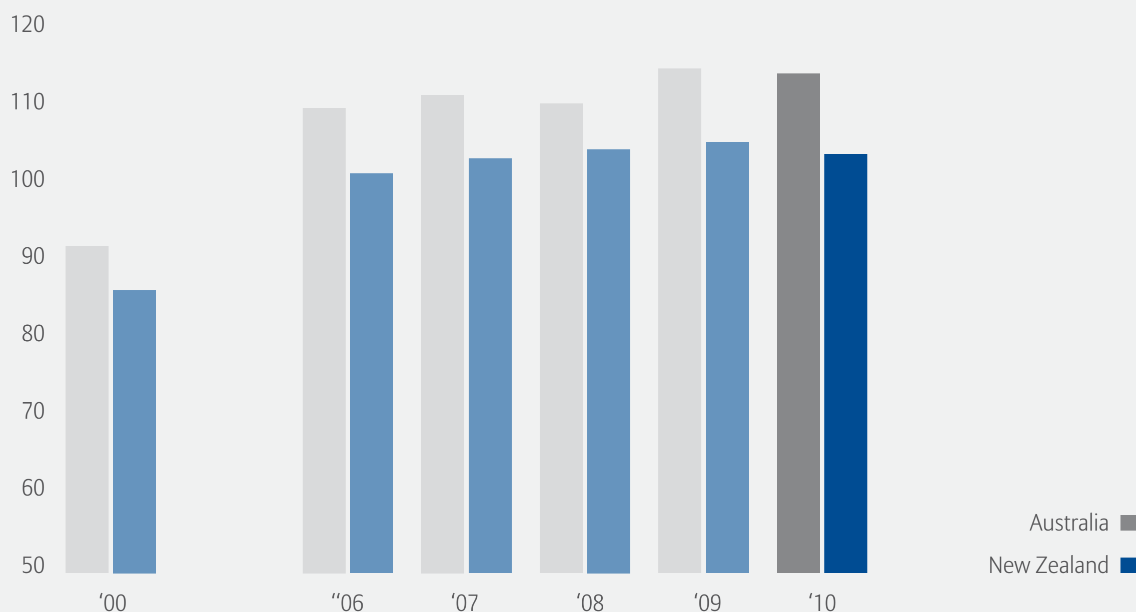
Source: Australian Bureau of Statistics, Reserve Bank of New Zealand, UN, Allianz SE.

The starting gun for debt reduction?

Private household debt has remained on an interrupted upward trend over the past decade, with average annual growth in excess of 11%. It is, however, not so much to finance consumption that Australians and New Zealanders have been accumulating debt, but rather to finance their homes: mortgage loans accounted for around 90% of total loans in Australia, and as much as over 93% of total loans in New Zealand, in 2010. The annual growth in personal debt has been steadily slowing in the recent three respectively four years, bringing it down to 6.6% in Australia and 1.1% in New Zealand at the end of 2010. This stabilized the debt burden as a proportion of GDP. Households in Australia used the phase between August 2008 and April 2009 in particular to push debt growth back down to below the level of economic growth as a whole. During this period, average variable interest rates on mortgage loans fell by almost 4 percentage points. Since many households kept their capital repayments steady in spite of the lower interest burden, the total amount repaid was correspondingly higher. The increasing restraint exercised of late as far as new loans are concerned, on the other hand, is likely to play a pivotal role. With interest rates now on the rise again, numerous households are likely to have shied away from taking out further loans. In the course of the year, the Australian three-month interbank rate climbed by almost 1.5 percentage points, while its counterpart in New Zealand increased by just under 0.3 percentage points.

Households stabilize debt burden

Liabilities of private households as % of GDP, 2010



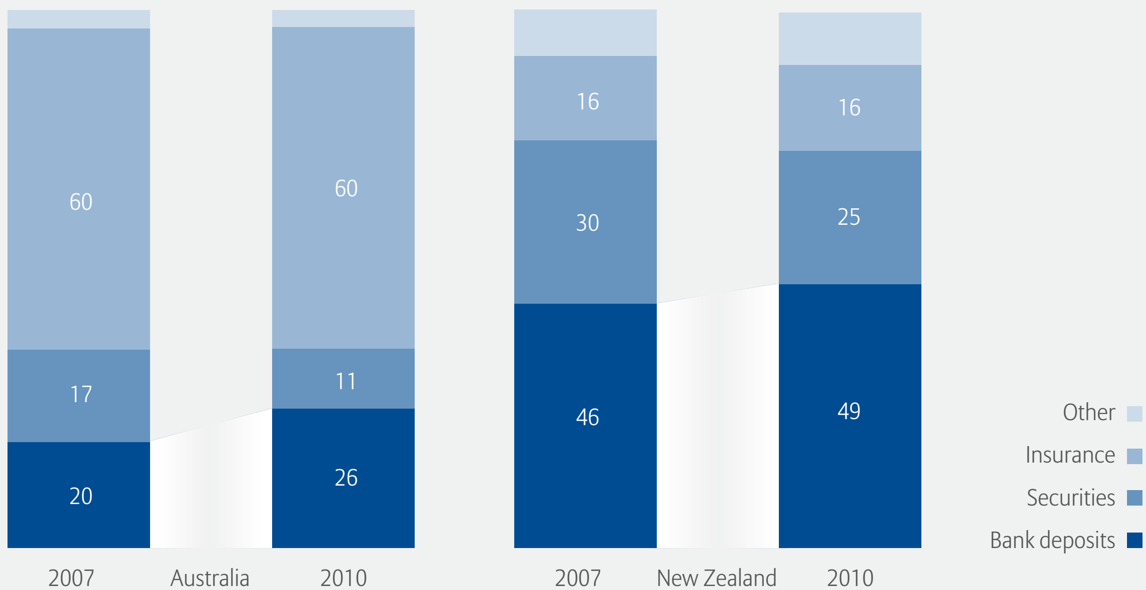
Source: Australian Bureau of Statistics, Reserve Bank of New Zealand, Allianz SE.

Bank deposits become more alluring

The fact that households have become increasingly cautious about taking out further loans in recent years is reflected in a higher savings rate. As well as paying off their liabilities more quickly, households have been keeping an increasing proportion of their savings in bank deposits. Thanks to the need for more security and the greater importance attached to liquidity, this asset class has become more attractive, beefing up its share of household portfolios by 3.6 percentage points in New Zealand, and more than 6 percentage points in Australia, since 2007. A survey conducted by the ***Melbourne Institute of Applied Economic and Social Research*** of the University of Melbourne underlines this shift in thinking among households, suggesting that the proportion of households surveys that were putting money aside has risen in recent years. At the same time, an increasing proportion of the households surveyed feel that bank deposits and repaying debt are the most meaningful ways to invest.

Noticeable preference for liquidity

Asset classes as % of financial assets, 2007 and 2010



Source: Australian Bureau of Statistics, Reserve Bank of New Zealand, Allianz SE.

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Appendix A: Methodological comments

General assumptions

The Allianz Global Wealth Report is based on data from 50 countries. This group of countries covers around 90% of global GDP and 68% of the global population. In 36 countries, we had access to statistics from national wealth balance sheets. In the other countries, we were able to estimate the volume of total financial assets based on information from household surveys, bank statistics, statistics on assets held in equities and bonds, and technical reserves.

In many countries, it is still extremely difficult to find data on the financial assets of private households. Let's take the Latin American countries as an example. For many countries, the only information that can be found relates to the entire private sector or the economy as a whole, which is often of only limited use as far as the situation of private households is concerned. In addition to Mexico, the only other countries with fairly good data that can be used to analyze the financial structure of private household assets are Chile and Columbia. In Argentina and Brazil, we were able to estimate financial assets with the help of data on bank deposits and insurance reserves.

In order to rule out exchange rate distortions over time, the financial assets were converted into the national currency based on the fixed exchange rate at the end of 2010.

HWC

Australia*
Austria*
Belgium*
Canada*
Denmark*
Finland*
France*
Germany*
Ireland*
Italy*
Japan*
Netherlands**
Norway*
Portugal*
Singapore**
Spain*
Sweden*
Switzerland**
Taiwan**
United Kingdom*
USA*

MWC

Brazi***
Chile***
Croatia**
Czech Republic*
Estonia**
Greece*
Hungary*
Latvia*
Lithuania*
Malaysia***
Mexico**
New Zealand*
Poland*
Slovakia**
Slovenia*
South Korea*

LWC

Argentina***
Bulgaria**
China***
Colombia***
India**
Indonesia***
Kazakhstan***
Romania**
Russia***
South Africa***
Thailand***
Turkey***
Ukraine***

*Financial balance sheets 2010 **Projection based on the financial balance sheets 2009
***Approximated based on other statistics

Determination of wealth bands for middle wealth countries (MWC)

Lower wealth threshold: there is a link between financial assets and the incomes of private households. According to Davies et al., private individuals with below-average income tend to have no assets at all, or only very few. It is only when individuals move into middle and higher income groups that they start to accumulate any assets to speak of.

We have applied this link to our country analysis. Countries in the upper-middle income bracket (based on the World Bank's country classification system) therefore form the group in which the average assets of private households have reached a relevant volume for the first time. This value marks the lower threshold for middle wealth countries. How high should this value be?

In terms of income, households with incomes that correspond to between 75% and 150% of average net income are generally considered to constitute the middle class. According to Davies et al., households with income corresponding to 75% of the average income have assets that correspond to 30% of the average assets. As far as the upper threshold is concerned, 150% of average income corresponds to 180% of average assets. Consequently, we have set the threshold values for the wealth middle class at 30% and 180% of average per capital assets. As far as 2010 is concerned, this corresponds to the wealth band from EUR 6,000 to EUR 36,200.

Countries with higher per capita financial assets are then classed as HWCs: high wealth countries. Countries with lower per capita financial assets are the LWCs: low wealth countries.

Appendix B: Financial assets by country

Appendix B: Financial assets by country	Financial assets Global share in %	Financial assets in EUR bn	Financial assets 2010. yoy in %	Financial assets EUR per capita	GDP EUR per capita
USA	37.31	35,543	7.2	111,897	34,403
Japan	14.88	14,172	-0.2	111,598	34,681
UK	5.32	5,067	5.7	81,851	27,407
Germany	5.18	4,934	5.7	60,123	30,388
China	4.68	4,459	18.6	3,293	3,547
France	4.19	3,995	4.3	63,774	30,835
Italy	3.84	3,655	-0.7	60,818	25,751
Canada	2.85	2,711	3.8	79,997	35,894
Australia	2.05	1,953	5.5	90,808	47,735
Spain	1.87	1,777	0.4	39,221	23,457
Netherlands	1.83	1,746	7.6	104,847	35,518
Taiwan	1.70	1,623	7.6	70,207	15,560
Switzerland	1.65	1,575	4.6	207,393	57,515
South Korea	1.51	1,435	11.3	29,582	17,883
Brazil	1.29	1,224	14.4	6,265	8,444
India	1.04	989	33.7	814	1,111
Belgium	0.96	918	6.4	85,859	32,998
Mexico	0.86	819	15.0	7,406	7,176
Sweden	0.78	739	10.6	79,477	39,386
Denmark	0.62	587	10.5	107,057	42,786
Austria	0.52	498	4.9	59,346	33,909
Singapore	0.45	431	10.0	89,110	37,772
Portugal	0.42	395	1.3	36,846	16,077
Malaysia	0.37	348	17.2	12,463	6,898
Norway	0.36	345	6.6	71,096	65,931
Ireland	0.31	294	-0.1	63,984	33,545
Russia	0.30	282	29.0	2,008	7,818
Poland	0.29	281	3.7	7,377	9,371
Greece	0.29	276	-3.9	24,675	20,584
Chile	0.27	261	12.2	15,214	9,650
Finland	0.25	240	8.2	44,857	33,725
Thailand	0.22	211	14.8	3,093	3,901
South Africa	0.22	205	10.0	4,070	5,945
Turkey	0.20	191	14.5	2,527	7,070
Indonesia	0.18	169	23.8	726	2,346
Czech Republic	0.14	136	4.1	13,067	14,040
New Zealand	0.13	124	3.9	28,821	26,337
Colombia	0.12	115	23.8	2,493	4,586
Romania	0.12	112	21.6	5,270	5,712
Hungary	0.11	104	5.8	10,399	9,769
Argentina	0.05	47	32.1	1,156	6,658
Croatia	0.05	45	9.2	10,158	10,277
Slovenia	0.04	42	5.0	20,637	17,766
Slovakia	0.04	41	8.4	7,578	12,179
Ukraine	0.04	41	29.7	899	2,254
Bulgaria	0.04	38	0.6	5,011	4,806
Lithuania	0.02	22	3.2	6,830	8,420
Estonia	0.02	19	0.1	14,135	10,826
Kazakhstan	0.02	17	17.6	1,092	6,133
Latvia	0.01	14	17.3	6,176	8,014
World		95,264		20,147	

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