Public Policy &
Economic Research

Allianz
Global Wealth Report 2013

Allianz Global Wealth Report 2013

Kathrin Brandmeir
Dr. Michaela Grimm
Dr. Michael Heise
Dr. Arne Holzhausen

Preface

These are still extremely challenging times for savers. Exceptionally low interest rates are keeping a firm lid on investment income in many countries, hindering asset accumulation. The capital markets are marred by extreme volatility, especially now that a potential tapering of monetary policy has appeared on the investor radar. Considerable uncertainty surrounds the economic outlook, and this is no longer only the case in Europe, America and Japan, but increasingly also in the up-and-coming economies of Asia and Latin America.

So, in this sort of environment, where are the secure investments that allow long-term asset accumulation? After all, among all the prevailing uncertainty, one thing is beyond doubt: faced with the forces of demographic change and shaky public budgets, it is imperative, more than ever before, that every single one of us sets more money aside for our own future.

In an ideal world, savers would react to these challenges by making long-term investments and taking more of a risk to ensure that they can still achieve adequate returns. But the actual asset development trends tell a different story: savers are rooted in a "wait-and-see" mode and short-term, liquid bank deposits are emerging as the winners, especially in countries where interest rates are low. The US and the eurozone are already starting to resemble Japan, at least as far as savings behavior and asset growth are concerned. What is more, the fact that the distribution of wealth has taken a turn for the worse in these countries suggests that the first tears are starting to appear in the fabric of society. But it will be some time before these distortions come to light in full, namely when the lost years start to leave their mark on retirement incomes.

So an escape route out of crisis mode has to be identified as soon as possible. It will certainly not be enough to pin all of our hopes on low interest rates in order to kick-start the economy. It is crucial that policymakers persevere systematically with their reform programs, push ahead with the European integration process and, most importantly, work on restoring investor trust in the financial system by finally putting in place a consistent global framework of regulations for the international financial markets.

We have continued with our extensive analysis of the global wealth and debt situation of private households with this fourth issue of the "Allianz Global Wealth Report". As in previous years, the comprehensive data set paints a multifaceted picture. And one thing is becoming more and more evident: private wealth is immense in global terms and an increasing number of people across the globe are able to participate in it. We are not, however, putting this wealth to use in a manner that is effective and responsible enough to enable sustainable prosperity and long-term investment. I hope that this report will help to identify the shortcomings and provide new food for thought.

Michael Diekmann
Chairman of the Board of Management of Allianz SE

Table of Contents

Summary

Strong increase in gross financial assets

Across the globe, the gross financial assets of private households in 2012 climbed by 8.1% as against 2011. This growth rate was well ahead of the long-term average after adjustments for exchange rate effects (2001 through 2012) of 4.6% a year. This brought total global assets up to a new record level of EUR 111.2 trillion.

One of the main factors driving growth last year was the positive trend on the stock markets: assets held in securities swelled by 10.4%, the best result since the financial crisis. Private household claims vis-à-vis insurance companies and pension institutions also experienced strong growth of 7.4% at global level in the course of 2012. Bank deposits showed the weakest development among the three major asset classes, increasing by 6.7%. This growth was, however, largely attributable to "fresh" money, because the extremely low interest rates in many countries virtually wiped out any potential for automatic portfolio value increases. So 2012 was another year in which bank deposits reaped the benefits from the considerable preference for liquidity among investors. This trend becomes even more evident if we look at it from a longer-term perspective: at the end of 2012, overnight money, term deposits and savings deposits were up by almost 35% on the level seen in 2007; the increase in insurance policies/pensions during the same period, on the other hand, comes in at "only" 19% and global assets held in securities are actually still 0.6% short of the 2007 level. This has prompted corresponding changes in the face of the global asset structure since the financial crisis, too. Whereas securities have seen their share of the overall household portfolio shrink by 5.5 percentage points, bank deposits have upped their share considerably. By the end of 2012, global financial assets were distributed more or less evenly among securities (36%), bank deposits (32%) and insurance policies/pensions (30%).

Marked gains in all regions

All regions were able to benefit from the strong growth in gross financial assets last year. The highest rate of growth was witnessed in Asia (excl. Japan), at almost 16%, followed by Oceania, Latin America and eastern Europe, all of which also reported growth running into the double digits. Booming stock markets allowed North America, and even crisis-ridden western Europe, to achieve commendable growth in 2012, at 8.3% and 5.3% respectively. A long-term comparison, however, tells a slightly different story. Eastern Europe remains the regional growth champion (average growth of 14.7% p.a. between 2001 and 2012), although the asset accumulation process has shifted back a gear, or in some cases two gears, in many of these countries since late 2007. Asia (excl. Japan) is hot on the heels of eastern Europe, followed by Latin America.

The developed regions of North America and western Europe, on the other hand, are trailing far behind with average growth rates of 4.3% and 3.3% respectively.

Financial crisis stops debt growth in its tracks

All in all, the global debt burden climbed by 2.9% year-on-year in 2012 to total EUR 32.4 trillion. This means that the growth rate lagged well behind the long-term average of 5.5%. These global figures do, however, mask very varied developments at regional level. Eastern European households lead the growth pack on the liabilities side of the asset balance sheet, too: over the past twelve years, eastern European households have been upping their liabilities by an average of 25.4% a year. Following in the footsteps of asset growth, debt growth has, however, slowed in the region since the financial crisis set in. There were no signs of a similar phenomenon in the other emerging regions of Latin America and Asia (excl. Japan). Private households in Latin America have kept their average debt growth constant in the period before and after 2007, at around 17%; in Asia (excl. Japan), the average annual growth rate has actually increased from 12.3% in the period between 2003 and 2007 to 15.8% in the period between 2008 and 2012.

Private households living in the world's wealthier regions, on the other hand, saw their debt growth decline considerably. US households, in particular, have slashed their lending demand significantly: since 2007, personal debt has been falling by an average of 0.4% a year - also thanks to payment defaults and write-downs on mortgage loans. In western Europe, debt growth slowed to only 0.9% p.a. of late. Thanks to this disciplined attitude to debt, the global personal debt ratio, i.e. liabilities measured as a percentage of nominal economic output, stood at just under 66% at the end of 2012, around six percentage points down on the peak seen in 2009.

Net financial assets growing faster than gross financial assets again

If we subtract debt from the gross financial assets, we arrive at a figure for net financial assets, which came in at a global total of EUR 78.8 trillion at the close of last year. At a rate of 10.4%, net financial asset growth in 2012 outpaced the growth in gross financial assets - a trend that is more the exception than the rule in a long-term comparison: due to the debt momentum seen in the past, the growth in net financial assets (+4.2% since 2001) is still lagging behind the average growth rate for gross financial assets (+4.6% p.a.). The long-term average growth in net financial assets in per capita terms is actually almost one percentage point lower, at 3.3% p.a. - a somewhat disappointing result given that global inflation averaged 3.0% in the period from 2001 to 2012. This means that in real terms, savers, who have been confronted with a chain of economic, financial and debt crises emerging in ever more rapid succession, have been unable to achieve any asset growth to speak of if we look at the global average and take their liabilities into account.

All regions overshoot pre-crisis level again for the first time in 2012

At the end of 2012, global average per capita net financial assets came in at EUR 16,240 - subject to the major regional differences referred to above. Households in North America were crowned the richest worldwide, with net financial assets averaging EUR 97,330 per capita at the end of 2012. Eastern Europe is at the other end of the scale, with per capita assets coming in at only EUR 2,600 - despite the impressive development seen in the past. Western Europe comes last among the more prosperous regions, with the old continent reporting per capita assets averaging EUR 44,780. Households in Latin America and Asia (excl. Japan) are virtually neck-and-neck, with per capita assets of EUR 3,640 and EUR 3,650 respectively.

In spite of their high debt momentum, the up-and-coming economies in Asia, eastern Europe and Latin America have also been reporting double-digit growth in net per capita financial assets since the turn of the millennium. By contrast, North America and western Europe have reported only modest asset growth in comparison, with 3.0% and 1.8% p.a. respectively. Net per capita financial assets in all regions had, nevertheless, bounced back to above the previous high achieved in 2007 for the first time in 2012.

Low interest rates driving change in savings behavior

The extremely low interest rates are proving to be a burden for savers in the US and the eurozone, in particular. A comparison with the asset situation of private households in Japan - which are even more familiar with low interest rates - is very revealing.

In theory, it is fairly easy to describe the reaction to low interest rates: as returns head south, asset accumulation automatically drops down a gear, meaning that any savings efforts have to be stepped up to achieve the same result. In practice, however, things look a bit different: there is certainly no evidence anywhere of savers upping their efforts to compensate for the plummeting interest rates. Whereas asset accumulation in the US and Japan has bounced back, at least in nominal terms, to the same values seen before the crisis, the level of savings in the eurozone is continually on the wane. Although there is no doubt that this is partly a reaction to the difficult economic environment, which leaves fewer options available for asset accumulation, the poor returns on savings appear to be encouraging savers to adopt an attitude of resignation as far as saving is concerned.

What is more, when interest rates are extremely low, savers evidently adopt a marked preference for liquidity, meaning that the majority of fresh funds end up in bank deposits. In the years marred by the crisis, the slice of the financial asset accumulation cake consisting of bank deposits has become much bigger. Over the past five years, banks were on the receiving end of more than half of “fresh” savings funds in the eurozone on average, and as much as two-thirds of these funds in the US. This reluctance to save and “wait-and-see” attitude only serve to exacerbate the long-term implications of the low interest rates as far as asset accumulation is concerned.

Going Japanese?

So a similar convergence is already emerging for financial asset growth, at least in a longer-term analysis: the average growth in gross per capita financial assets came in at between 0% (Japan) and 1.1% (eurozone) on average. In the comparable period prior to the crisis, on the other hand, this range was much wider: stretching from 1.6% in Japan to 10.3% in the US. The gap is even smaller if we look at net financial assets (per capita): no region has reported average annual growth that manages to surpass the 1% mark. So to twist Tolstoy’s famous saying a little, we can say that “unhappy savers are all alike”.

But it is not only the development in average financial assets that is suffering as a result of the crisis and the low interest rates. Asset distribution is also changing - for the worse: in the US and the eurozone, the number of members of the global high wealth class has declined in both absolute and relative (proportion of the total population) terms; in Japan, the figures have stagnated. On the other hand, there are more people sitting in the low wealth segment in all three regions: this segment makes up 30% of the population in both the eurozone and the US, and around 10% in Japan. The marked disparities in wealth in the US and the eurozone raise concerns that the “social half-life” of the zero interest rate policy will be much shorter in these regions than in Japan, which is still fairly egalitarian.

Rich and poor are still worlds apart

In this report, we have split the countries featured in our analysis into quintiles for the first time to enable an even more precise analysis of asset distribution by country. The first quintile includes the 20% of the countries analyzed with the lowest net per capita financial assets; accordingly, the fifth quintile groups together the 20% of countries with the highest net per capita financial assets.

The absolute wealth gap between the world's richest and poorest countries is still huge. Whereas the average net per capita financial assets in the fifth quintile come in at EUR 87,200, the same figure in the first quintile comes in at only just over EUR 1,100. This wealth gap has actually widened further in recent years, at least in absolute terms; in relative terms, on the other hand, global inequality has declined significantly: the "inequality factor" (per capita financial assets in the fifth quintile as a multiple of per capita financial assets in the first quintile) has dropped from 197 to 79. This reflects the difference in asset growth rates. The poorer countries (first and second quintile) have, indeed, been reporting double-digit growth rates every year since the start of the millennium on average.

So the slice of the cake that the poor countries have been able to grab has been growing considerably since the turn of the millennium - nevertheless, the biggest chunk is still sitting on the plates of the fifth quintile countries, whose households boast just under 70% of the world's private financial assets. In 2000, however, this share was actually almost 16 percentage points higher than it is at present. One striking aspect is that the rich countries' share of global assets far exceeds their share of global economic output. The "old" world order is likely to persist for much longer in terms of wealth distribution than it is in terms of current economic output.

The global wealth middle class is growing and becoming increasingly Asian

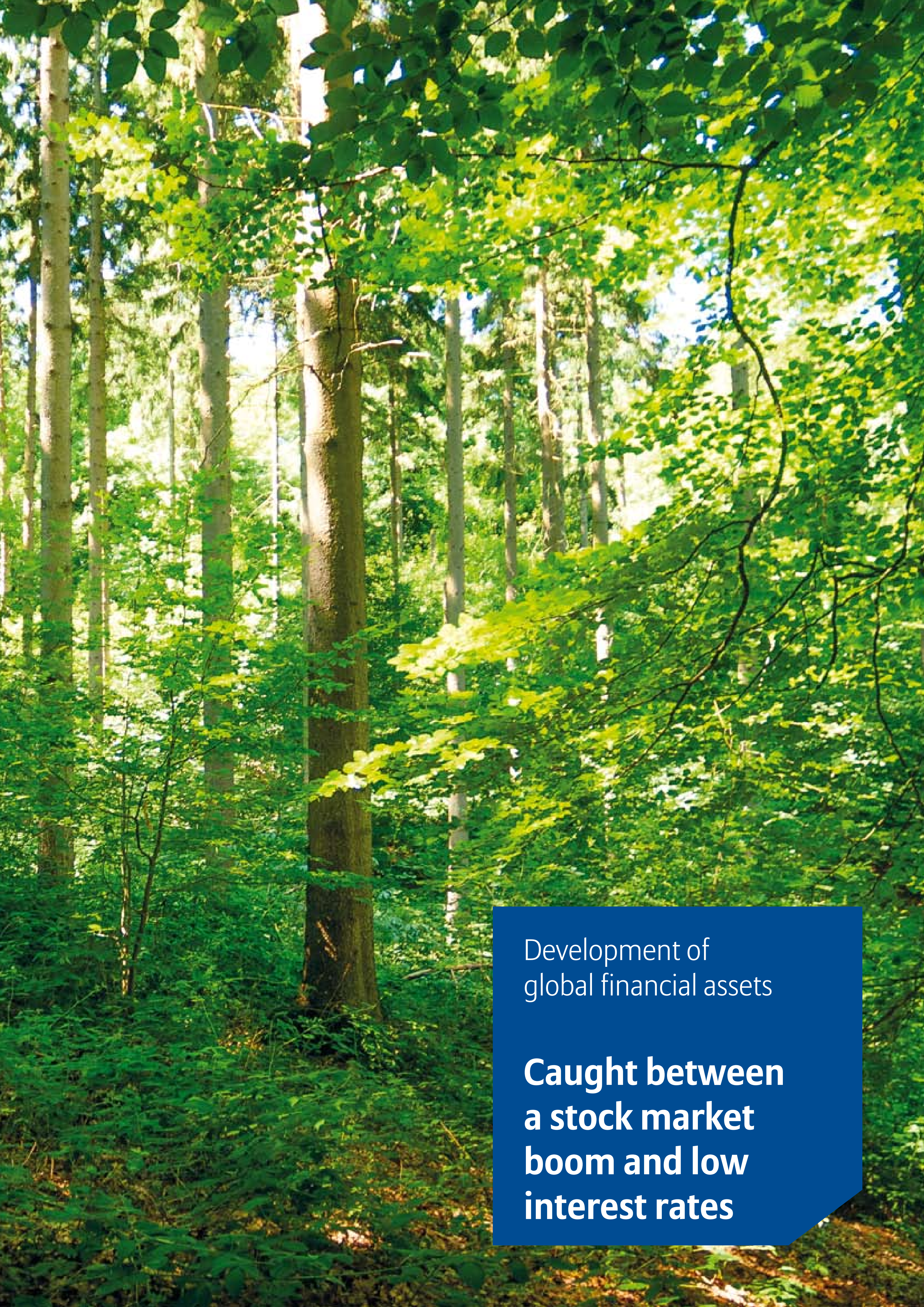
The analysis of how assets are distributed within the individual countries is even more revealing than the asset distribution by country. After all, it is not countries, but rather their citizens, who are rich or poor, climbing up or down the wealth ladder. This is why we have defined global wealth classes, as in previous years. The global wealth middle class, based on the average global net per capita financial assets, encompasses all individuals with assets of between EUR 4,900 and EUR 29,200 in 2012.

Based on this breakdown, around 860 million people with medium net financial assets lived in the countries included in our analysis in 2012, almost 140 million people more than a year before. Much of this growth is due - in addition to general population growth - to China. This means that, on the whole, 18% of the world's total population belonged to the global wealth middle class in 2012 (2011: 15%). But it was not just last year that the momentum driving the rise of the global middle class was astounding. Over the past twelve years, the emerging markets, in particular, have made incredible progress: since the turn of the millennium, the share of the population that falls into the wealth middle class in global terms has doubled in eastern Europe and Latin America and has increased almost ten-fold in Asia (excl. Japan). This means that the face of the global wealth middle class has changed considerably: in 2000, almost 60% of its members still hailed from North America or western Europe. Today, on the other hand, every second member is from Asia - a trend that is projected to continue. The share attributable to North America and western Europe has fallen to below the 30% mark.

"Relegated" candidates in richer countries

But the rapid growth of the middle class is not a success story for everyone, because it does not spell a scenario in which there are only winners. Particularly in the richer countries that have set the stage for a massive increase in debt in recent years and whose financial assets have been hit hard by the crisis, there are now fewer people of "high wealth" than there were at the start of the millennium. All in all, this "wealth upper class" has lost almost 20 million members in western Europe, and a good 13 million members in North America, over the past few years.

The trend in the "low wealth" category mirrored this: in many developing countries in Asia, Latin America and eastern Europe, this category has become much smaller - bucking the general population trend; the reduction was most pronounced in China, with over 300 million people leaving the "low wealth" group. In western Europe and North America, on the other hand, the number of people with net financial assets of less than EUR 4,900 has risen disproportionately, by 67 million. This means that all in all, the low wealth class accounts for 3,550 million people; the share of the population in this category has fallen by eight percentage points over the past twelve years to 73%.



Development of global financial assets

Caught between a stock market boom and low interest rates

2012 was a year full of contradictions for savers: on the one hand, record low interest rates in many countries kept a firm lid on investment income, hindering asset accumulation. On the other hand, the extremely expansive and unconventional monetary policy was the very factor that at times sparked veritable fireworks on the stock markets, boosting the value of asset portfolios.

So if we take a snapshot of last year, it was certainly a good one for savers in terms of asset growth, because the positive stock market performance managed to more than compensate for the negative impact of the low interest rates.

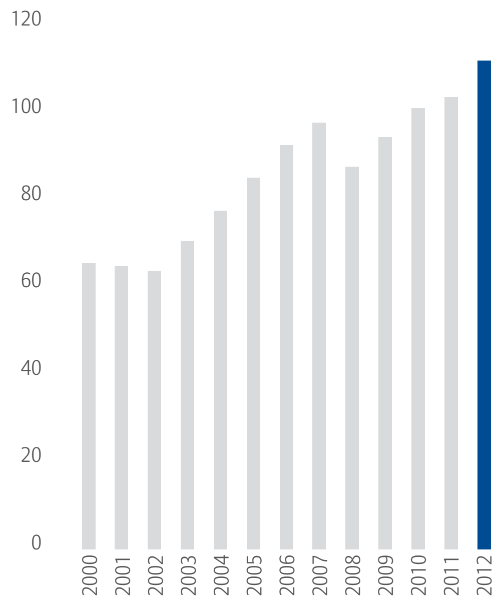
This should not, however, distract us from the marked changes in savings behavior that have already emerged in many of the affected countries - changes that are likely to have unpleasant consequences for long-term asset accumulation. But before we analyze these consequences in more detail in the next section, we would first of all like to take a closer look at the encouraging developments of last year.

Across the globe, the gross financial assets of private households in 2012 were up by 8.1% on a year earlier. This means that last year's development was a very positive one in both a short and long-term comparison: asset growth in 2012 was not only ahead of the growth rates seen in the two previous years (7.1% in 2010 and 2.5% in 2011), it was also streets ahead of the long-term average growth rate (2001 to 2012) of 4.6% a year[1]. This brought total global assets up to a record level of EUR 111.2 trillion.

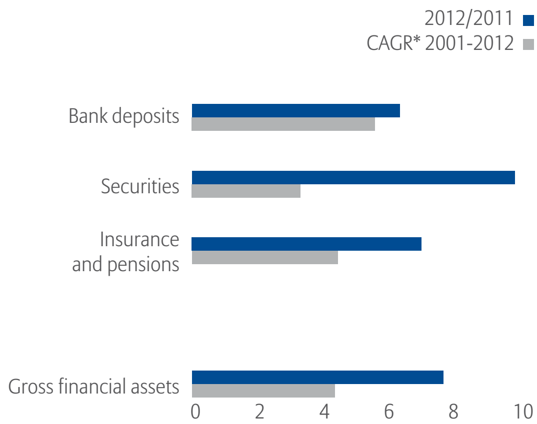
1 In order to rule out exchange rate distortions over time, the financial assets were converted into the national currency based on the fixed exchange rate at the end of 2012.

Global financial assets: Strong recovery across all asset classes

Global gross financial assets, in EUR tn



Percentage change of asset classes



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

Marked share price gains

One of the main factors driving growth last year was assets held in securities, which grew by 10.4%, almost on a par with the growth rate most recently seen in 2006, when this asset class gained 11.5%. In particular, the announcement made by ECB President Mario Draghi, in summer 2012, that he would do “whatever it takes” to protect the euro proved to be an effective one: the signal gave the stock markets a real shot in the arm and saw investors benefit from value gains as a result. In the course of the year, the Eurostoxx 50 gained 13.8% and the S&P 500 closed the year up by 13.4%. In the Far East, too, the Nikkei climbed by 22.9% in total after a clear turnaround in economic and monetary policy had already started to emerge in the run-up to the December elections. The upturn on the stock markets was, of course, particularly beneficial to households in developed countries, which already invest a significant part of their financial assets in securities. On average, households in the world’s industrialized nations held just under 38% of their asset portfolio in securities at the end of 2012. Although this share rose by 0.8 percentage points in the course of 2012, the stock market slumps of the past on the one hand, and the resulting tendency to “flee” towards (supposedly) low-risk investments on the other, have meant that securities account for 5.5 percentage points less of the portfolio of all households than they did back in late 2007. All in all, global securities assets make up around 36% of the overall portfolio, a figure that is still down by 0.6% on 2007, with a discrepancy of as much as 5.3% in the industrialized countries.

Bank deposits remain popular despite low interest rates

Bank deposits showed the weakest development among the three major asset classes in 2012. This comes as little surprise, because the extremely low interest rates in many countries virtually wiped out any potential for automatic portfolio value increases; any growth was largely attributable to “fresh” investment funds. Given this overall environment, the growth rate of 6.7% seen last year is more than respectable; it outstripped the long-term average growth rate by almost one percentage point. 2012 was another year in which bank deposits reaped the benefits from the increasing preference for liquidity. This brought global overnight money, term deposits and savings deposits up to around EUR 35 trillion at the end of 2012, almost 35% above the level seen in 2007.

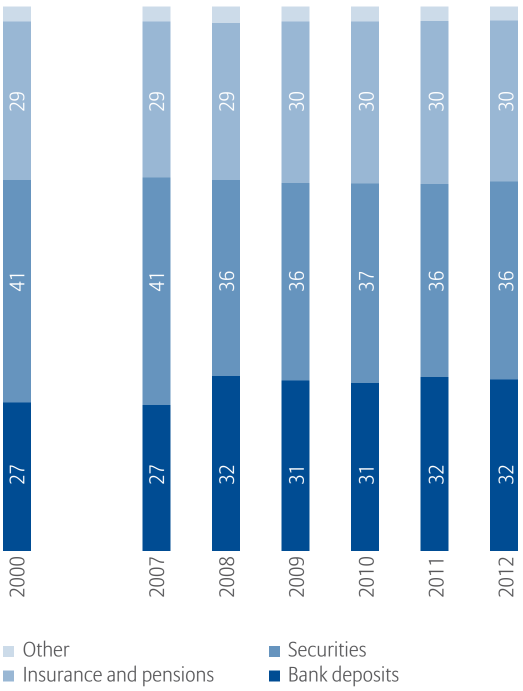
The pace of growth in the emerging markets is even higher than in the advanced economies: bank deposits in the developed countries have been growing at an average rate of 4.2% p.a. since late 2000, whereas the annual growth rates in the emerging markets has been four times as high on average. Firstly, the huge growth differential is obviously explained by the fact that per capita assets in the emerging markets are still very low: on average, financial assets held as bank deposits total EUR 2,100 per capita in the emerging markets, compared with an average of EUR 26,420 for people living in the world’s industrialized nations. The lack of alternative savings products in many poorer countries is another factor explaining the strong preference for bank deposits. Second, however, this growth differential also mirrors the ambivalence of the expansive monetary policy currently being pursued by those economic regions that have been hit hard by the financial crisis, namely North America, Europe and Japan: central banks are using these measures in an attempt to stabilize the financial system and provide growth impetus for economic activity by keeping interest rates low and supplying excess liquidity. Their good intentions, however, are having a negative impact on private households, which tend to make up the largest group of creditors in an economy. The lower returns on their savings, particularly on bank deposits, are proving a real obstacle to long-term asset accumulation for private households.

Savers remain loyal to insurance policies and pensions

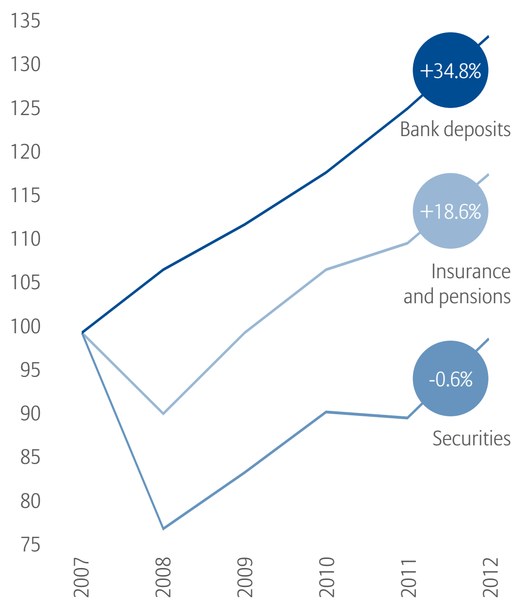
The third-largest asset class in the asset portfolio, namely private household claims vis-à-vis insurance companies and pension institutions, also experienced strong growth totaling 7.4% at global level in the course of 2012. As with the other two asset classes, the rate of change was well ahead of the average growth rate for the past twelve years of 4.7% p.a. This asset class, too, revealed a world of difference in the pace of growth between the industrialized and emerging markets (average growth of 4.2% versus 17.1% p.a. between 2001 and 2012). This bears testimony to the need for developing countries, where the insurance markets are, in some cases, still in their infancy, to catch up. The insurance penetration rate, i.e. the ratio of total insurance premiums to

Flight into 'safe haven' bank deposits

Asset classes as % of gross financial assets



Growth of the three big asset classes since 2007
Index (2007=100)



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

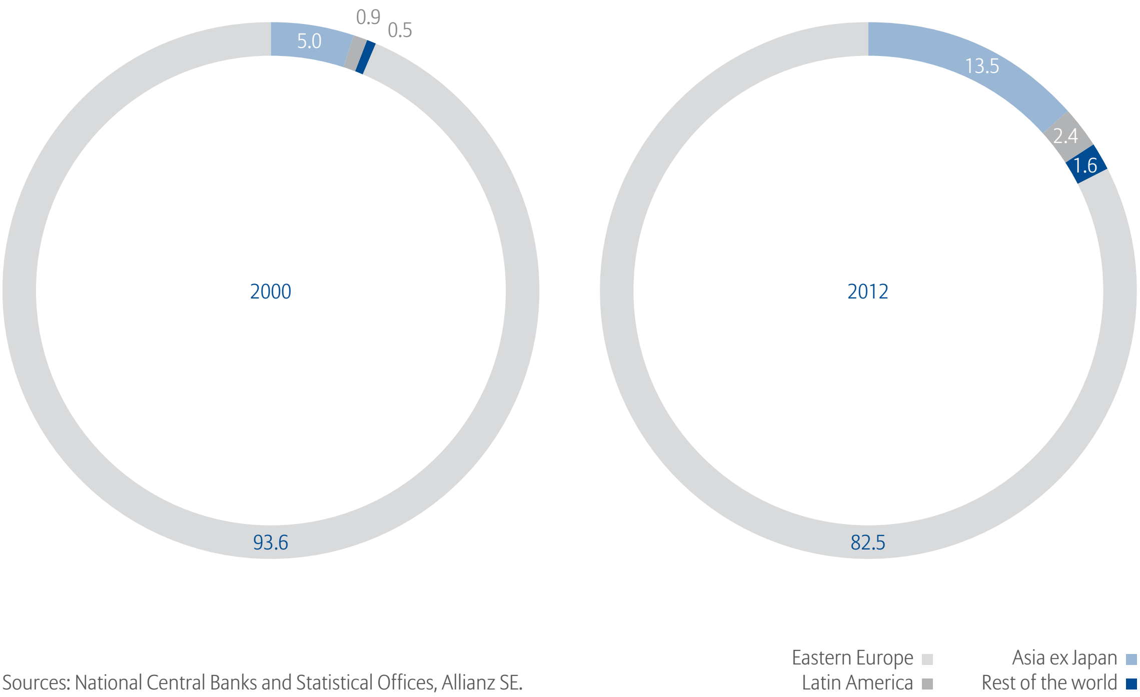
nominal economic output, averaged 2.5% in the up-and-coming economies in 2012, compared with an average rate of 7.2% in the industrialized economies. In a global analysis, private households have kept the share of their financial assets invested in insurance and pensions relatively constant over the past twelve years; just under 30% of their assets were tied up in these products last year. On the whole, private household claims vis-à-vis insurance companies and pension institutions tallied up to almost EUR 33 trillion - almost 19% more than before the outbreak of the global economic and financial crisis.

Huge global imbalances remain prevalent

When 2012 drew to a close, North America and western Europe accounted for a combined total corresponding to around two-thirds of the world's gross financial assets. With a "global share" of 41.2%, North America was actually the richest region on the planet. In Asia-Pacific, a further 12.6% was concentrated in Japan, with 2.5% in Australia and New Zealand. This means that, all in all, more than four-fifths of global financial assets are still in the hands of private households living in the world's richer areas, even though these households make up less than one-fifth (18.9%) of the earth's population. The remaining 18% of the world's financial assets are distributed among Latin America (2.4%), eastern Europe (1.6%) and the other Asian countries (just under 14%), i.e. among a total of 3.9 billion people.

The world's poorer regions are catching up

Share of global gross financial assets 2000 und 2012, in %



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

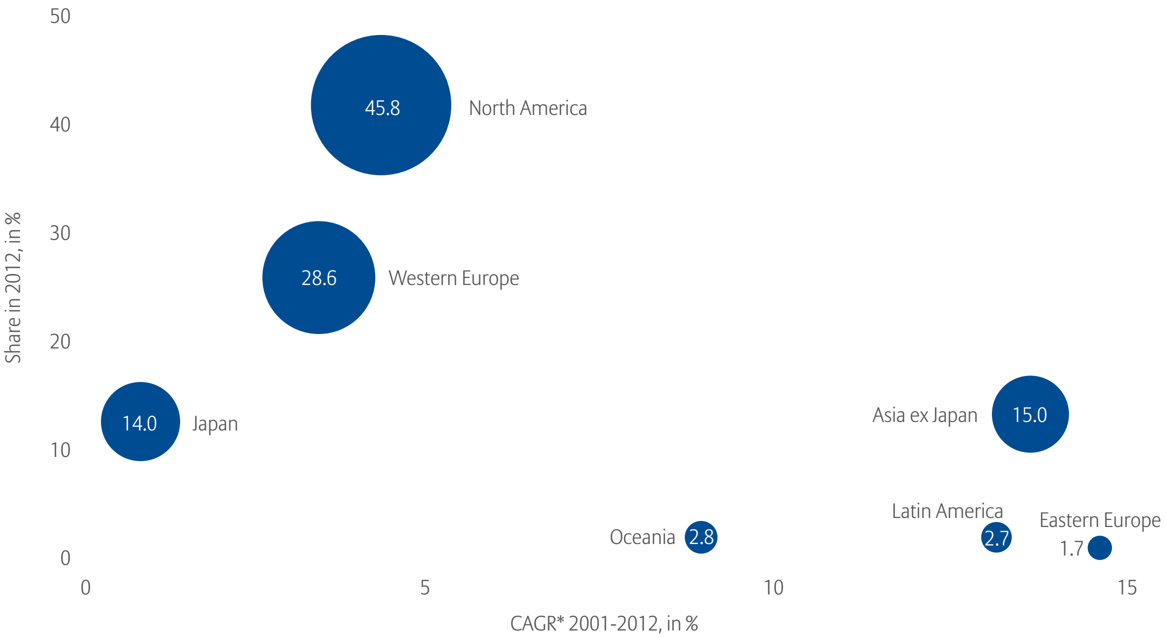
Eastern Europe remains the growth champion in a long-term comparison

But the last decade has been anything but a lost one for the world's poorer regions – quite the contrary. These countries are powering ahead in the race to catch up, with average annual growth rates running into the double digits since 2000. Over the past twelve years, they have actually managed to almost treble their slice of the global financial asset cake. The regional growth champion is, and remains, eastern Europe (average growth of 14.7% p.a. between 2001 and 2012), although the asset accumulation process has shifted back a gear, or in some cases two gears, in many of these countries since late 2007. In Slovenia, for example, where households boast the highest gross per capita financial assets in the region, total assets were still languishing 0.3% below the pre-crisis level at the end of 2012.

For most economies in eastern Europe, the eurozone is their most important trading partner and the economic downturn that has plagued the eurozone in recent years has dealt a blow to economic development in the region,

Wealth and growth by region

Share of global gross financial assets 2012 and compound annual growth since the end of 2000



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

Absolute amount of gross financial assets, in EUR trillion putting pressure on income and asset development. Nevertheless, asset growth came in at 10.2% last year, the sort of growth that many developed economies can only dream of. The only group of countries to go one better and outperform eastern Europe in terms of growth over the past twelve years has been the group of Asian emerging markets: China, India, Indonesia, Malaysia and Thailand, which achieved growth averaging 18.5% p.a. on the whole. If we factor the developed economies of Israel, Singapore, South Korea and Taiwan into the equation, the growth rate drops to 13.7%. An analysis of Asia as a whole, i.e. including Japan, pushes the average annual growth rate down to as low as 5.1%; at 0.8% p.a. on average, the assets of Japanese households have more or less stagnated. In 2012, however, asset growth in the entire Asian region had bounced back to well above the long-term average, coming in at 9.3%. Asset development in Latin America almost rivaled eastern Europe, with private households clocking up average annual growth of 13.2% between 2001 and 2012. The receivables of private households have more than quadrupled since the end of 2000. Last year, at around 13%, asset growth made a comeback to the double digits after totaling “only” 8.9% in 2011. Despite this positive development, the region is still battling with pronounced social and economic imbalances among the population. In much of Latin America, poverty rates are still alarmingly high.

After only meager growth of 0.2% the year before last, households in Oceania, too, were able to enjoy strong financial asset growth of 14.4% in the course of 2012. The main growth driver was the “insurance and pensions” asset class, which plays a key role in Australia, in particular. The popular “superannuations” - a combination of state and private, voluntary and tax-incentivized pension provision - alone climbed by more than 50%. Thanks, not least, to the commodities boom, the long-term average growth rate in the region is also fairly high, at just under 9%.

The development in gross financial assets in North America was positively subdued in comparison. In the period between 2001 and 2012, the assets of private households grew at an average rate of 4.3% a year. US households, in particular, which were pretty much at the epicenter of the global financial and economic crisis and invest more than half of their financial assets in securities, had to digest painful losses due to their more risk-prone asset structure. It was only last year that they managed to make up for the damage inflicted back in 2008 by the biggest asset slump of the post-war era, namely a drop of 18%. But in 2012, assets held in securities reported the most substantial growth among the asset classes, at 9.9%. All in all, gross financial assets in North America were up by 8.3% as against 2011.

Asset accumulation in western Europe was much more sluggish than on the other side of the Atlantic: over the past twelve years, the financial assets of private households have been growing at an average rate of 3.3% p.a. Unlike in

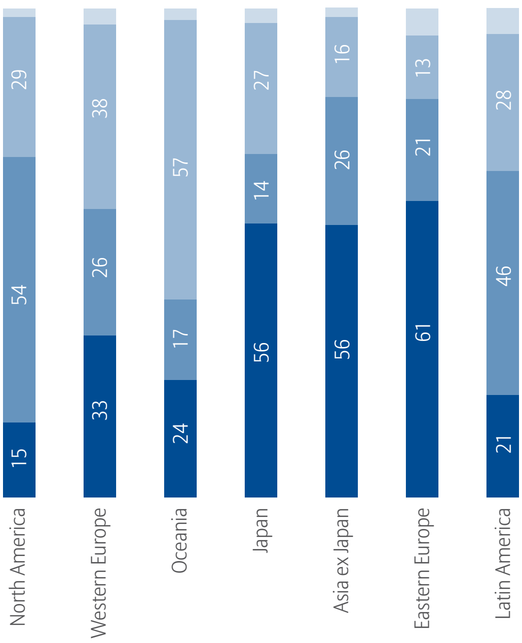
North America, western European households are more conservative when it comes to their asset structure. In 2012, they held around 70% of their financial assets in bank deposits, insurance policies and pensions, with only 26% of the asset portfolio attributable to securities. Consequently, asset development has been less volatile than in North America. After western Europeans closed 2011 with zero growth, assets showed robust growth of 5.3% last year. Just as is the case on the other side of the "pond", securities were the asset class with the highest growth in percentage terms in western Europe, too.

The Japanese bring up the rear in terms of asset accumulation, their savings having grown by an annual average of only 0.8% over the last twelve years.

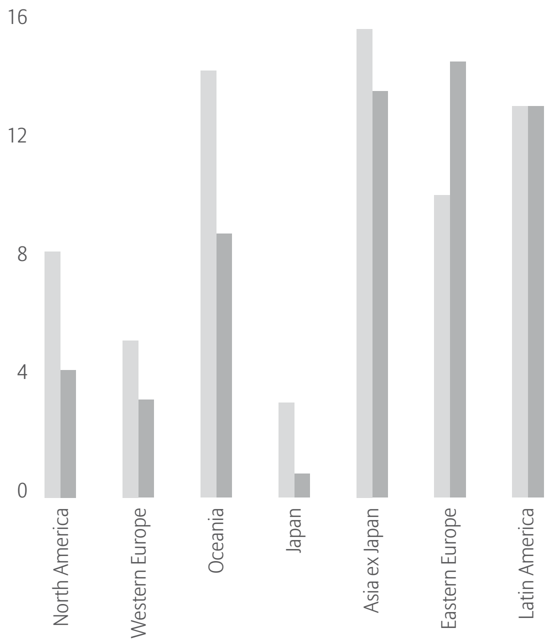
There are two reasons behind this development: first, the Japanese hold the lion's share of their financial assets, or 56%, in bank deposits and the low interest rates that have now been on the scene for decades mean that this asset class does not provide savers with adequate nominal returns. Second, it has proven very difficult to achieve gains on the stock market, with the Nikkei having lost almost 25% over the past twelve years; by the end of 2012, assets held in securities had ultimately slipped back to the 2000 level. In this respect, last year was an extremely successful one, with asset growth to the tune of 3.2%.

Asset structure and growth by region

Asset classes as % of gross financial assets, 2012



Rate of change of gross financial assets, in %



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

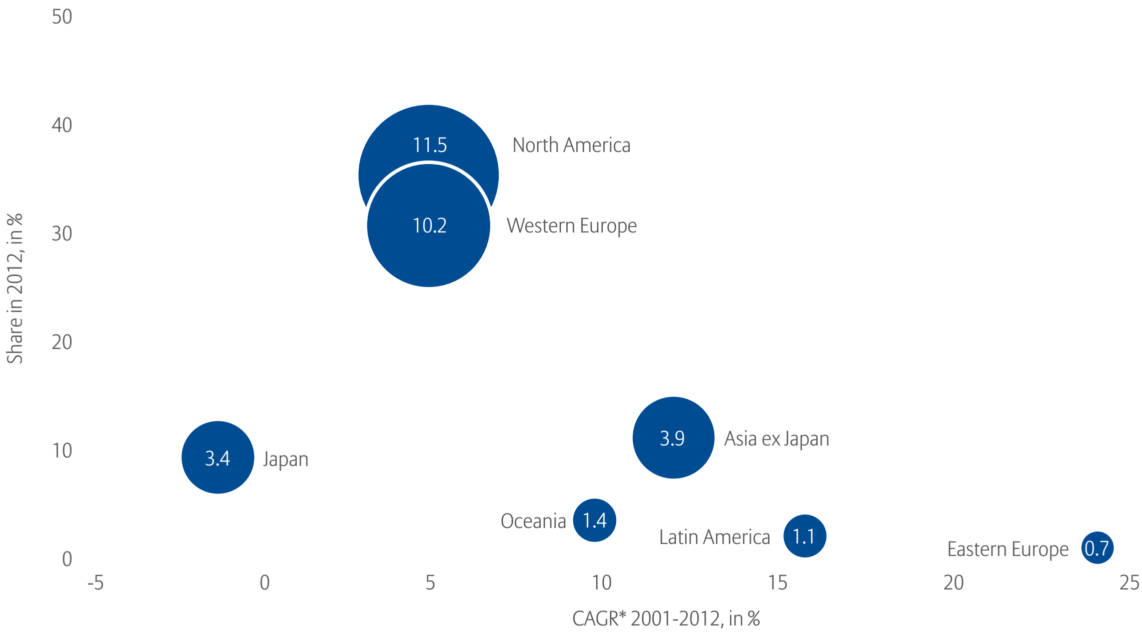
Other ■ Securities ■ 2012/2011 ■
Insurance and pensions ■ Bank deposits ■ CAGR* 2001-2012 ■

Financial crisis stops debt growth in its tracks

As is to be expected, households in richer regions not only account for the lion's share of the world's financial assets, but also bear the majority of the global debt burden: at the end of 2012, almost 72% of global debt was being carried on the collective shoulders of north America, western Europe and Oceania, with a further 10.3% being borne by Japanese households. 12% was attributable to other Asian countries. With a share of 2.2%, eastern Europe is bottom of the debt league, followed by Latin America (3.3%) in second-last place. All in all, the global debt burden climbed by 2.9% year-on-year in 2012 to total EUR 32.4 trillion. This means that the growth rate lagged well behind the long-term average of 5.5%. In general, the outbreak of the global economic and financial crisis seems to have triggered a more disciplined attitude to debt in general. The average global rate of change in liabilities has slowed to 2.7% p.a. since the end of 2007, compared with a rate of 8.3% in the years between 2003 and 2007.

Liabilities and growth by region

Share of global debt burden 2012 and compound annual growth since the end of 2000



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

Absolute amount of liabilities, in EUR trillion

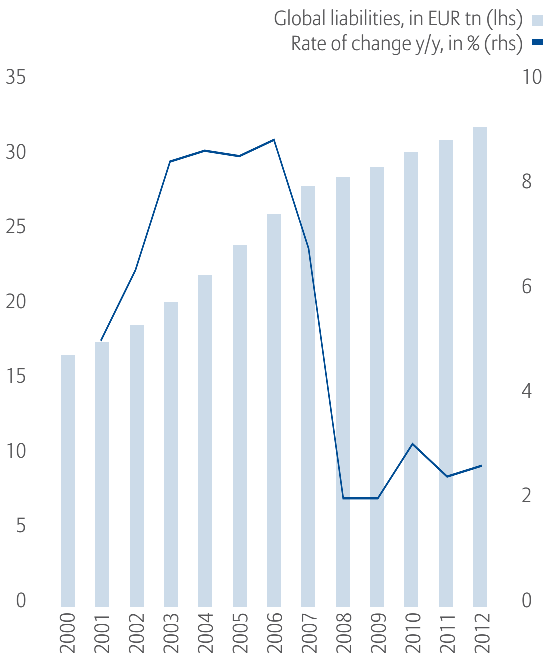
These global figures do, however, mask very varied developments at regional level. Eastern European households lead the growth pack on the liabilities side of the asset balance sheet, too: over the past twelve years, eastern European households have been upping their liabilities by an average of 25.4% a year, with the absolute debt level climbing by a factor of 15 since the end of 2000. At the end of last year, personal debt rose to almost EUR 730bn, up by 12.5% on the 2011 value. Following in the footsteps of asset growth, debt growth has, however, slowed in the region since the financial crisis set in. In the years between 2003 and 2007, private households in eastern Europe were still increasing their liabilities at an average rate of 36% a year. This breathtaking pace can be explained by two factors: first, the absolute debt level is still relatively low in a global comparison, averaging EUR 1,880 per capita (global average of EUR 6,680 per capita). Second, the opening of the banking markets as a result of some eastern European countries' accession to the EU and the low-interest loans in foreign currencies (Swiss francs or euros) which were popular for so long have made it far easier for private households to access loans. The outbreak of the financial crisis, however, forced households to move down a gear, with the result that their liabilities have "only" been increasing by an average of 13.1% since the end of 2007.

There were no signs of a similar phenomenon in the other emerging regions of Latin America and Asia (excl. Japan), which were not hit as hard by the financial crisis as eastern Europe, whose economy is heavily reliant on the situation in the eurozone. Private households in Latin America have kept their average debt growth constant in the period before and after 2007, at around 17%; in Asia (excl. Japan), the average annual growth rate has actually increased from 12.3% in the period between 2003 and 2007 to 15.8% in the period between 2008 and 2012. Nevertheless, at an average of EUR 1,290, per capita debt in Asia is the lowest in the world before eastern Europe (EUR 1,880) and Latin America (EUR 2,330).

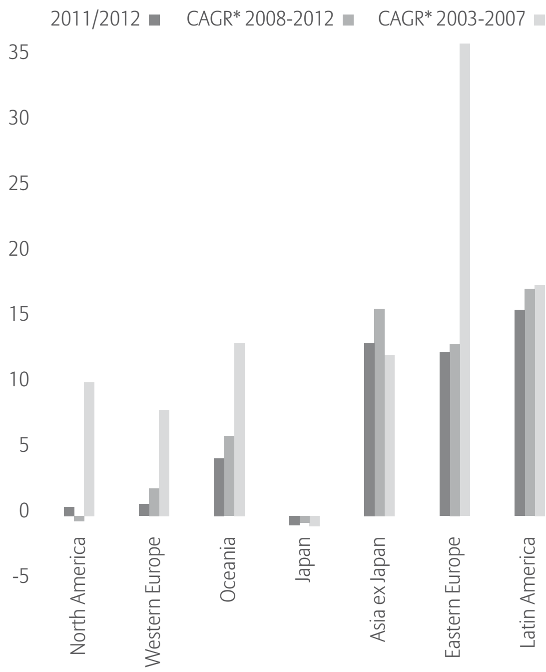
Private households living in the world's wealthier regions, on the other hand, saw their debt growth decline considerably. The demand for loans among the North American population, and especially the population of the US, has plummeted: whereas in the years before the crisis, liabilities were growing at an average rate of 10.2% p.a., private households in North America have actually been reducing their debt burden since the end of 2007, namely by an average of 0.4% a year – also thanks to payment defaults and write-downs on mortgage loans. It was only last year that a slight increase in debt to the tune of 0.7% was witnessed. On the whole, liabilities were 2% lower than the pre-crisis level at the end of 2012. Down under, debt had been growing at an ever faster rate than in North America, with Australian households stepping up their liabilities by an average of 13.2% p.a. in the run-up to the crisis. The population has been adopting a more restrained approach to further borrowing since the end of 2007. At 6.1%, the average annual growth rate has been more than sliced in half since then, with the year-on-year rate of change coming in at 4.4% last year. In western Europe, debt growth progressed at a slower pace than in North America and Oceania in the years between 2003 and 2007, with the rate of increase averaging 8.1% p.a. The outbreak of the crisis shaved the annual average growth rate to 2.1% and, most recently, to only 0.9%. At the end of 2012, per capita debt in the region averaged EUR 24,910, meaning that western Europeans have far less debt, in per capita terms, than their counterparts in North America with EUR 32,720 and Oceania with EUR 52,610, but roughly the same level of debt as the Japanese with EUR 26,340. In Japan, debt levels have been on the wane for years now: even before the financial crisis erupted, the liabilities of Japanese households were falling by an average of 0.8% a year, with an average annual rate of decline of 0.5% since the end of 2007. All in all, liabilities were down by almost 9% on 2001.

Financial crisis slows debt dynamic down

Development of global debt burden



Change in debt, in %



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

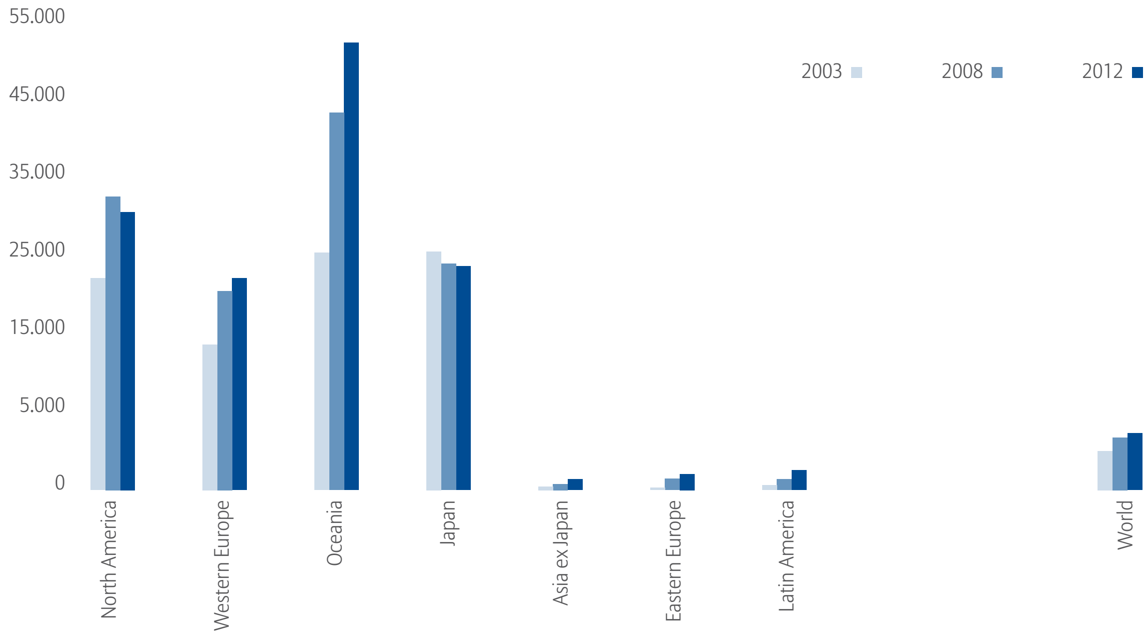
Drop in average global personal debt ratio

In global terms, the personal debt ratio, i.e. liabilities measured as a percentage of nominal economic output, stood at 65.9% at the end of 2012. Over the past three years, the growth in economic output has been outpacing the growth in the debt of private households, meaning that the ratio was 5.7 percentage points lower than the record high seen in 2009. Despite the rampant debt growth seen in the past, there is no region in which the ratio of debt to general economic activity is as low as in eastern Europe. Over the past twelve years, the ratio has, nonetheless, more than trebled, edging up by one percentage point last year to around 21%. The ratio in Latin America is a good nine percentage points higher, with liabilities growing at a much faster rate (average of just under 17% a year) than economic output (average of 11.5% a year) since late 2000. The highest debt ratio among the emerging regions can be found in Asia (excl. Japan), with the ratio climbing by 1.3 percentage points to 37.5% in 2012.

In the industrialized countries the debt ratio is above of the global average. Japanese households had a debt ratio of 80.2% last year. Although Japan's economic output has been showing negative growth averaging 0.6% p.a. over the past twelve years, the unyielding debt discipline shown by the Japanese means that debt levels have been falling at an even faster rate than economic output, namely by 1.0% a year on average, nudging the ratio down by 4.6 percentage points compared with 2000.

Regional differences in debt per capita

Liabilities per capita, in EUR



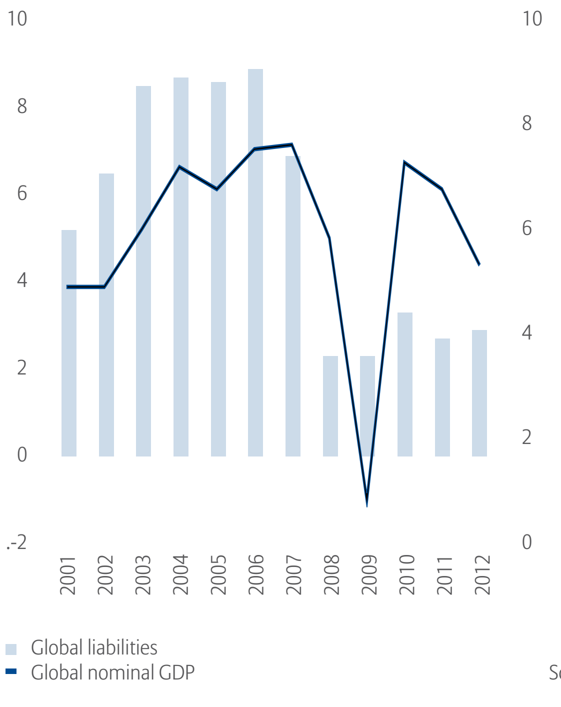
Sources: National Central Banks and Statistical Offices, UN, Allianz SE.

The debt ratio of households in western Europe has come in at roughly the same level over the past two years. Compared with 2011 (80.4%), the ratio at the end of 2012 (80.2%) was virtually unchanged. By contrast, the region differs from Japan in the sense that the ratio of liabilities to economic output has risen by a total of 18.9 percentage points since 2000. After reaching a peak of 82% in 2009, a turnaround started to set in: in 2010, 2011 and 2012, nominal economic growth overtook debt growth - pushing the debt ratio back down. The same development emerged in North America, too, albeit to a much greater extent. Just like in western Europe, the average annual growth rate in general economic activity was higher than the debt growth rate in the period from 2010 to 2012. The differential between economic and debt growth there, however, averaged 4.5 percentage points, compared with only 0.7 percentage points in western Europe. Nevertheless, at 86.7%, the debt ratio on the other side of the Atlantic is still higher than in western Europe.

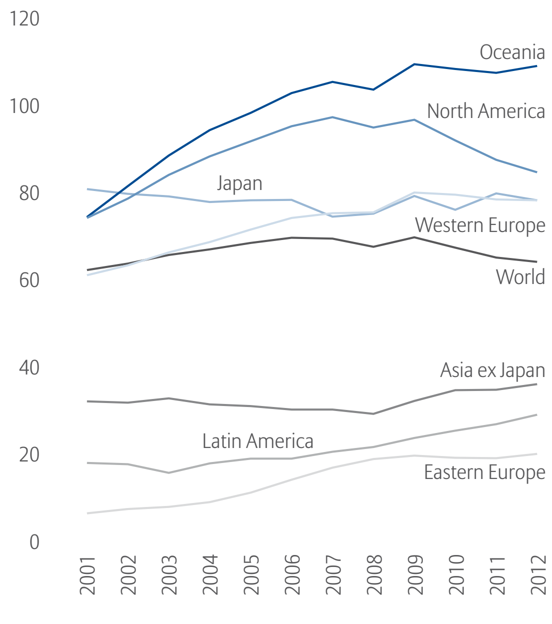
In no other region of the world in 2012 was the relative debt burden as high as in Oceania. Over the past twelve years, the debt ratio of private households has climbed by 38.7 percentage points to total 111.4%. After dropping slightly for two years on the trot, the ratio climbed again by 1.7 percentage points last year. Although the increase in household debt in 2012 was less pronounced, at 4.4%, than in the two previous years, the slide in economic growth from 6.2% (2011) to 2.9% last year pushed the debt ratio up. Households should, in general, try to push the debt ratio closer to the 100% mark to keep debt servicing at a manageable level, even in an environment characterized by a return to higher interest rates.

Economic growth overtakes debt growth – Global debt-to-GDP ratio shrinks

Economic growth vs. debt growth, y/y in %



Liabilities as % of nominal GDP



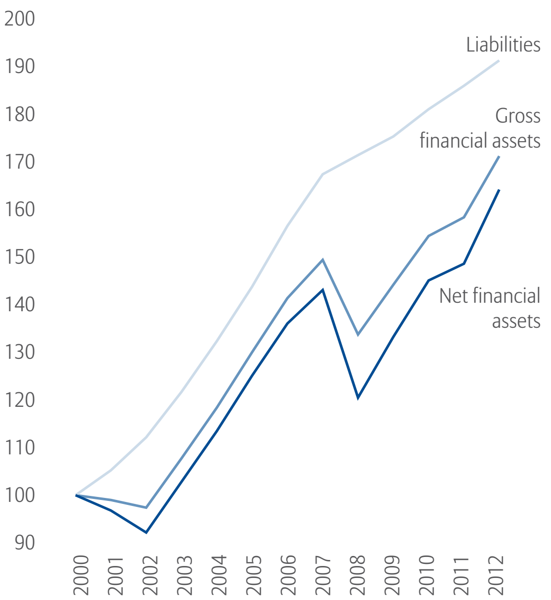
Sources: EcoWin, National Central Banks and Statistical Offices, Allianz SE.

Net financial assets growing faster than gross financial assets again

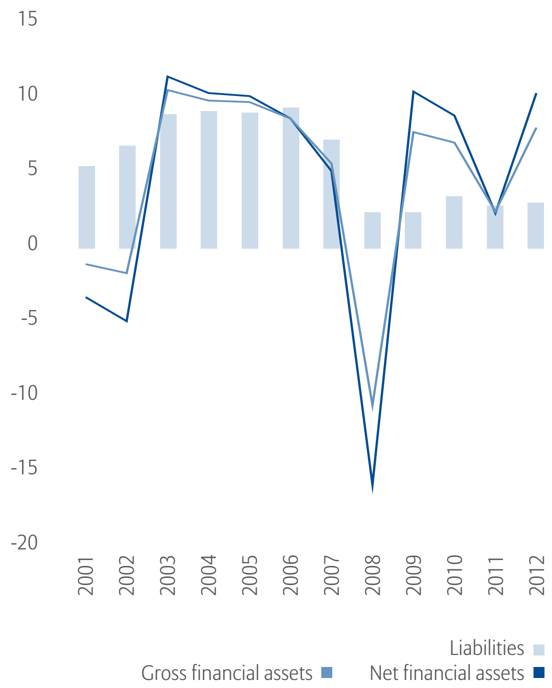
If we subtract debt from the gross financial assets, we arrive at a figure for net financial assets, which came in at a global total of EUR 78.8 trillion at the close of last year. Since gross financial assets were propelled upwards in 2012, significantly outpacing debt growth with a year-on-year increase of 8.1%, private households saw their net financial assets rise by as much as 10.4%. So looking back over the past twelve years, this increase was above-average for households if we consider that net financial assets have "only" been rising by a global average of 4.2% since 2000. Consequently, given the debt momentum seen in the past, the growth in net financial assets is lagging behind the average long-term growth rate for gross financial assets (+4.6% p.a.). This slowdown in debt growth since the outbreak of the financial crisis, which we referred to above, has, however, turned this situation on its head over the past few years: in 2009, 2010 and 2012, net financial assets were growing at a faster annual rate than gross financial assets again.

Development of assets and liabilities in comparison

Index (2000=100)



Rate of change y/y, in %

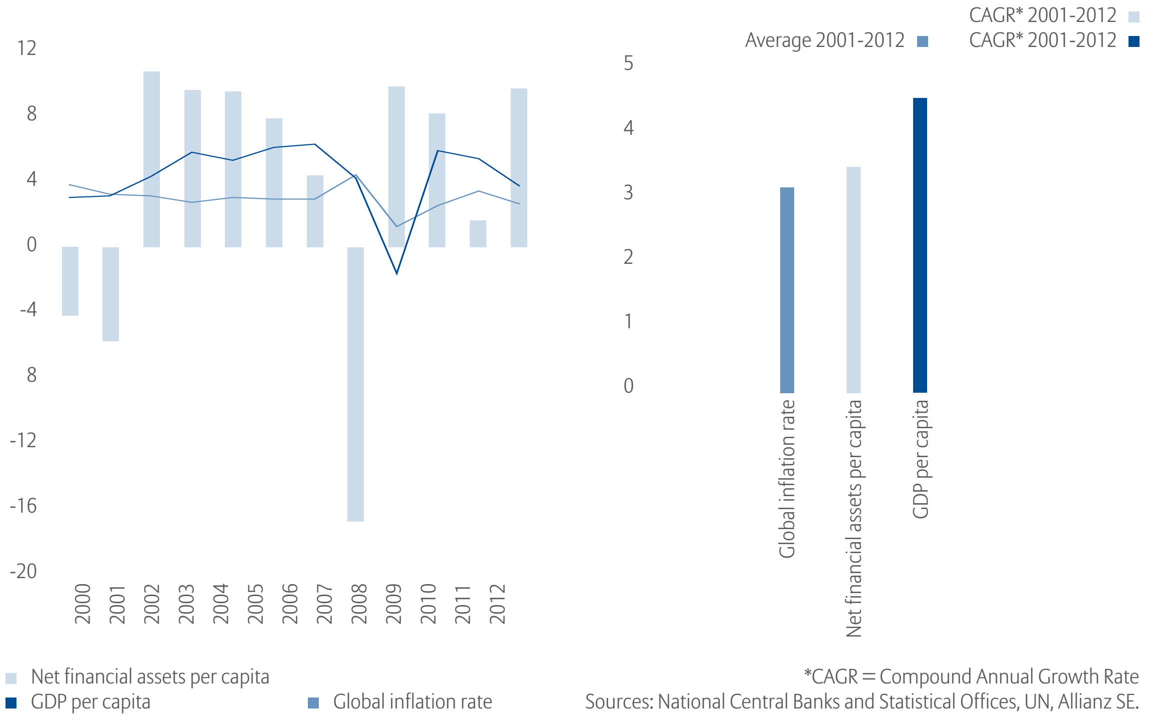


Sources: National Central Banks and Statistical Offices, UN, Allianz SE.

Since the growth of the global population continues unperturbed, the long-term average growth in net financial assets in per capita terms has fallen by almost one percentage point to 3.3% p.a. - a somewhat disappointing result given that global inflation averaged 3.0% in the period from 2001 to 2012. This means that in real terms, savers, who have been confronted with a chain of economic, financial and debt crises emerging in ever more rapid succession, have been unable to achieve any asset growth to speak of if we look at the global average and take their liabilities into account. General economic activity grew by an average of 5.2% a year during the same period. In per capita terms, the average annual growth rate has slipped back to 4.3% but is still one percentage point ahead of the average growth in per capita net assets - at the end of the day, asset development has been unable to keep up with economic development.

Average growth in net financial assets per capita only marginally higher than inflation since the end of 2000

Inflation rate and rate of change of global net financial assets and GDP per capita, in %



*CAGR = Compound Annual Growth Rate

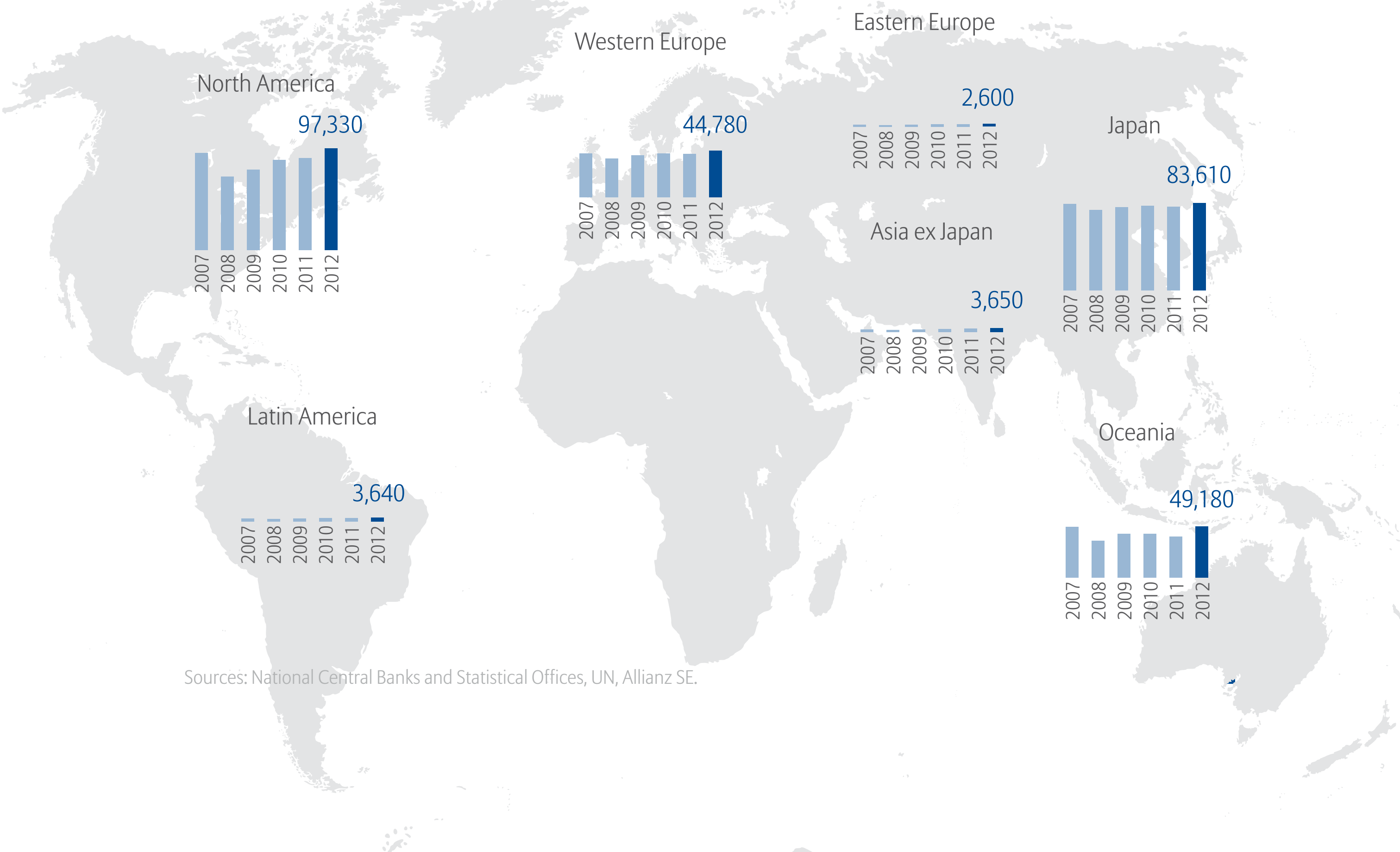
Sources: National Central Banks and Statistical Offices, UN, Allianz SE.

Huge wealth gap between the regions

A look at the world's wealth map confirms the picture you would expect to see: in per capita terms, people living in the world's wealthier regions have several times the assets available to those living in poorer areas of the world. It comes as little surprise to see households in North America crowned the richest worldwide, with net financial assets averaging EUR 97,330 per capita at the end of 2012. The wealth differential between North America and eastern Europe, where, at EUR 2,600, average per capita assets were lower than in any other region at the end of 2012, despite the impressive development seen in the past, is massive: average per capita assets in North America are around 37 times the average level seen in eastern Europe, a factor which has, all the same, more than halved since the start of the 21st century. In Asia-Pacific, Japanese households led the field - as was to be expected - with average per capita assets of EUR 83,610. The asset level in Oceania is much lower, with private households left with assets of EUR 49,180 per capita after their liabilities are deducted. Western Europe comes last among the more prosperous regions, with the old continent reporting per capita assets averaging EUR 44,780. Households in Latin America and Asia (excl. Japan) are virtually neck-and-neck, with per capita assets of EUR 3,640 and EUR 3,650 respectively.

Global wealth map at a glance

Net financial assets per capita, 2012 in EUR



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

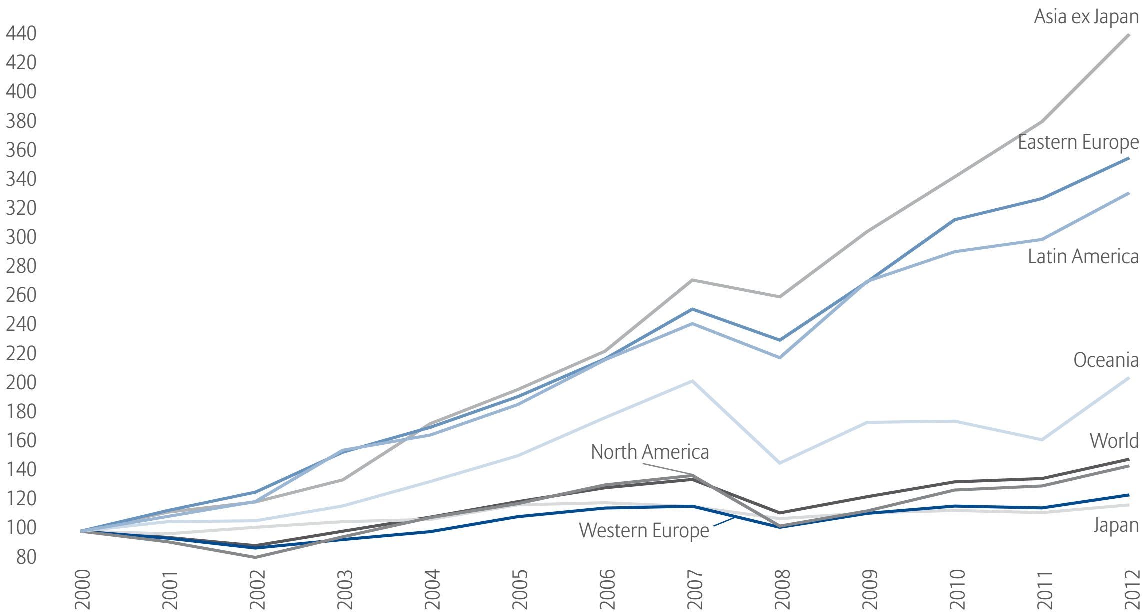
Asia (excl. Japan) crowned growth champion in net terms

Unlike with the development of gross financial assets, the growth champion for per capita net financial assets is not eastern Europe, but rather Asia (excl. Japan). After deductions for liabilities, per capita financial assets in this part of the world have been growing at an average rate of 12.9% p.a. over the past twelve years. Due to its rapid debt growth, eastern Europe “only” came in second, with average annual growth of just under 11%, with Latin America hot on its heels at 10.3%. With an average growth rate of 6.0% p.a., Oceania is the best-performing prosperous region, with asset growth proving to be much slower in North America and western Europe, at 3.0% and 1.8% respectively. Japan once again comes bottom of the league, with average growth of 1.3% a year.

What is striking is that it was not until last year that the net per capita financial assets of private households in North America, Oceania and Japan managed to bounce back to exceed the high reached in 2007. In 2011, assets in all three regions were still down on the 2007 level. Developments in western Europe were a bit different: after net per capita financial assets had already bounced back to above the pre-crisis level by the end of 2010, western European private households were forced to bow to the escalating euro crisis the following year - the region had to swallow asset losses of 1.0% in 2011, pushing per

In net terms Asia (ex Japan) becomes growth champion

Development of net financial assets per capita by region, Index (2000=100)



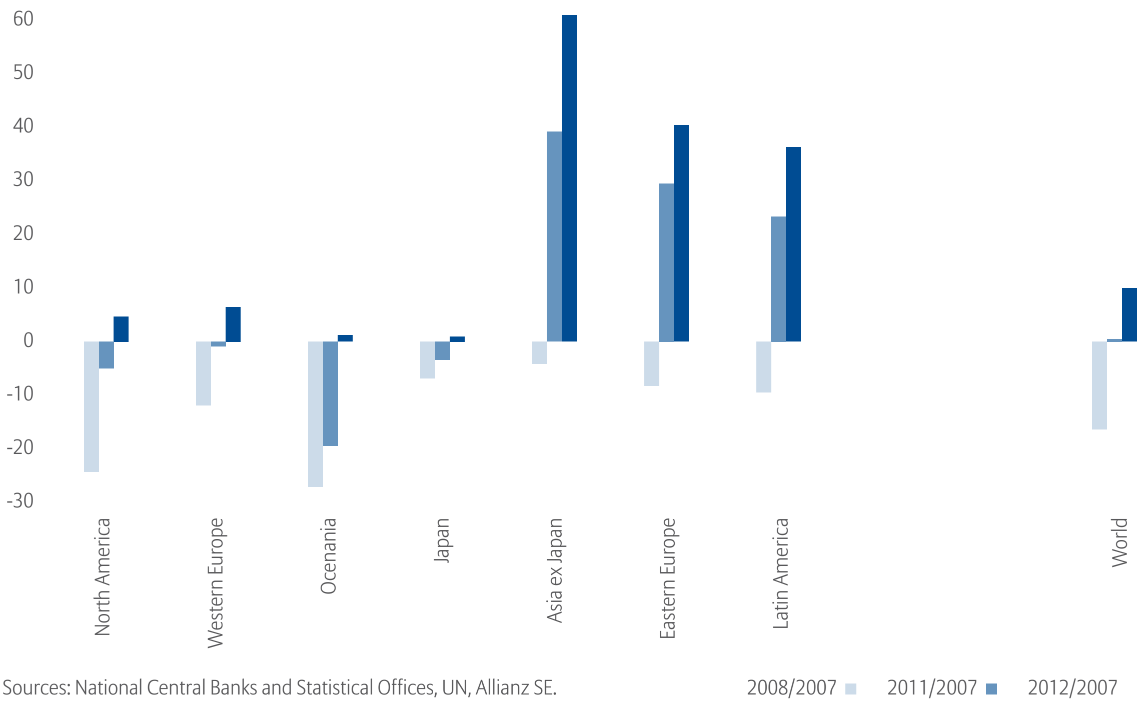
Sources: National Central Banks and Statistical Offices, UN, Allianz SE.

capita assets ever so slightly back into the red compared with 2007. Owing to the strong recovery last year, however, net per capita financial assets were up by 6.5% on the 2007 level by the end of 2012.

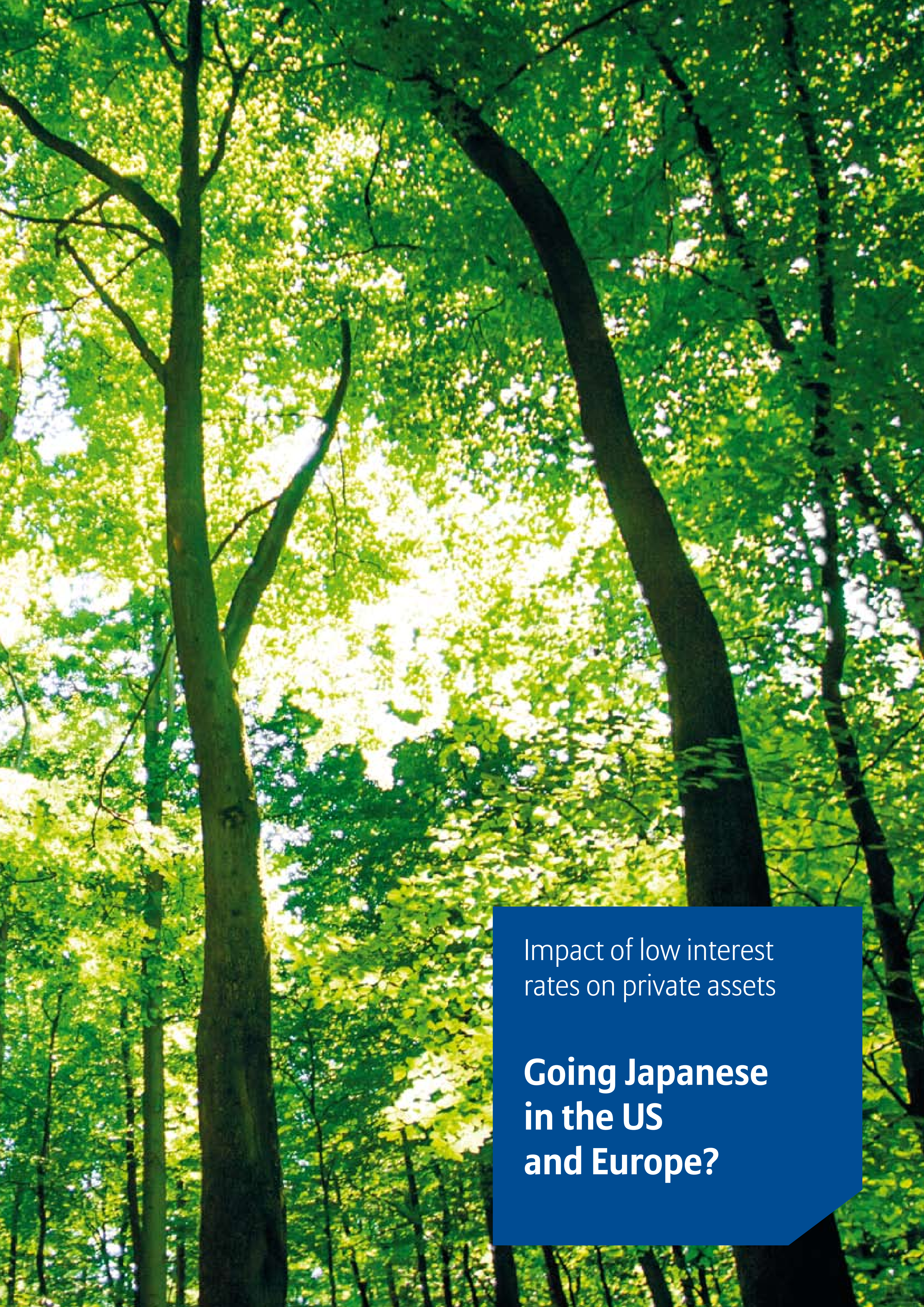
The situation in the world's poorer regions tells a very different story. The per capita assets of households in Latin America, eastern Europe and Asia (excl. Japan) had already surpassed the 2007 level in 2009. By the end of 2012, the gap separating them from the 2007 level came in at a good 36% in Latin America, just under 41% in eastern Europe and as much as 61% in Asia (excl. Japan).

North America, Oceania and Japan finally exceed pre-crisis level

Rate of change of net financial assets per capita by region, in %



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



Impact of low interest rates on private assets

Going Japanese in the US and Europe?

Falling interest rates are nothing new for savers in the world's major advanced economies, where the interest rates/returns on risk-free bonds (government bonds) have been on the decline for 20 years or so. This comes in response to changes in the economic environment, mainly lower growth rates in the advanced economies and low inflation expectations. So, in the past, interest rate trends have been more or less justified in fundamental terms.

Since the financial crisis, however, this secular drop in interest rates has taken on new dimensions. The forces pushing interest rates down to ever new lows have less to do with fundamental factors and largely to do with unconventional monetary policy. Direct purchases of government bonds or at least announcements of such purchases in particular have, at times, pushed the real returns, i.e. those after adjustments for inflation, down to below the zero mark, even for long-term securities. It is true that the weak economy and, in particular, the disarray within the financial system may justify this crisis policy. But the longer we have to wait for these measures to bear fruit, the more the harmful side effects of this policy come to the fore. The people bearing the brunt of this trend are those who are accumulating or indeed have to accumulate assets – so basically each and every citizen, because the forces of demographic change and the shaky public budgets mean that every single one of us has to set more money aside for our own future.

So how are savers behaving in these times of extremely low interest rates? After five years spent in crisis mode in the US and Europe, we are now in a position to start drawing conclusions; a comparison with Japan, in particular, is insightful, because Japanese households have even more experience of a zero interest rate policy.

Savers starting to resign

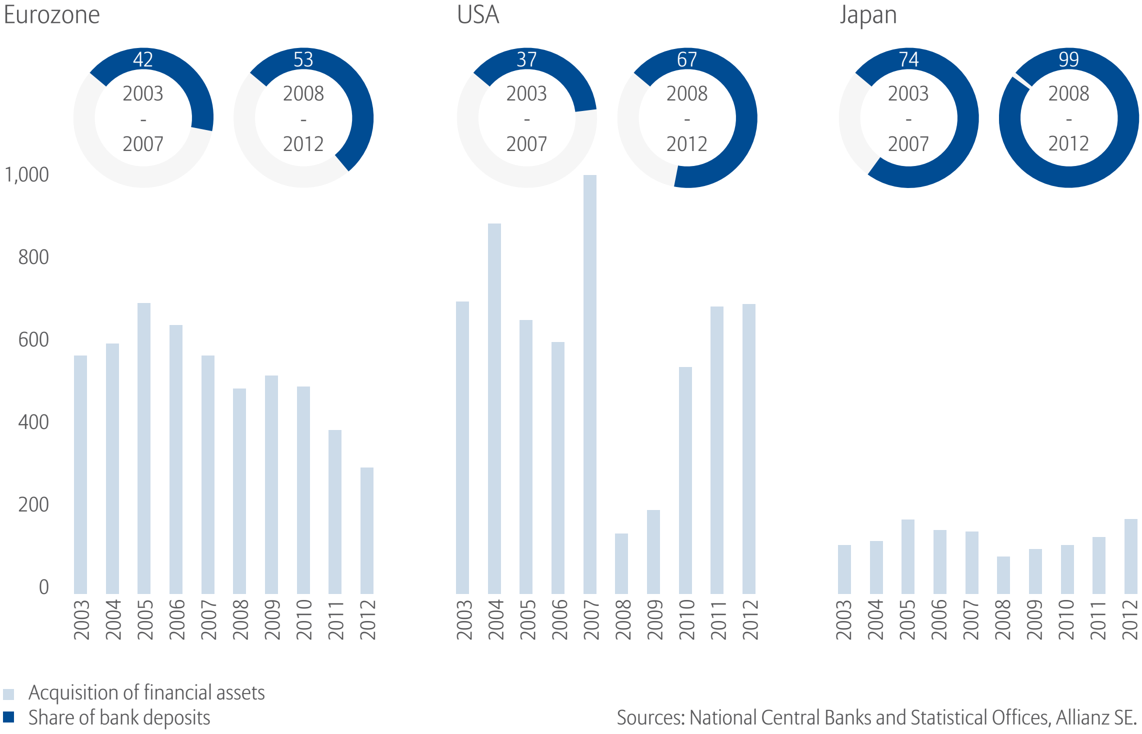
In theory, it is fairly easy to describe the reaction to low interest rates: as returns head south, asset accumulation automatically drops down a gear, meaning that any savings efforts have to be stepped up to achieve the same result. A straightforward sample calculation shows how this works: a 30-year old who invests EUR 1,000 a year from now on would have assets of around EUR 102,000 by the time he is 67, based on a return of 5% a year. If the return is 2.5%, he would only have just under EUR 60,000 available; in order to arrive at the same amount that a return of 5% would give him, he would either have to save for 14 more years or invest an additional EUR 700 or so every year.

But as is usually the case, theory and practice are two different matters. A glance at asset accumulation in the eurozone, the US and Japan over the last ten years confirms this. The drastic downturn in savings in 2008 comes as little surprise: the economic crisis, burgeoning unemployment levels and dwindling incomes forced households to cut back on savings. The years that followed 2008 saw savings bounce back, at least in the US and Japan, to roughly the same values seen before the crisis in nominal terms. In the eurozone, on the other hand, financial asset accumulation has remained on a downward slope and is now sitting at only half the pre-crisis level. This reflects not only the ongoing mood of uncertainty among savers, but also the stubborn recession hanging over many eurozone countries. So there is certainly no evidence anywhere of savers upping their efforts to compensate for the plummeting interest rates.

This is also confirmed by the savings rate trend. Although the savings rate rose (considerably) in all three economic areas in the first year of the crisis, it has been falling again since then. If we look back at earlier phases of high interest rates, the current situation is nothing short of disillusioning. The savings rate of private households in the US is half what it was in the 1980s, with Japanese households saving only one third of the amount they used to. It would appear that low interest rates have precisely the opposite effect on savers: instead of motivating them to save more, they actually end up saving less. There is no doubt that this is partly a reaction to the difficult economic environment, which leaves fewer options available for asset accumulation. But the fact that savers are getting lower returns on their savings also appears to be making them succumb to a sense of "savings resignation": This only exacerbates the long-term implications of the low interest rates as far as asset accumulation is concerned.

Saving in times of crisis

Acquisition of financial assets (in EUR bn) and average share of bank deposits (in %)



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

Growing preference for liquidity

Another phenomenon that tends to affect savings behavior at times when interest rates are rock bottom adds further fuel to the fire: savers adopt a marked preference for liquidity, meaning that the majority of fresh funds end up in bank deposits. In the years marred by the crisis, the slice of the financial asset accumulation cake consisting of banking deposits has become much bigger. This process has not only seen savers entrust more of their new investments to banks, but has also resulted in them pulling money out of other investments, especially equity investments. This explains, for example, why almost 100% of cash flows in Japan have been diverted into bank deposits over the past five years on average; it is only recently that Japanese households have started to take more of an interest in more diverse forms of investment again. Although this example is an extreme one that also has to do with the context of Japanese inflation, the fact that the same figure for US households is sitting at 67% would have been nothing short of unimaginable only a few years back.

This risk aversion lurking behind these figures is the result of high levels of volatility on the markets and considerable uncertainty about future economic development. While the tentative attitude adopted by many savers is understandable in this sort of environment, the implications are serious nonetheless. After all, it would be more rational, at times when interest rates are in the doldrums, to move a few steps up the risk ladder to compensate for the dwindling returns. This would also imply a preference for long-term investments, for example.

These marked changes in savings behavior have, of course, also left their mark on asset composition. In all three economic regions, the proportion of bank deposits has increased to the detriment of the share of securities in the overall asset portfolio. These shifts are most evident in the eurozone: in a long-term comparison, bank deposits have gained six percentage points, while securities have lost 14 percentage points. This structural shift is not, however, solely the result of conscious investment decisions, but is also the result of the value losses triggered by the stock market slumps. The development in the third major asset class – insurance policies and pensions – on the other hand, has varied from region to region: whereas in the US and Japan, this asset class has been stagnating in terms of its overall share, insurance policies and pensions have been growing at an even faster rate than bank deposits in the eurozone (plus eight percentage points); this trend will certainly have been boosted by the relatively low proportion of these assets in the overall portfolios of private households at the turn of the millennium, and by the need for private provision to catch up in an environment dominated by Europe's increasingly ageing societies.

This theory is also supported by the fact that insurance policies and pensions now account for around one-third of the financial assets of private households in all three regions. As far as the two other asset classes are concerned, on the other hand, significant differences remain: the Americans continue to invest as much in securities as they did in the past, the Japanese show more or less the same preference for bank deposits; private households in the EMU countries are caught somewhere between these two extremes. But whereas twelve years ago, the European portfolio structure was more similar to its American counterpart – the expectation being that the two would continue to move even closer into line with each other – it now appears to be closer to the Japanese model.

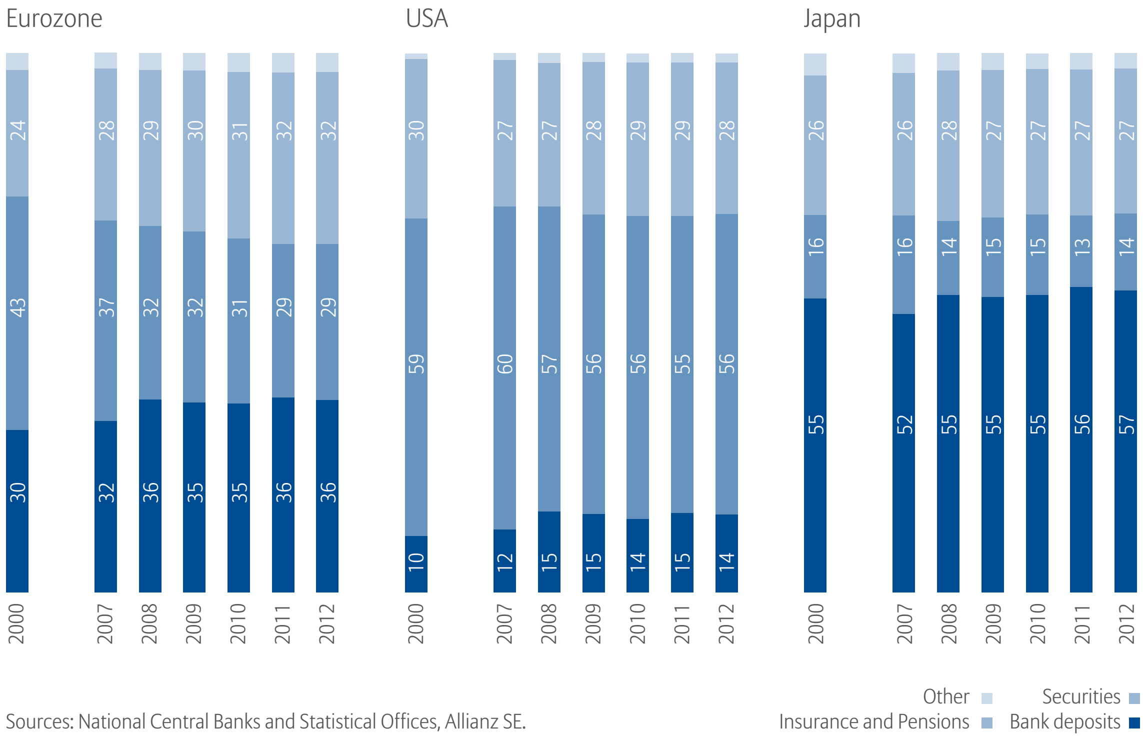
All in all, however, there are still significant differences when it comes to asset portfolio composition. As a result, financial asset growth is unlikely to show the same sort of convergence as savings behavior has. After all, this trend is influenced not only by cash flows (financial asset accumulation), but also by changes in the value of existing assets. Extremely low interest rates/extremely generous liquidity supplies could certainly have a positive impact – at least in the short term – by inflating the prices of securities, such as equities.

Wealth expansion broadly at a standstill

These differences in asset growth do, indeed, exist, although mainly on an annual basis. In 2012, gross financial assets in Japan grew at a rate of 3.2%, compared with 4.7% in the eurozone and no less than 8.4% in the US. This mirrors expectations that US households benefit more from their higher "equity-gearing" when the stock markets are doing well. The other side of the coin, however, is that they were also hit harder

Europe comes closer to Japan

Asset classes as % of gross financial assets



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

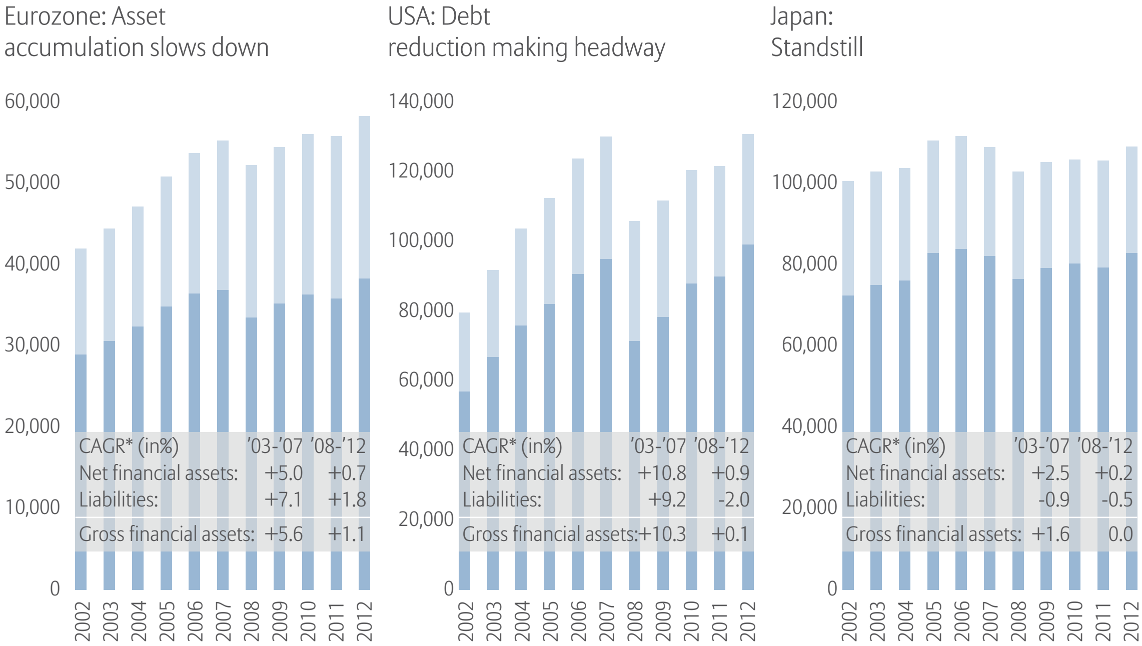
by the capital market slumps. As a result, developments over the last five years, i.e. the period spanning the crisis, are astonishingly similar: annual growth in gross financial assets averages between 0% (Japan) and 1.1% (eurozone). In the comparable period prior to the crisis, on the other hand, this range was much wider: stretching from 1.6% in Japan to 10.3% in the US. So to twist Tolstoy's famous saying a little, we can say that "unhappy savers are all alike".

Relatively similar was also the development of debt. Debt has been on the decline in both Japan and the US over the past five years – not least thanks to high levels of default and write-downs on property loans – namely by an average of between 0.5% (Japan) and 2.0% (USA) a year in per capita terms. In the eurozone, however, debt kept on rising, but at a very slow pace; debt growth is still only a shadow of its pre-crisis level. This development has helped to reduce significantly the debt ratio (debt of private households as a percentage of GDP) in the US and at least to stabilize it in the eurozone and Japan. As a consequence, the three economic regions have moved closer together in terms of private debt. Back in 2007, the debt ratios were separated by a gap of 34 percentage points. Today, the gap is only around half as wide.

Despite the evident slowdown in debt growth in the eurozone, personal debt growth is still outpacing the growth in gross financial assets in this area, condemning net financial asset growth to only a very stunted level. The same applies to Japan, where due to the stagnation in as-

Development of net financial assets and liabilities

per capita, in EUR



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

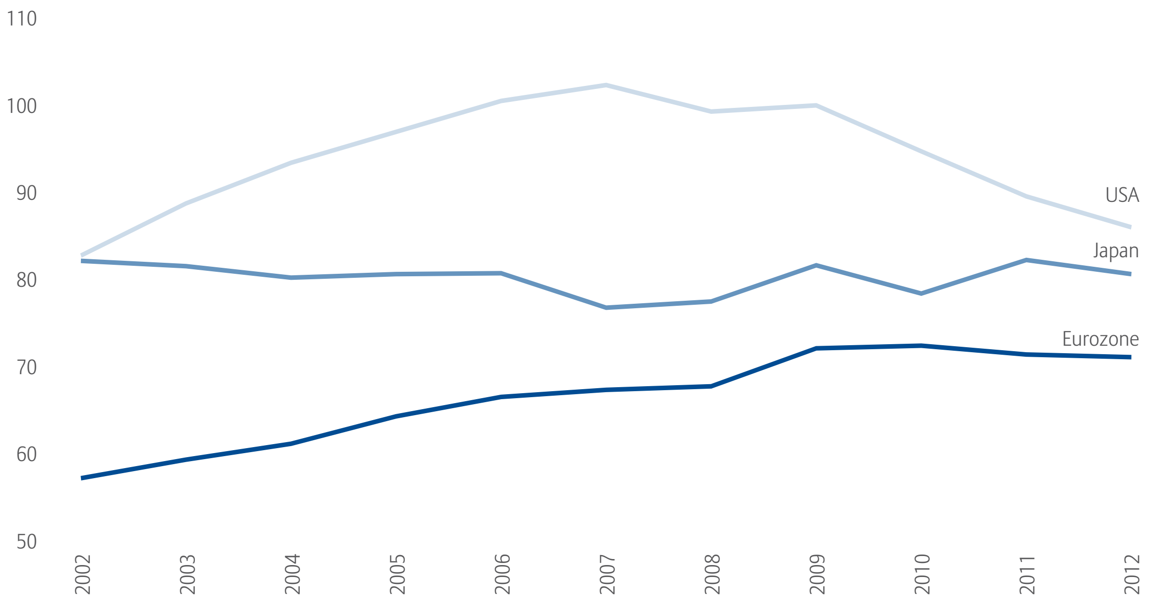
Liabilities
Net finacial assets

set development, net financial assets have been growing at an average rate of only 0.2% since 2007. Thanks to their new-found debt discipline, US households therefore come out on top as far as net financial asset growth is concerned, even in per capita terms. Having said that, even in the US, the growth rates in the crisis years since 2007 have been minimal, coming in at less than 1% a year.

So all in all, we can conclude that the differences between the three economic regions have become less and less pronounced over the past five years as far as savings behavior and, in particular, financial asset growth are concerned. In periods dominated by extremely low interest rates, ongoing asset accumulation is a virtually impossible task. If nothing else, the fact that the development in Japanese financial assets between 2003 and 2007 outstripped that seen in Europe and the US in the recent crisis-ridden years is somewhat unnerving. Anyone looking at Japan and claiming that the country has suffered one or even two lost decade(s) will be forced to conclude that half a decade has already been lost for the eurozone and the US if we are to judge these regions on the same terms. This applies all the more so because the growth in per capita net financial assets is lagging well behind inflation in these two regions. In real terms, assets in Europe and the US have contracted; the Japanese, on the other hand, have – "thanks" to slight deflation – actually enjoyed a (slight) increase in the purchasing power of their financial assets.

Consolidation more important than new debt

Liabilities as % of GDP



Sources: EcoWin, National Central Banks and Statistical Offices, Allianz SE.

Shifting wealth distribution: Fewer rich, more poor people

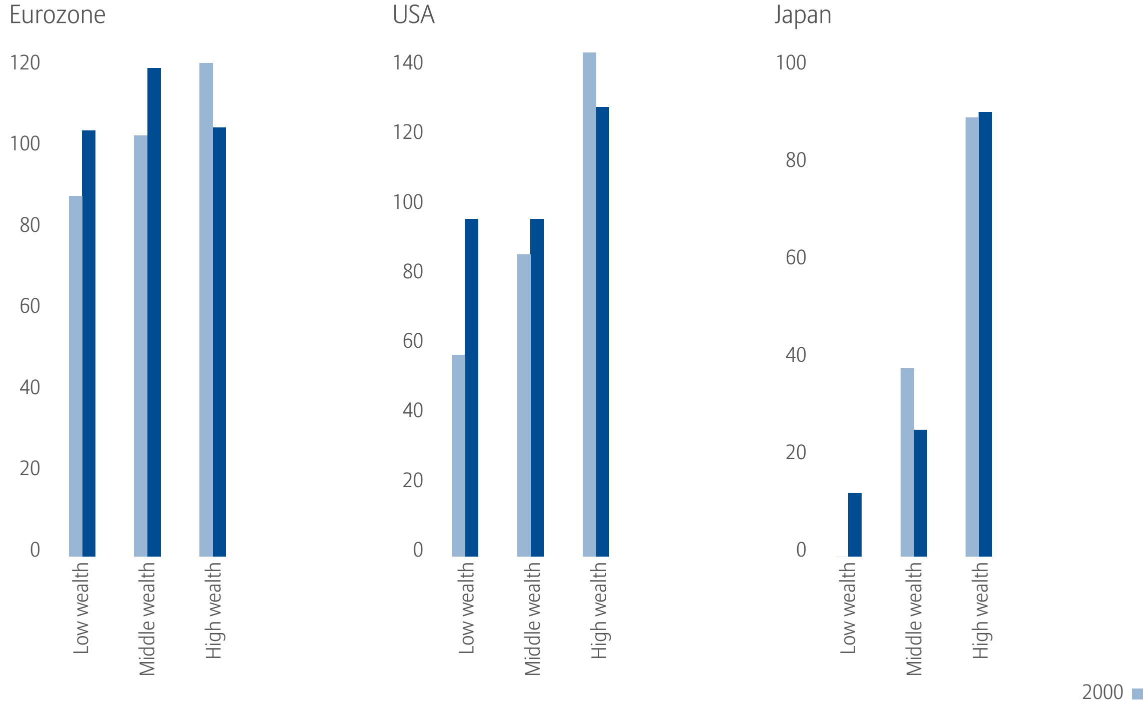
But it is not only the development in average financial assets that is suffering as a result of the crisis and the low interest rates. The face of asset distribution is also changing – for the worse. This can be highlighted by dividing private households in the eurozone, the US and Japan into the three global wealth classes: low wealth, middle wealth and high wealth.[2] Marked shifts have emerged in all three economic regions since the start of the millennium, and all of these shifts have been moving in the same direction: in the US and the Eurozone, membership of the upper wealth class has been shrinking in both absolute and relative terms (as a proportion of the population as a whole); in Japan it has been stagnating. On the other hand, in all three regions live today more people who have to be counted as members of the global low wealth class.

All in all, "only" around 320 million Europeans, Americans and Japanese can still be described as "high wealth", based on international standards, today, around 30 million fewer than in 2000, although the total population has grown by more than 50 million people since then. On the other hand, the number of low wealth households in all three regions has increased by 67 million people in total; the most significant rise was in the US (+38 million people). Although the wealth middle class has grown, this is noth-

2 Global wealth classes, because the different asset bands are set based on global net per capita financial assets, not on the national average. For detailed information on how the individual wealth classes are defined, see Appendix A.

Fewer rich, more poor people

Population by wealth classes, in mn people



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

ing to cheer about: In the US and the eurozone, the ranks of the middle class have been swollen by people "relegated" from the upper class; in Japan, even the middle wealth class is shrinking.

Although the asset class shifts in the eurozone, the US and Japan seem to be following the same script – fewer rich people, more poor people – there are major differences between the regions when it comes to looking at what share of the population belongs to which wealth class. In the eurozone and the US, around 30% of the population is sitting in the low wealth class, a figure that comes in at only 10% in Japan. Twelve years ago, financial assets in Japan were actually distributed so "equally" that even the lowest asset decile had average net per capita financial assets that were too substantial to allow them to be assigned to the "low wealth" category in global terms, meaning that even they ranked among the "middle wealth" group.

Although this is now a thing of the past, it shows that Japan entered the phase of zero interest rates in very good shape – at least as far as private assets are concerned. The same can be said for the eurozone and the US only to a limited extent. Even in the boom years, more (eurozone) or less (US) than one quarter of the population was already deemed to be in the global "low wealth" category. The proportion of the population that fell into the global upper wealth class was under the 50% mark in both regions, compared to almost three-quarters in Japan. This poorer starting position also raises concerns that social problems stemming from the prolonged period of low interest rates will be quicker to rear their heads in these two regions than in Japan. To a certain extent, Japan was able to "afford" a large number of lost years because it has a relatively egalitarian and cohesive society; even if a few cracks are now starting to appear here, too. In the eurozone and the US, the "social half-life" of the zero interest rate policy is likely to be much shorter. As a result, we can only hope that both regions manage to plot an escape route out of crisis mode as soon as possible. The negative impact on private assets is already a substantial one and the evident distribution effects are discouraging. But it will be some time before these distortions materialize in full, namely when the lost years start to leave their mark on retirement arrangements.

Differences in the impact of the low interest rates within the eurozone

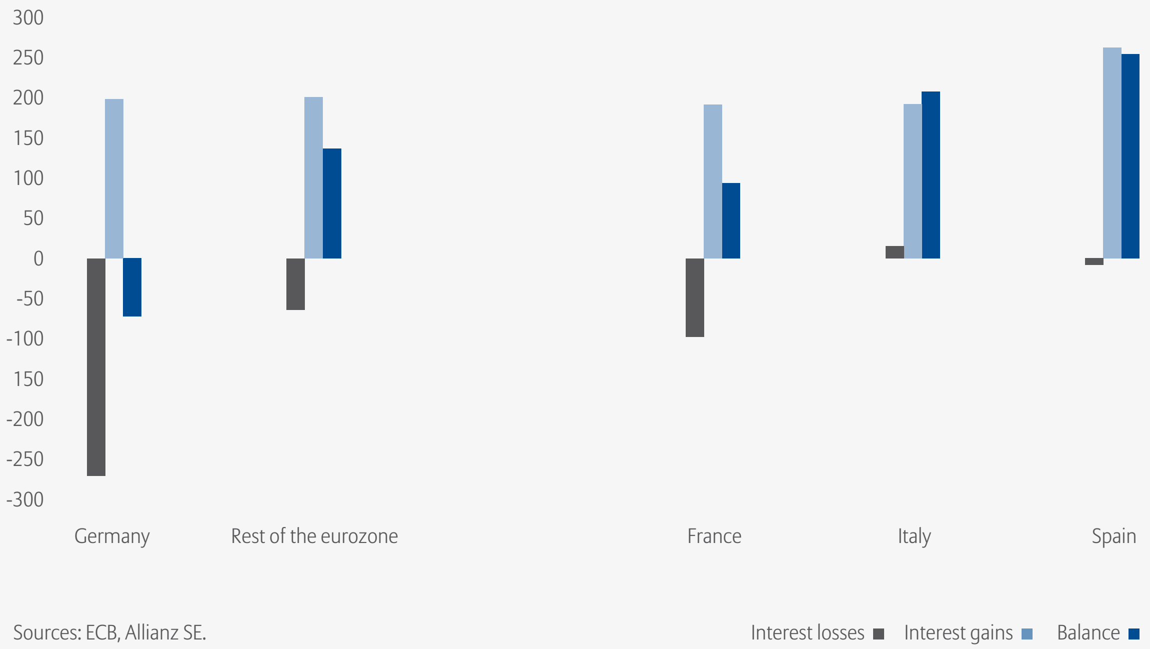
Extremely low interest rates not only have a (long-term) impact on asset accumulation, but also have direct implications in terms of income: interest payments on bank loans are lower, but so are the interest payments received on bank deposits. It is, in fact, these very income effects that the central bank has in mind as it tries to use interest rate policy to provide impetus for the economy.

Debtors benefit from low interest rates, while creditors are on the side of the potential losers. Generally speaking, private households make up the largest group of creditors in an economy – their financial assets by far exceed their liabilities – while the state and the corporate sector, taken together, fall on the side of the debtors. Since, however, the interest rate movements on the deposit and lending side can certainly differ, it is worth taking a closer look at the private households and analyzing the impact that the low interest rates have on income. This process involves comparing the interest "lost" on the deposit side (interest losses) with the reduced interest burden on loans (interest gains). The average values for the pre-crisis years from 2003 to 2008 are used as a yardstick. The analysis focuses on Europe's savers for reasons relating to data availability.

The result is clear-cut: in Germany, the balance of interest losses and gains of private households was negative in 2012, whereas in the rest of the EMU it was positive. Whereas Germany's savers/borrowers were losing out on a total of EUR 5.8bn (per capita: EUR 71), their counterparts in the rest of the eurozone were enjoying relief to the tune of just under EUR 34bn (EUR 134 per capita). Last year, the net interest gains were particularly plentiful in Italy and Spain, with citizens in these countries EUR 12.5bn and EUR 11.5bn better off respectively. This shows that interest losses on the deposit side are the decisive factor. Whereas interest gains are roughly consistent across the EMU countries in per capita terms – except in Spain, where they are particularly marked due to the standard practice of variable loan interest that prevails there – the differences on the deposit side are very pronounced. This is where German savers end up paying the price for their marked preference for (overnight) deposits, despite the particularly

Impact of low interest rates on private households within the eurozone

Forgone interest revenue (interest losses) and saved interest payments (interest gains) per capita, in Euro



Sources: ECB, Allianz SE.

low deposit interest in Germany, which mirrors the country's strong banking sector in relative terms: deposit interest rates in Germany are now 60 basis points lower than the average level for the other countries in the eurozone; prior to the crisis, by contrast, Germany still had a lead of around 30 basis points.

This conclusion is extremely ambivalent for the ECB's crisis policy. On the one hand, the measures taken by the ECB are providing the private households in the crisis-ridden countries with relief while, on the other, the very same measures are placing an additional cost burden on the shoulders of German households. These diverging effects of the single monetary policy pose a further challenge to European monetary union. The more prolonged the period of extremely low interest rates, the more pronounced these differences will become.

For detailed information on the different ways in which the low interest rate policy is having an impact in the eurozone, please refer to "Assets in Europe – the impact of the low interest rate policy", Working Paper 163, Economic Research & Corporate Development, Allianz SE.

Distribution of global financial assets

Success story with blemishes

The question as to how global financial assets are distributed can be confronted at two levels: at country level and at the level of private households/individuals. An analysis at country level focuses on characterizing the individual countries based on the amount, development and composition of average financial assets. The other approach, by contrast, assigns households/individuals to global wealth classes to show how many people across the globe are participating (or otherwise) in global wealth and to what extent.

While the regional analysis of financial assets already delivered some rough insights into the distribution of wealth, this section will take an even closer look at the matter. In doing so, we started by grouping our countries into quintiles. The first quintile includes the 20% of the countries analyzed with the lowest net per capita financial assets; accordingly, the fifth quintile groups together the 20% of countries with the highest per capita financial assets. The appendix shows which countries are assigned to which quintiles. All in all, very few surprises emerge from the categorization. One of the most striking aspects is that the fifth quintile boasts no fewer than three Asian counties (Japan, Singapore and Taiwan), whereas the major continental European countries (Germany, France, Italy) only make it into the fourth quintile. It is little wonder that China ranks among the "shooting stars" of recent years, having already managed promotion to the second quintile.

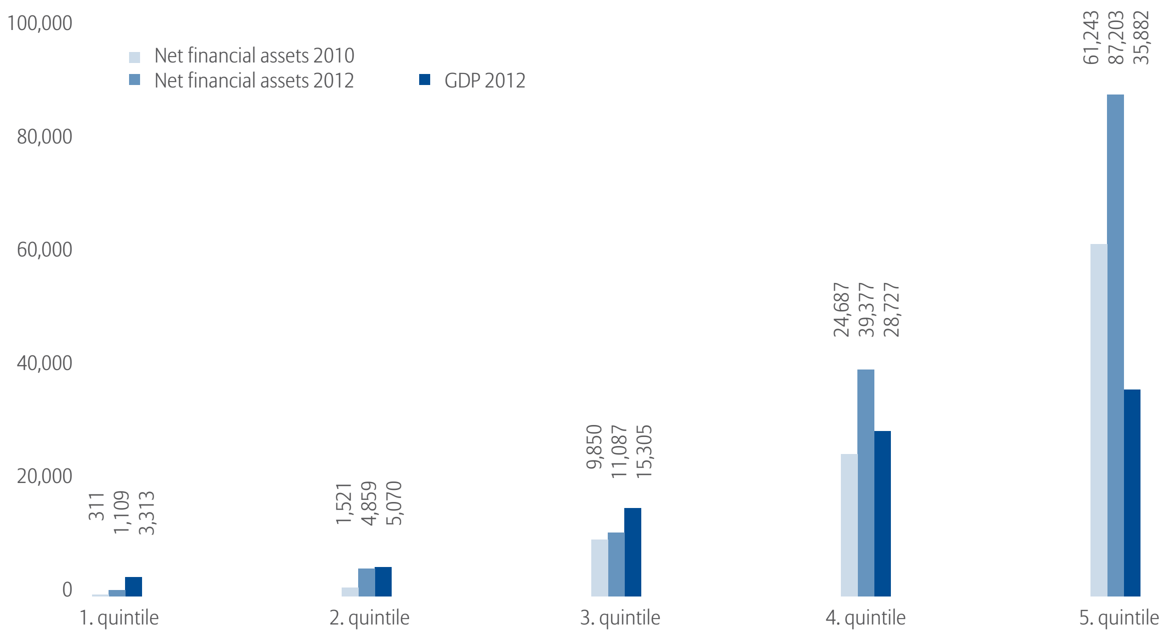
Global wealth gap still enormous

The wealth gap between the world's richest and poorest countries is still huge. Whereas the average net per capita financial assets in the fifth quintile come in at EUR 87,200, the same figure in the first quintile comes in at only just over EUR 1,100; this means that more than EUR 86,000 stands between people in these two groups of countries on average. This wealth gap has actually widened further in recent years, at least in absolute terms; in relative terms, on the other hand, global inequality has declined significantly: the "inequality factor" (per capita financial assets in the fifth quintile as a multiple of per capita financial assets in the first quintile) has dropped from 197 to 79.

A comparison of net per capita financial assets with per capita economic output (per capita GDP) is also telling. In respect of the latter indicator, the differences between the country groups have become far less pronounced, with an "inequality factor" of only 11. So even at country level, the figures would appear to confirm the rule that tends to apply in an interpersonal comparison: namely that wealth tends to be distributed less equally than incomes. And a second phenomenon stands out, too: in the poorer countries, economic output is higher than the available assets, whereas precisely the opposite holds true in the richer countries: private assets are streets ahead of economic output. This is another example of the analysis at country level confirming a development that we are all familiar with: it is only when incomes have reached a certain level that systematic wealth accumulation is even possible; but once a foundation has been laid, we automatically see rapid asset growth, often outpacing income growth, thanks to the interest effect and increases in value – or at least, this was the case prior to the outbreak of the financial crisis. So in this sense, the substantial assets available in the richer countries are the result of decades of saving efforts, often spanning several generations. The high wealth levels in the rich countries represent the cumulative successes of the past.

Considerable disparities in wealth

Average net financial assets and GDP per capita by country quintiles, in EUR



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

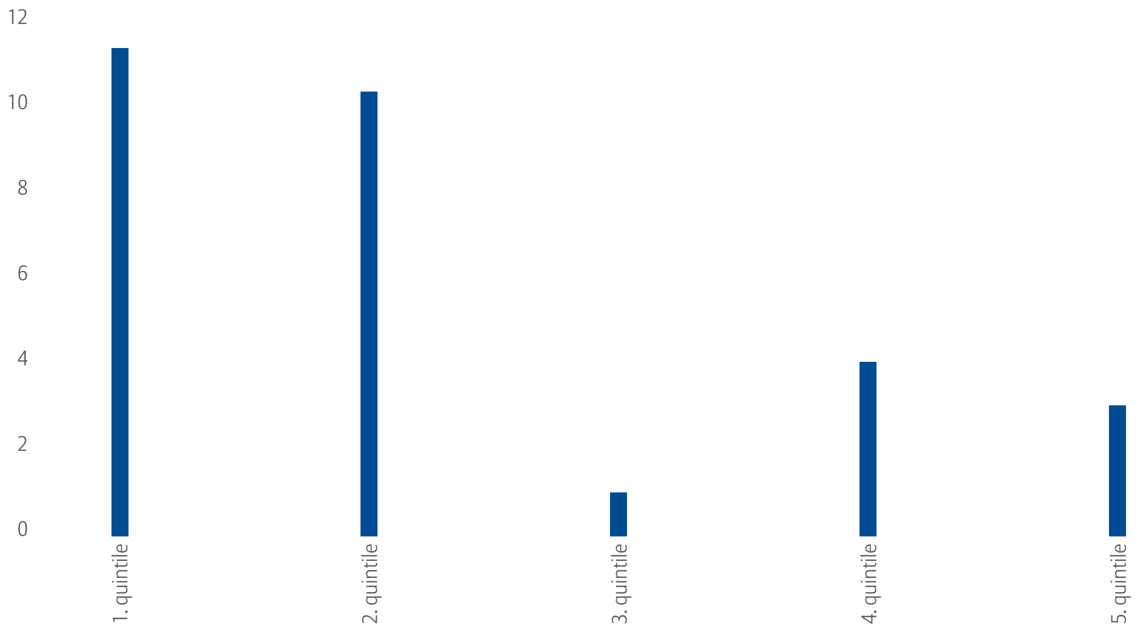
Two-speed wealth growth

In this respect, it is hardly surprising that the poor countries have not yet managed to narrow the global wealth gap to any considerable degree. Many countries have only recently surpassed, or at least hit, the critical income threshold that allows them to accumulate private assets. In this early phase of asset accumulation, the decisive growth factor is not professional asset management – generally, most of these assets are still sitting in secure, low-yield bank deposits; rather, asset development is powered by considerable savings efforts. This means that high financial asset growth rates can be achieved when income levels are on the ascent and the starting level of wealth is low. The poor countries (first and second quintile) have, indeed, been reporting double-digit growth rates every year since the start of the millennium on average. One surprising aspect, on the other hand, is the exceptionally weak growth momentum in countries in the third quintile. This is presumably because this group of countries is also home to some of the European "crisis countries" (Greece, Spain), which have been hit by what have been, in some cases, thumping asset losses in recent years.

Although the varying speed of asset de-

Different growth dynamics

Average net financial assets per capita, CAGR* 2001 - 2012 (in %) by country quintiles



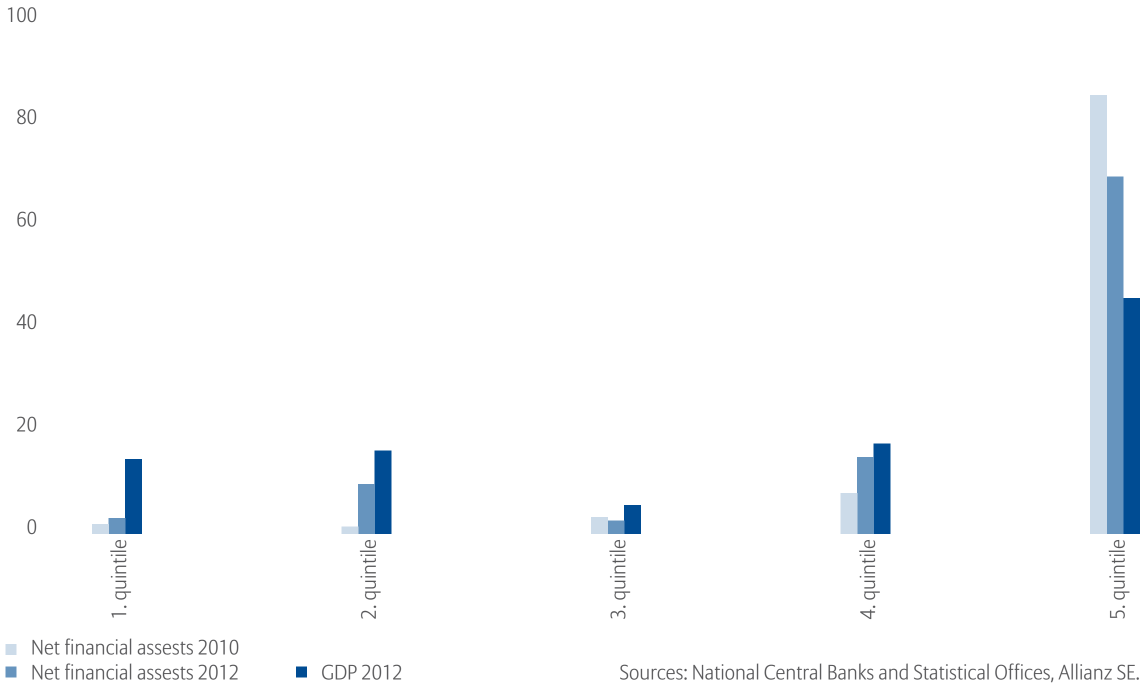
*CAGR = Compound Annual Growth Rate
Sources: National Central Banks and Statistical Offices, UN, Allianz SE.

velopment has done nothing as yet to narrow the absolute gap in net per capita financial assets, it is reflected in the slice of total global assets that is dished out to the individual countries. The slice of the cake that the poor countries have been able to grab has been growing since the turn of the millennium – nevertheless, the biggest chunk is still sitting on the plates of the fifth quintile countries, whose households boast just under 70% of the world's private financial assets. In 2000, however, this share was actually almost 16 percentage points higher than it is at present. The group that has made the biggest advances in this respect is the second quintile, which has upped its share of global net financial assets from 1.4% to 9.7% – thanks to China. Another striking aspect is that the rich countries' share of global assets far exceeds their share of global GDP. The "old" world order is likely to persist for much longer in terms of wealth distribution than it is in terms of current economic output.

The term "old" world order can cer-

The winner takes it all...

Share of global net financial assets and global GDP by country quintiles, in %



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

tainly be taken literally in this respect. After all, a glance at the age structure in the individual countries reveals a clear divide between the country groups: the population of the richer countries is much older on average, with a mean age that is a good ten years higher than in the poorer countries. The fact that the fourth quintile is the oldest is due to the large number of European countries in this group.

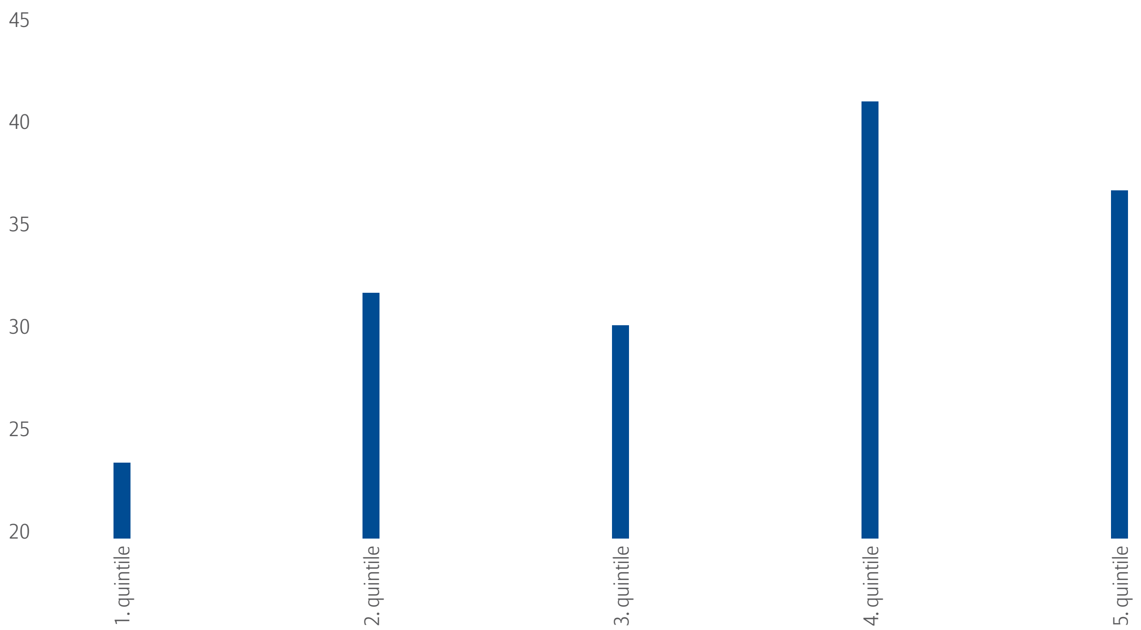
So all in all, the conclusion to be drawn from the analysis of wealth distribution at country level is an ambivalent one. Yes, the poor countries are catching up and their private financial assets are growing at a much faster rate, on average, than in the rich, established countries; the latter's share of total global financial assets is also constantly shrinking. But the differences between rich and poor, in hard currency terms, are as pronounced as always. The rich countries and the poor countries are worlds apart when it comes to "Joe Public".

Analysis of domestic wealth distribution

Obviously, "Joe Public" is a statistical artifact; in reality, assets are distributed at least just as unequally within the individual countries as they are from country to country. In order to get a more precise idea of how many people worldwide have a certain level of financial assets, we also have to take the distribution of wealth

The older, the richer

Average median age 2012 by country quintiles, in years



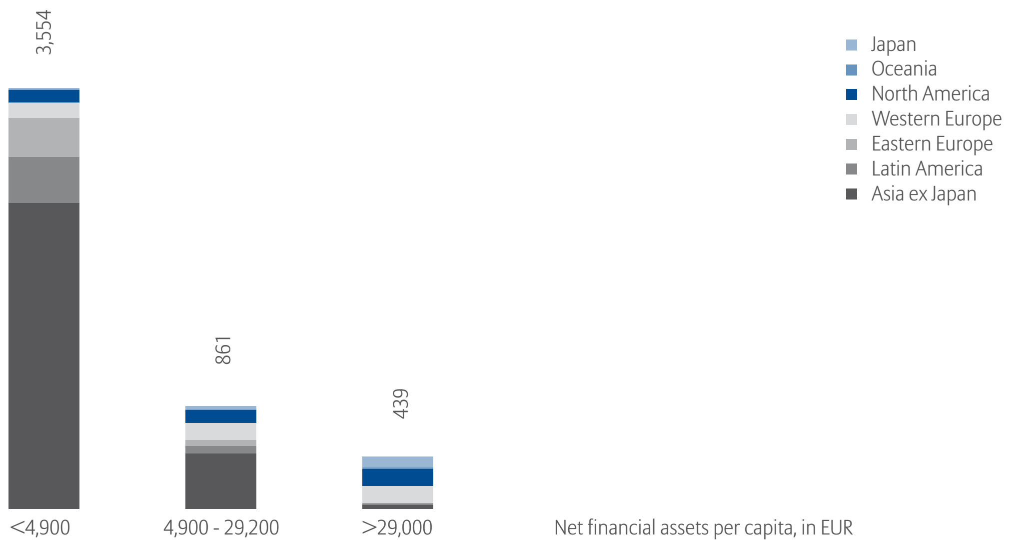
Sources: National Central Banks and Statistical Offices, UN, Allianz SE.

within countries into account. 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 there is a stable link between income and wealth distribution. We have used this link to draw conclusions as to wealth distribution in the countries we have analyzed based on the well-known income distribution levels in the countries in question. This involved "converting" income deciles into wealth deciles to calculate the average wealth per population decile.

The second step involves defining a global wealth middle class based on the average global net per capita financial assets, which came in at EUR 16,240 in 2012. The wealth middle class encompasses all individuals with assets corresponding to between 30% and 180% of the global average. This means that for 2012, the asset thresholds for the global wealth middle class stand at EUR 4,900 and EUR 29,200. The "low wealth" category, on the other hand, includes those individuals with net financial assets that are below the EUR 4,900 threshold, while the term "high wealth" applies to those with net financial assets of more than EUR 29,200 (for details on how the asset thresholds are set, please refer to Appendix A).

1.3 billion people around the globe own more than EUR 4,900 net

Population (52 countries analyzed), in million



Sources: National Central Banks and Statistical Offices, UN, UNU-WIDER, World Bank, Allianz SE.

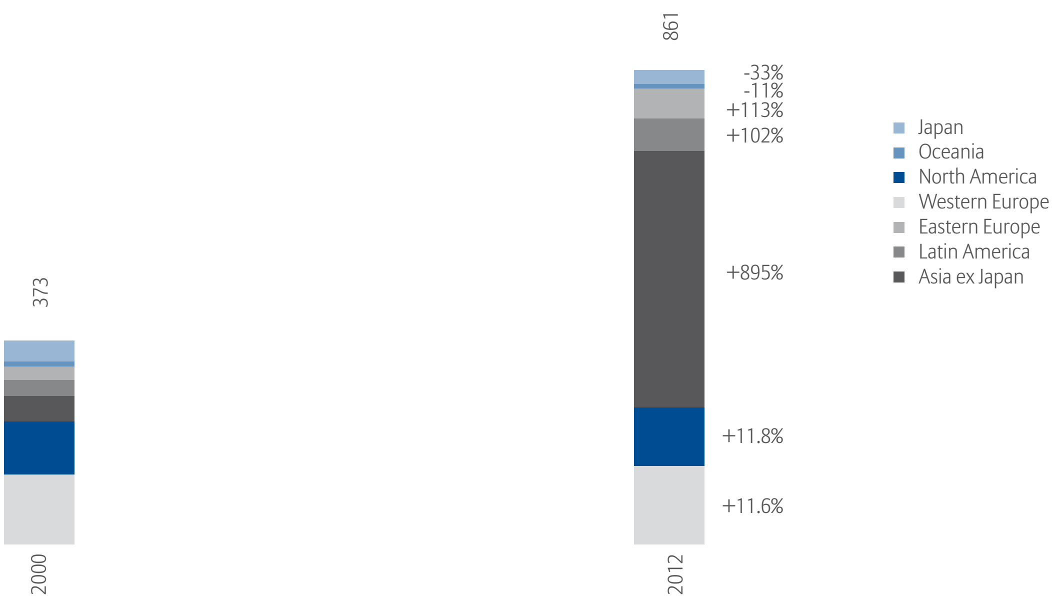
Global wealth middle class growing and becoming more Asian

Based on this breakdown, around 860 million people with medium net financial assets lived in the countries included in our analysis in 2012, almost 140 million people more than a year before. Much of this growth is due – in addition to general population growth – to China. But even some of the southern European countries, like Spain, for example, have more members of the global wealth middle class again, a development that has been helped along, first and foremost, by the drive to rein in debt. On the other hand, the global wealth middle class in Japan has shrunk considerably, although this is also due to the poor exchange rate development in the second half of 2012, which resulted in Japanese households losing ground in an international comparison.

This means that, on the whole, 18% of the world's total population belonged to the global wealth middle class in 2012 (2011: 15%). But it was not just last year that the momentum driving the rise of the global middle class was astounding. Over the past twelve years, the emerging markets, in particular, have been witnessing an economic boom that has also had a very positive

Growing wealth middle class mainly comes from Asia

Population (52 countries analyzed) of wealth middle class 2000 and 2012, in million and percentage change



Sources: National Central Banks and Statistical Offices, UN, UNU-WIDER, World Bank, Allianz SE.

impact on the wealth of the population at large: since the turn of the millennium, the share of the population that falls into the wealth middle class in global terms has doubled in eastern Europe and Latin America and has increased no less than almost ten-fold in Asia (ex Japan). The growth rates in the established advanced economies in western Europe and North America, on the other hand, are only a whisker ahead of the general population growth rate. This means that the face of the global wealth middle class has changed considerably: in 2000, almost 60% of its members still hailed from North America or western Europe. Today, on the other hand, every second member is from Asia – a trend that is projected to continue. The share attributable to North America and western Europe has fallen to below the 30% mark.

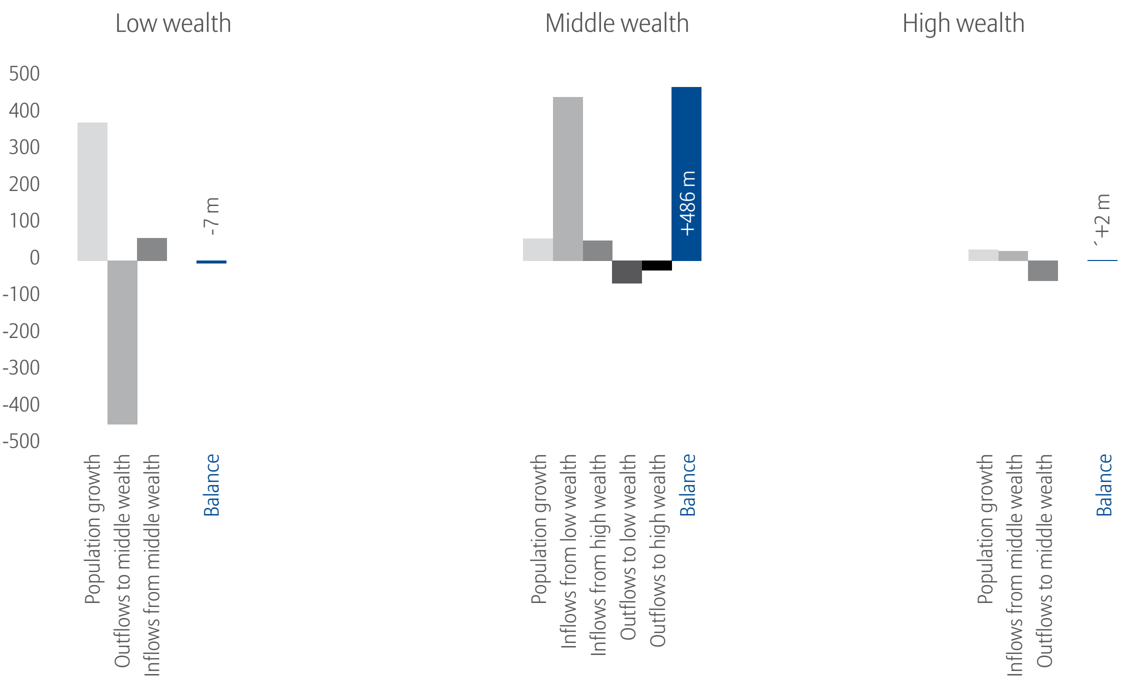
Global high wealth class declining in mature industrial countries

But the rapid growth of the middle class is not a success story for everyone, because it does not spell a scenario in which there are only winners. Particularly in those countries that have set the stage for a massive increase in debt in recent years and whose financial assets have been hit hard by the crisis, there are now fewer people of “high wealth” than there were at the start of the millennium. All in all, this “wealth upper class” has lost almost 20 million members in western Europe, and a good 13 million members in North America, over the past few years. The most significant membership losses in absolute terms have hit the US, Germany, the UK and Italy. This group features only one single country in which the share of the population in the “wealth upper class” has risen since 2000: Denmark. So the relative stability of this wealth class at global level – in 2012, with around 439 million members, the “high wealth” group had only two million members more than it had twelve years previously – masks what are, in fact, major shifts in favor of the emerging markets. The momentum is not, however, quite as high as in the “middle wealth” group. After all, two-thirds of “high wealth” individuals are still at home in western Europe and North America; this corresponds to a decline of eight percentage points.

The trend in the “low wealth” category mirrored this: in many developing countries in Asia, Latin America and eastern Europe, this category has become much smaller – bucking the general population trend; the reduction was, not surprisingly, most pronounced in China, with over 300 million people leaving the “low wealth” group. In western Europe and North America, on the other hand, the number of people with net financial assets of less than EUR 4,900 has risen by 67 million; the increase as against 2000 was particularly pronounced in the US, the UK, Spain and the Netherlands. This means that, on the whole, the “low wealth” category currently includes 3,550 million people, around seven million people fewer than at the start of the millennium. While this slight drop may appear disappointing at first glance, it is important to bear in mind that the total population of the countries included in our analysis has risen by 480 million people at the same time. This means that the share of the population that can be classed as “poorer” has fallen by eight percentage points over the past twelve years to 73%. Given the above, the meager contraction in the “low wealth” category actually represents a considerable success in the quest to allow more people to participate in global prosperity.

Migration between wealth classes

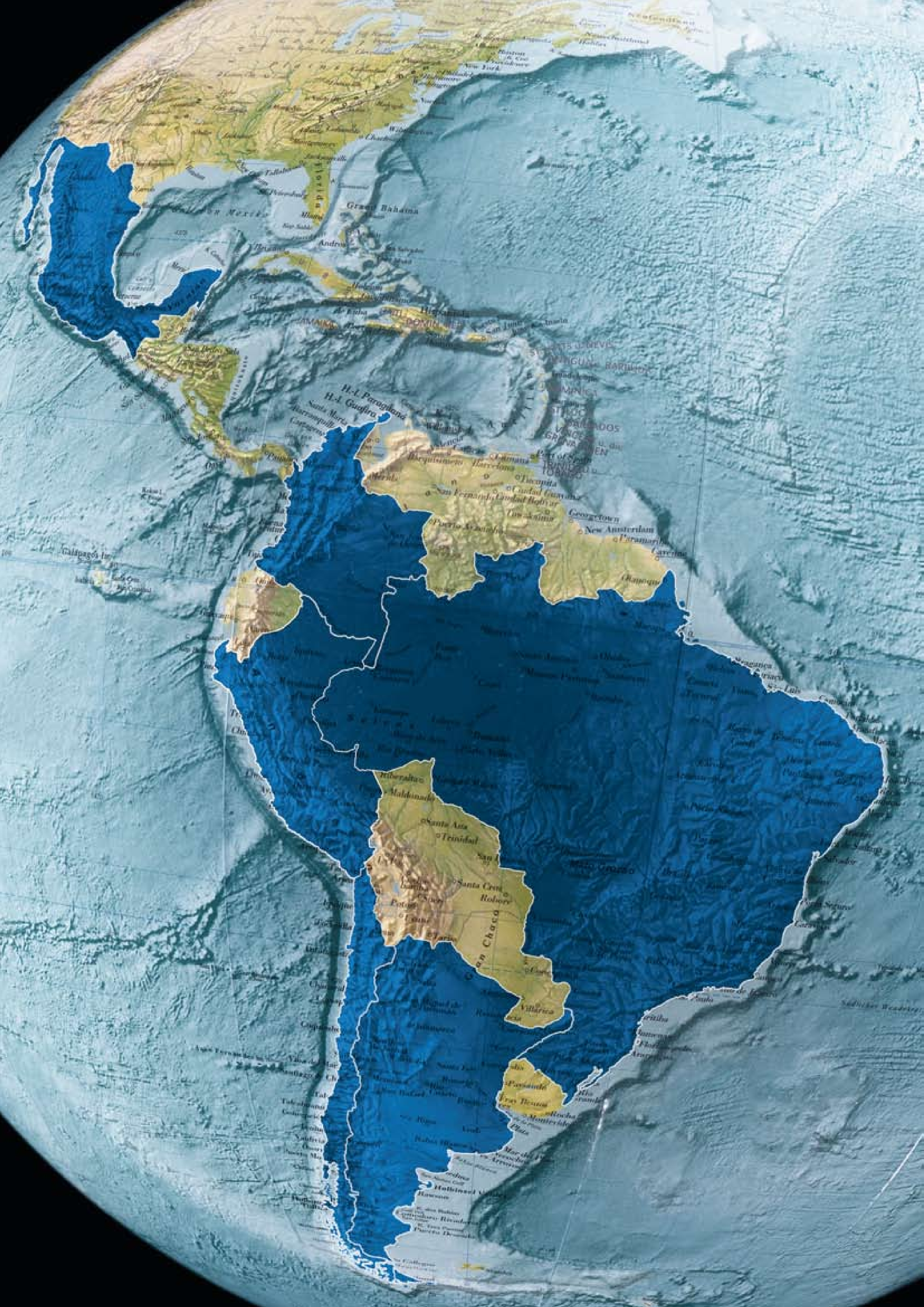
In- and outflows between 2000 and 2012, in million people



Sources: National Central Banks and Statistical Offices, UN, UNU-WIDER, World Bank, Allianz SE.

Regional differences

Financial assets in individual regions


New York
Boston
Grand Bahama
Andros
Hispaniola
Port of Spain
Barquisimeto
Barcelona
Ciudad Guayana
Ciudad Bolívar
San Fernando
Georgetown
New Amsterdam
Paramaribo
Cayenne
Riberalta
Maldonado
Santa Ana
Trinidad
Santa Cruz
Roboré
Villarrica
Paysandú
Fray Bentos
Montevideo
Rocha
Rawson

Latin America

Population

Total	456 m
Proportion of the region as a whole	77%
Proportion of the global population	6.5%

GDP

Total	EUR 3,491bn
Proportion of the region as a whole	85%
Proportion of global GDP	6.8%

Gross financial assets of private households

Total	EUR 2,722bn
Average	EUR 5,970 per capita
Proportion of global financial assets	2.4%

Debt of private households

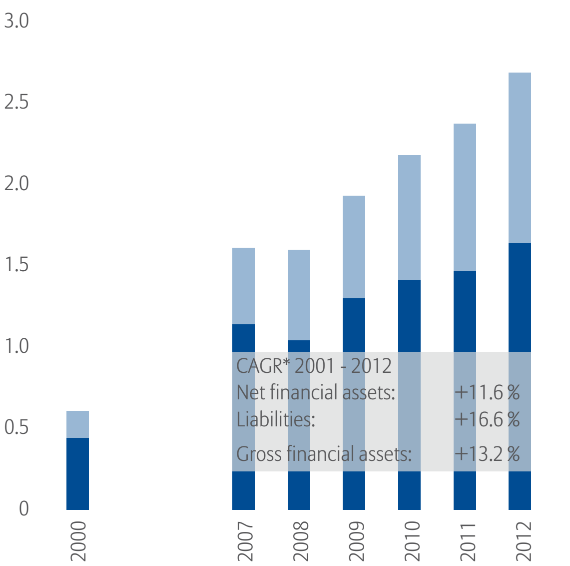
Total	EUR 1,063bn
Average	EUR 2,330 per capita
As % of GDP	30%

By the end of last year, gross financial assets in the Latin America region had swelled to a new record high, with households in Argentina, Brazil, Chile, Colombia, Mexico and Peru clocking up financial assets worth around EUR 2.7 trillion in total. The asset base had expanded by a good 13% on a year earlier, meaning that regional asset growth was almost twice as fast as the global rate. In the long term, too, the region has been achieving average asset growth of more than 13% a year since the end of 2000 – almost two percentage points ahead of Latin America's nominal economic output growth during the same period. This brought the region's slice of the global asset cake up from less than 1% at the start of the new millennium to 2.4% in 2012. Together, private households in Brazil and Mexico accounted for just under 70% of the Latin American population, with 315 million people, and almost 80% of the region's gross financial assets at the end of 2012.

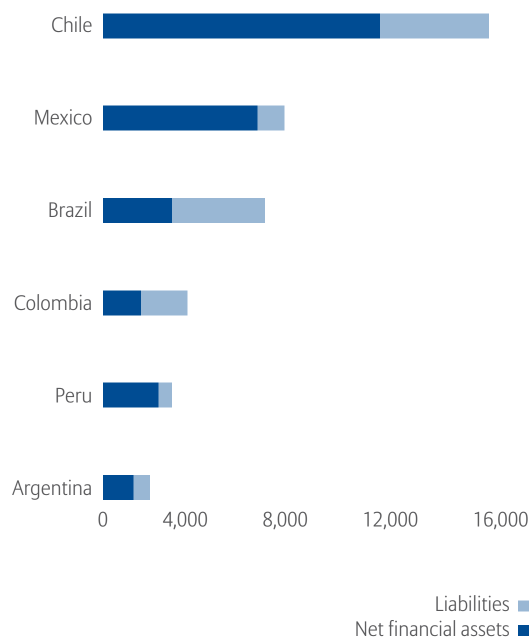
One aspect that is somewhat surprising for an emerging region is the relatively large proportion of assets invested in life insurance and pensions in Latin America, namely 28%, streets ahead of the average level for the world's emerging markets, which comes in at just under 17%. Within the region, however, the role played by this asset class varies from country to country. Some economies, such as Chile, Colombia and Brazil, were very quick to supplement the state social security systems with private retirement provision. As a result, insurance policies and pensions play a dominant role in the asset structure in these countries. In Argentina, on the other hand, the portfolio is made up largely of bank deposits following the nationalization of private pension funds in 2008. Mexican households, on the other hand, have traditionally invested the lion's share of their financial assets in equities and securities.

Assets and liabilities continue to rise – Chile out in front

Net financial assets and liabilities, in EUR tn



Net financial assets and liabilities per capita 2012, in EUR



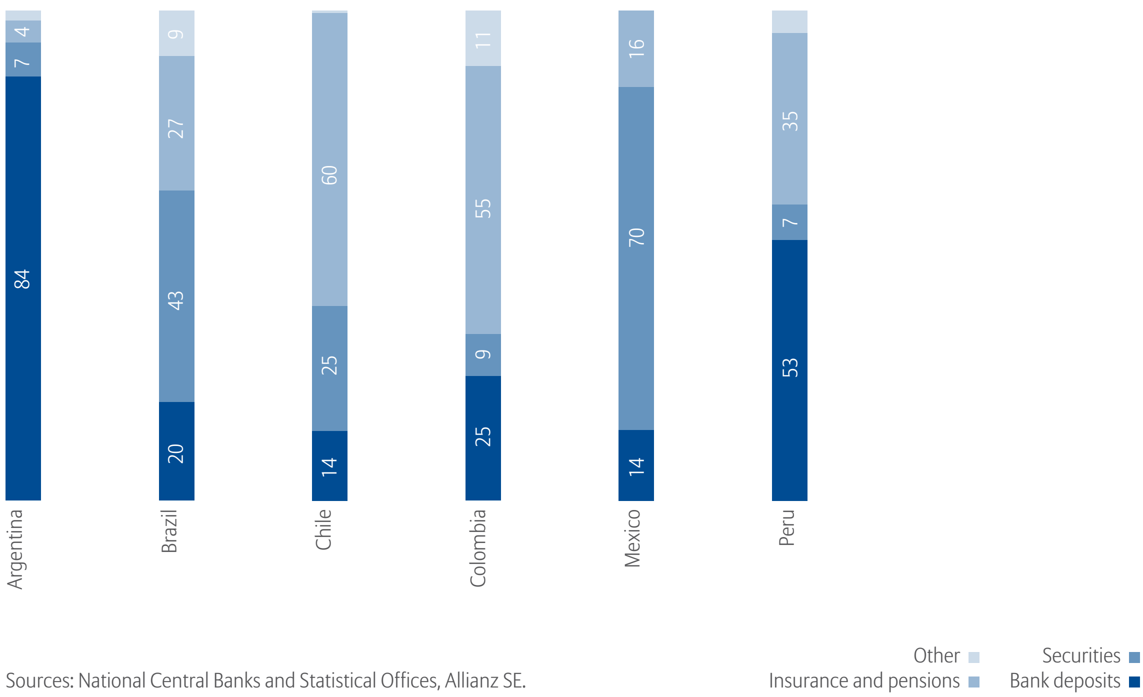
*CAGR = Compound Annual Growth Rate
Sources: National Central Banks and Statistical Offices, UN, Allianz SE.

As far as the individual countries' asset shares are concerned, the situation on the liabilities side mirrors that on the assets side of the balance sheet: a good 80% of liabilities are attributable to Brazilian and Mexican households alone. Net financial assets, i.e. gross financial assets less liabilities, climbed to just shy of EUR 1.7 trillion in the region as a whole. Since debt growth outpaced the accumulation of gross financial assets, net financial assets have reported slightly slower growth than their gross counterparts, increasing at a rate of just under 12% a year on average since the end of 2000. Once we deduct the liabilities, the Latin American population had average per capita assets to the tune of EUR 3,640, on a spectrum ranging from EUR 1,200 in Argentina to EUR 10,970 in Chile. The only country other than Chile to have attained the status of an MWC is Mexico, where per capita financial assets tallied up to EUR 6,110. Despite what are, in some cases, double-digit growth rates, MWC status is still well out of reach for the rest of the continent.

In absolute terms, it is not just in terms of per capita financial assets that the Chileans lead the regional field. Chile's per capita debt of EUR 4,310 is also the highest in the region, followed by Brazil with EUR 3,670 per capita. If, however, we compare both countries based on the relative debt burden, Brazil's households are carrying far more weight on their shoulders: for each euro borrowed, households in Brazil have EUR 1.70 in assets, while households in Chile have more than twice as much, at EUR 3.50. Since the close of 2000, personal debt in Brazil has been swelling by around 18% a year on average,

Old-age provision enjoys a status of high importance

Asset classes as % of gross financial assets, 2012



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

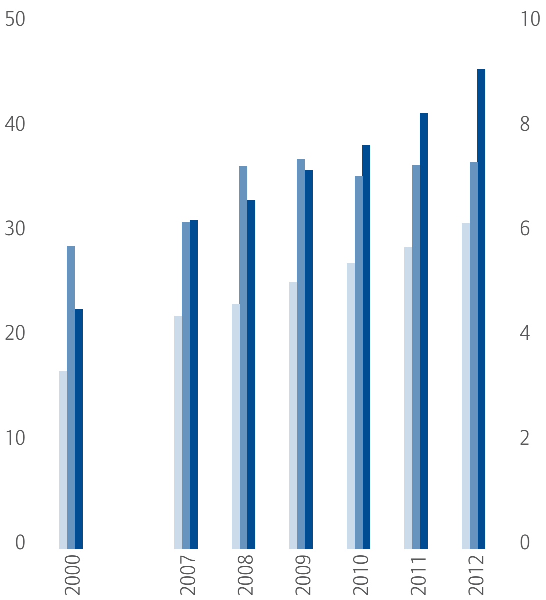
although this puts households in Brazil roughly on a par with the level of debt that is usual in the world's developing economies. The ratio of debt repayments to disposable income, on the other hand, has edged up only moderately over the past few years, from 17.3% in 2005 to 21.8% at the end of last year. The personal debt ratio of Latin American households, i.e. liabilities measured as a percentage of nominal economic output, climbed from around 28% to 30.4% in the course of 2012. This put Latin America on a par with the Asian emerging markets and slightly below the average for the eastern European EU member states.

Growing wealth middle class – inequality remains a problem

The proportion of the region's population that belongs to the "middle wealth category" in a global comparison (net financial assets of between EUR 4,900 and EUR 29,200 per capita) has almost doubled since the end of 2000, climbing to 13% at the end of last year. This means that almost 60 million Latin Americans can count themselves as members of the wealth middle class. The group of people with high net financial assets (more than EUR 29,200 per capita) grew at an even faster rate, although these individuals only account for a fraction of the population as a

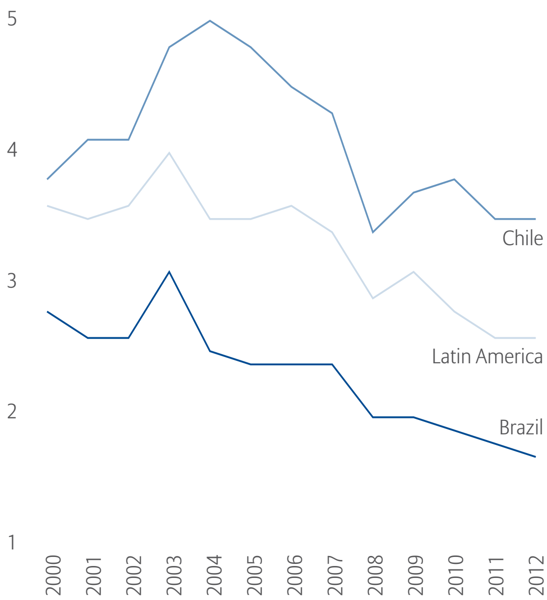
Relative debt burden is the highest in Brazil

Liabilities as % of nominal GDP



Latin America
Chile
Brazil

Gross financial assets as multiple of liabilities

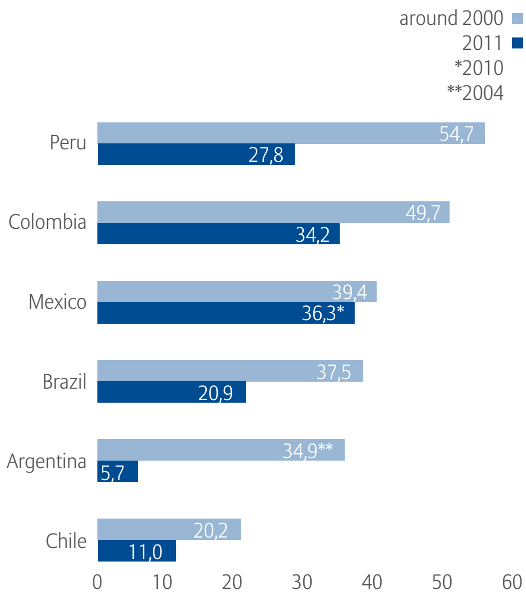


Sources: EcoWin, National Central Banks and Statistical Offices, Allianz SE.

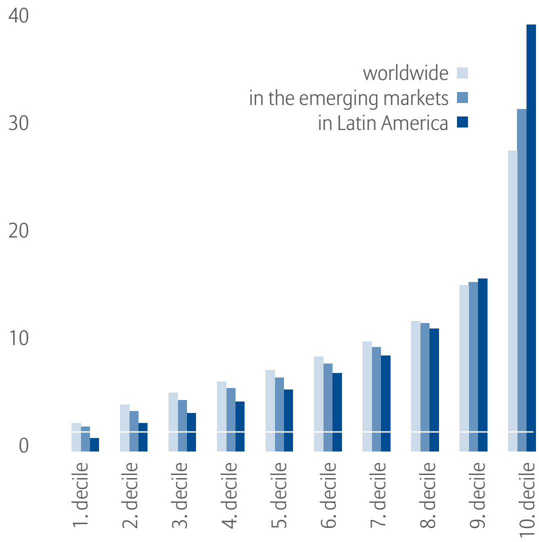
whole, or 3.0% in 2012. Twelve years ago, however, this group accounted for a paltry 0.4%. Despite this positive development, it is important to remember that the broad majority of the population has less than EUR 4,900 in net financial assets. Although more than eight percentage points have been shaved off this group's share of the overall population since the end of 2000, around 84% of Latin Americans (more than 380 million people) still rank among the wealth lower class. One of the biggest challenges facing the region will remain the quest to achieve a better distribution of income and wealth within the individual societies. Both in a global comparison and measured against other up-and-coming economies as a whole, incomes and wealth in Latin America are much more highly concentrated: the richest 20% in the region are on the receiving end of around 55% of the total income and hold a good 80% of the total assets, compared with ratios of around 47% and just under 75% respectively in the emerging markets as a whole, and averaging 43% and almost 73% respectively in a global comparison. It is, however, important to mention that significant progress has been made in the fight against poverty in recent years. In Chile and Peru, for example, the poverty rate at the end of 2011 had been almost sliced in two compared to the level seen in the early 2000s. Even in Brazil and Colombia, countries with a very high income concentration level, the poverty rate was slashed by almost 17 percentage points and nearly 16 percentage points respectively. Nevertheless, one in five Brazilians and more than one third of the Colombian population was living in poverty in 2011.

Clear signs of success in the fight against poverty – but inequality remains enormous

Poverty rate around 2000 und 2011,
in %



Average income distribution in comparison
Share of total income by income decile,
in %



Sources: Economic Commission for Latin America and the Caribbean (ECLAC), Social Panorama of Latin America 2012, National Central Banks and Statistical Offices, World Bank, UNU-WIDER, Allianz SE.

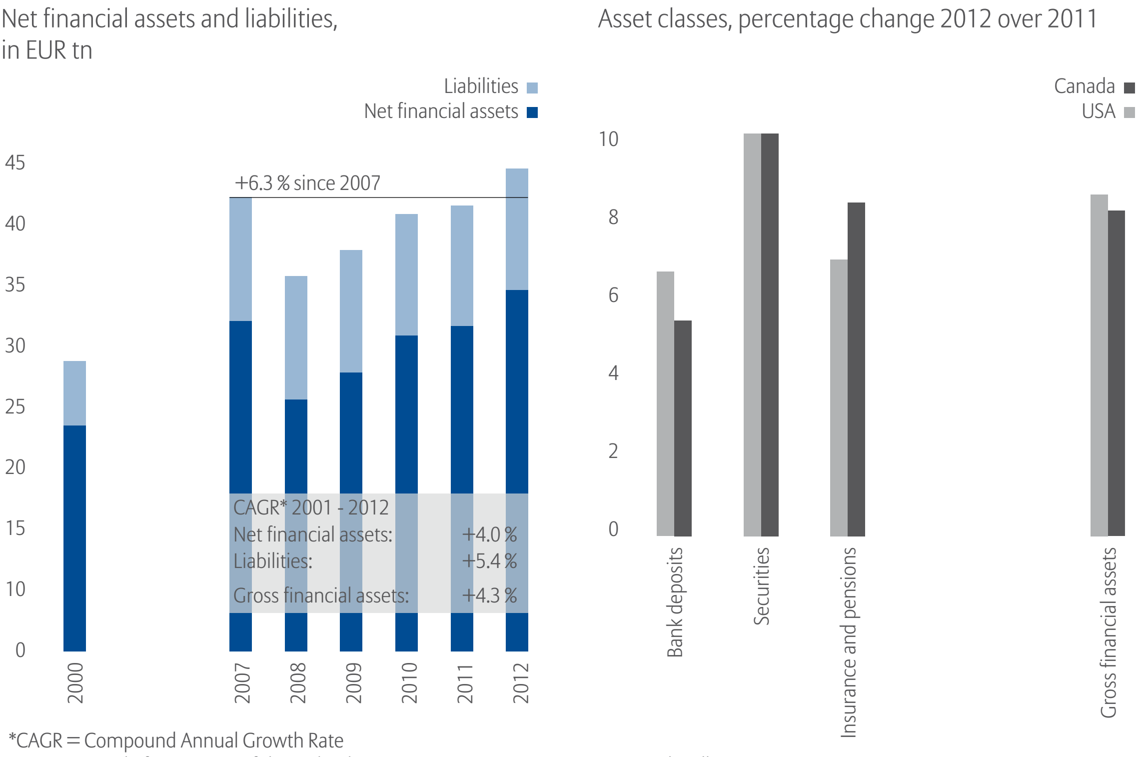
Eskimo Point
Churchill
Port Nelson
Halifax
Boston
Providence
New York
Wilmington
Charleston
San Francisco
Grand Bahama
Houston
Hermosillo
Chihuahua
Monterrey
Merida

North America

Population	
Total	352 m
Proportion of the global population	5.0%
GDP	
Total	EUR 13,301bn
Proportion of global GDP	24%
Gross financial assets of private households	
Total	EUR 45,824bn
Average	EUR 130,050 per capita
Proportion of global financial assets	41%
Debt of private households	
Total	EUR 11,529bn
Average	EUR 32,720 per capita
As % of GDP	87%

The North American asset base expanded by 8.3% last year, edging up to more than EUR 45.8 trillion. This means that, at the end of 2012, more than two-fifths of the world's gross financial assets were in the hands of US and Canadian households. In the US, which is home to more than 92% of the region's financial assets, the rate of growth slightly exceeded the rate seen in Canada, coming in at 8.4% compared with +8.0%. In a long-term comparison, on the other hand, Canadian households are one step ahead: since the end of 2000, their gross financial assets have been growing at an average rate of 5.5% per annum, compared with 4.2% in the US – the bursting of the dotcom bubble and the outbreak of the global financial and economic crisis hit US households much harder than their Canadian neighbors due to the large proportion of financial assets held in securities by the former. After all, 2008 brought the largest asset slump for US citizens in the post-war years. It was not until last year that the gross financial assets of US households had bounced back enough to surpass the peak they reached in 2007, namely by around 5%. As far as the region's gross financial assets are concerned, the rate of growth since 2007 is as high as 6.3%. The biggest winner among the individual asset classes last year was the class of assets held in securities in both countries, with these assets growing by 9.9% in the US as well as in Canada. Even US banks have, however,

North America: Gross financial assets exceed pre-crisis level



*CAGR = Compound Annual Growth Rate

Sources: Board of Governors of the Federal Reserve System, OECD, Statistics Canada, Allianz SE.

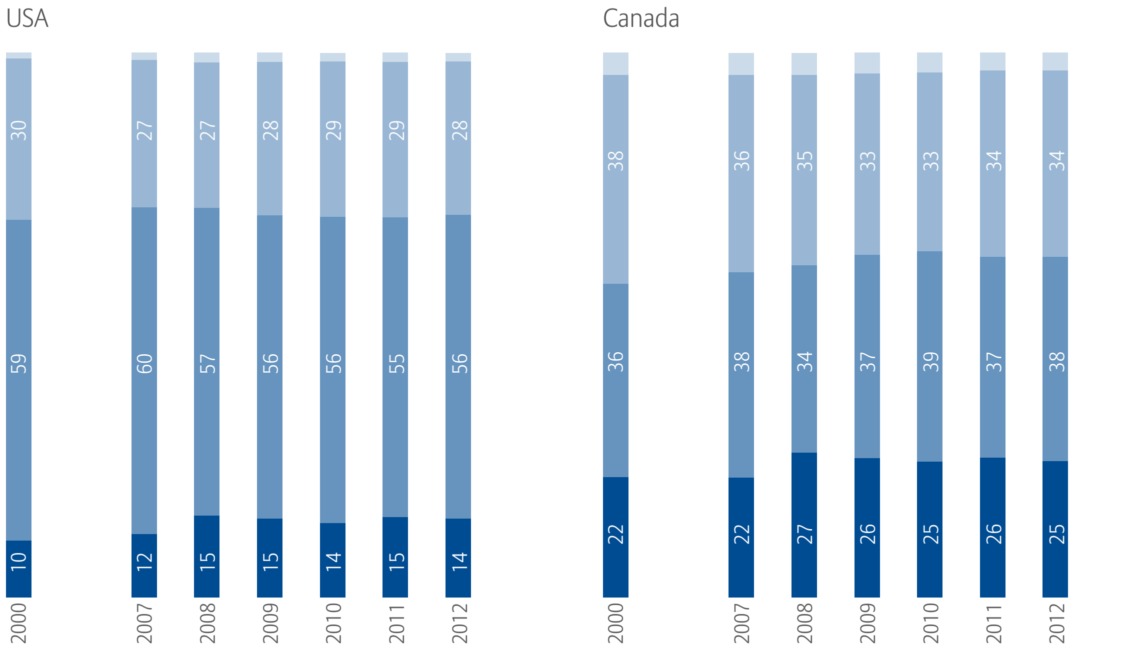
managed to attract more deposits again over the past two years. In 2011 and 2012, they reported average fund inflows of almost EUR 460bn a year - a figure that is up considerably in a long-term comparison: between 2000 and 2012, fund inflows averaged just under EUR 280bn. Bank deposits have become a more significant component of household asset portfolios, gaining 4.1 percentage points as against 2000 to account for a total share of 14.4%. If, however, we compare this figure against the figure for the industrialized nations as a whole, which averages around 28%, this percentage is very low.

Two separate ways when it comes to debt

The painful losses sustained in the crisis-ridden year of 2008 prompted a change in attitudes towards personal debt, at least in the US. In the period between 2008 and 2011, US households whittled their liabilities down by an average of 1.5% a year. Last year, too, saw only a marginal increase in debt of 0.2% year-on-year, with debt actually falling in per capita terms, namely by 0.6%. The personal debt ratio has been pruned down by around 24 percentage points since 2007 and now stands at 113% of disposable income, while per

More conservative asset structure in Canada

Asset classes as % of gross financial assets



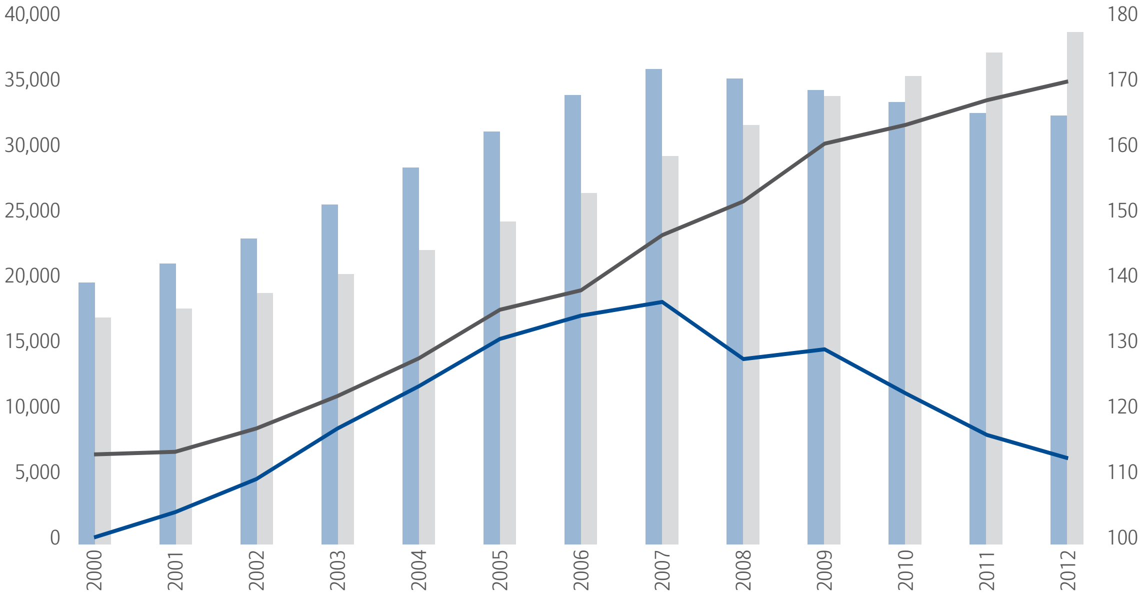
Sources: Board of Governors of the Federal Reserve System, OECD, Statistics Canada, Allianz SE.

Other ■ Securities ■ Insurance and pensions ■ Bank deposits ■

capita debt is gradually moving back into line with the level seen in 2005. In Canada, on the other hand, the financial crisis failed to usher in any turnaround. Private households have been upping their debt load by an average of 6.9% a year since the end of 2007, although the pace of debt growth has at least slackened. In 2010, Canadians overtook their US counterparts in the per capita debt rankings for the first time, clocking up a historic debt level of EUR 38,360 at the end of 2010 (US: EUR 32,100). The debt ratio is already standing at almost 171% of disposable income. According to a household survey conducted by the Certified General Accountants Association of Canada in 2011, the burgeoning debt is being channeled primarily into consumption and less into asset accumulation: 57% of those surveyed said that the rising cost of living was the main reason behind the ever-mounting debt burden. Around 27% of the people who took part in the survey said that they do not set money aside on a regular basis, not even for private retirement provision. Although financial assets made a relatively speedy recovery in the aftermath of the crisis, achieving annual growth averaging 7.9% per annum over the past four years, the financial situation of Canadian households is anything but sustainable. Macroeconomic shocks like rising interest rates, a labor market slump or falling house prices could pose a serious threat to the solvency of highly-indebted households.

Parting of ways in debt development

Liabilities per capita in EUR (lhs) and as % of disposable income (rhs)



Sources: Board of Governors of the Federal Reserve System, Datastream, OECD, Statistics Canada, UN, Allianz SE.

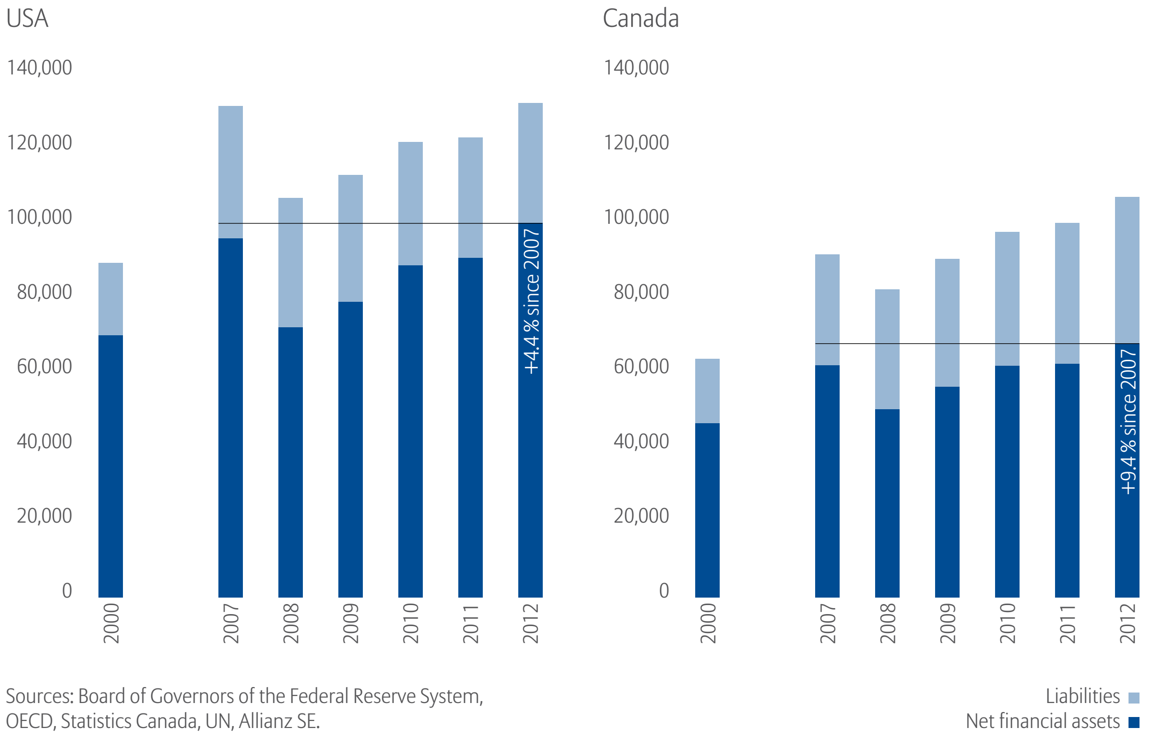
per capita, USA
per capita, Canada
as % of disposable income, USA
as % of disposable income, Canada

In its half-yearly report on the stability of the financial system, the Bank Of Canada once again singled out household debt levels as the biggest domestic risk facing the Canadian economy.

North America remains the richest region in the world

There is no other region in the world in which net per capita financial assets are as high as in North America: at the end of 2012, after subtracting the liabilities, the average North American had almost twice the assets of the average western European, namely EUR 97,330 as against EUR 44,780. 41% of the population has assets of more than EUR 29,200 per capita to fall back on, making them members of the wealth upper class. In global terms, every third high wealth individual lives in North America. Looking at the individual countries, US citizens are much richer than their neighbors in Canada with net assets of EUR 100,710 per capita (compared with EUR 66,550 per capita in Canada) and are sitting in second place in the rankings for the highest net per capita financial assets behind the Swiss. Although Canada is four places behind the US, the country had already managed to make up for the asset losses of 2008 in 2011. The US, on the other hand, had to wait until last year to top the pre-crisis level of net per capita financial assets again.

Net financial assets and liabilities per capita, in EUR



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

Trondheim
Härnösand
Bottnischer Meerbusen
Oulu
Tampere
Helsinki
Turku
Ladoga-see
St. Peters
Finn. Meerb.
Tallinn
Peipus-see
Pskow
Stockholm
Norrköping
Göteborg
Gotld.
459
Skagerrak
Kattegat
Kopenhagen
Malmö
Orkney-In.
Edinburgh
Liverpool
Amsterdam
London
Southampton
Hamburg
Stettin
Riga
Düna
Vilnius
Königsbg.
Minsk
Gomel
Hann.
Berlin
Posen
Weichsel
Warschau
Pripjet
Kiew
Dnjepr
Köln
Leipzig
Le Havre
Paris
Prag
Krakau
Lemberg
Tatra
Dnjestr
Dnjepropetr
Kachowskaer Stausee
Bratislava
Debrecen
Budapest
Chisinau
MOLD
Odessa
Krim
Sewastopol
Zagreb
Klausenbg.
Theiß
Braila
Bukarest
Bologna
Sarajevo
Belgrad
Donau
Marseille
Barcelona
Balearen
Mallorca
Gr. Sasso
Podgorica
Sofia
Balkan
Varna
2211
Bari
Tirana
Skopje
Rhodopen
Bosporus
Saloniki
Istanbul
Cagliari
Neapel
Tyrrhen. M.
Palermo
Bursa
Ankara
Olymp
Pindos
Ägäisches Meer
Algier
Oran
K. Blanc
Constantine
Hochland der Schotts
Kap Bon
Tunis
Patras
Athen
Izmir
Konya
Taurus
Tuz Gölü
Saharaatlas
Sfax
Djerba
Antalya
Kreta
2456
4486
3089
Nikosia
Ouargla
Tripolis
60
50
70

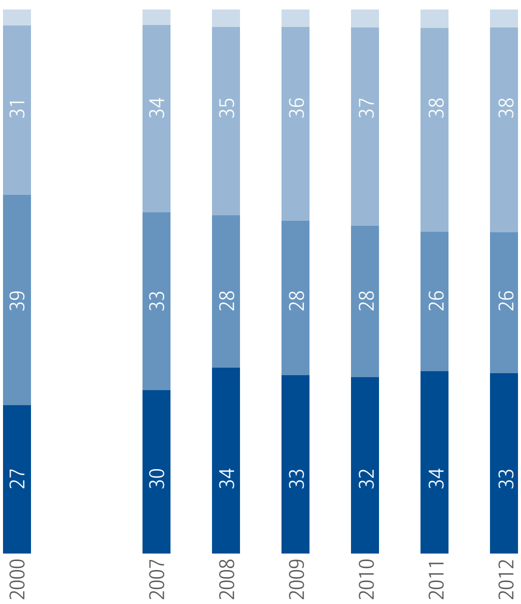
Western Europe

Population	
Total	411 m
Proportion of the global population	5.9%
GDP	
Total	EUR 12,755bn
Proportion of global GDP	22.8%
Gross financial assets of private households	
Total	EUR 28,631bn
Average	EUR 69,690 per capita
Proportion of global financial assets	26%
Debt of private households	
Total	EUR 10,234bn
Average	EUR 24,910 per capita
As % of GDP	80%

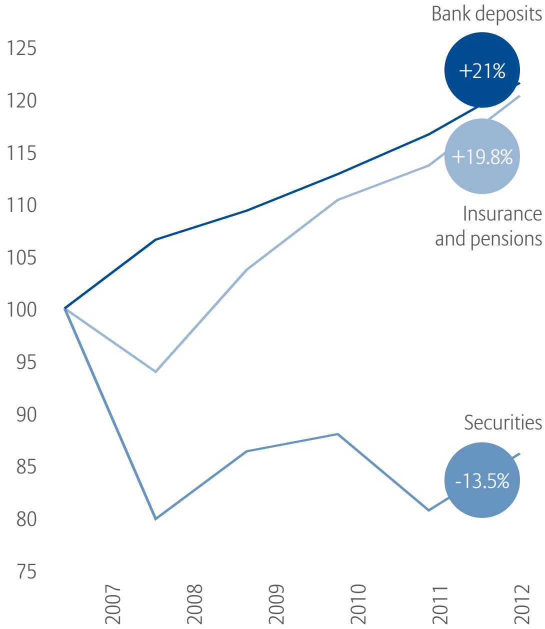
Gross financial assets in the western Europe region made a fairly solid recovery last year, after private savings had stagnated in 2011. The increase of 5.3% on a year earlier was, however, less pronounced than in the other "rich" regions of North America (+8.3%) and Oceania (+14.4%). The upward trend was driven largely by share price gains on the stock markets, with particularly buoyant development in the second half of the year. Statements by ECB President Mario Draghi, who announced in his famous London speech in the summer of 2012 that he would do "whatever it takes" to protect the eurozone from collapse, gave the stock markets a shot in the arm that benefited all asset classes, and not least securities. In the period between the end of July and the close of the year, the Eurostoxx 50 had gained more than 17% and assets held as securities were up by 6.5% year-on-year. But 2012 was a positive year for the other two asset classes, too. Bank deposits enjoyed rising fund inflows, climbing by 4.1% compared with 2011. Insurance policies and pensions remain the favorite asset class of western Europe's households. At 5.8%, the growth rate in this asset class was twice as high as in the previous year, with the share of the overall asset cake attributable to this particular asset class touching on a new high of just under 38%. Bank deposits, however, are also held in high esteem by savers – at the

Insurance and pensions replace securities as most popular asset class

Asset classes as % of gross financial assets



Growth of the three big asset classes since 2007
Index 2007 = 100



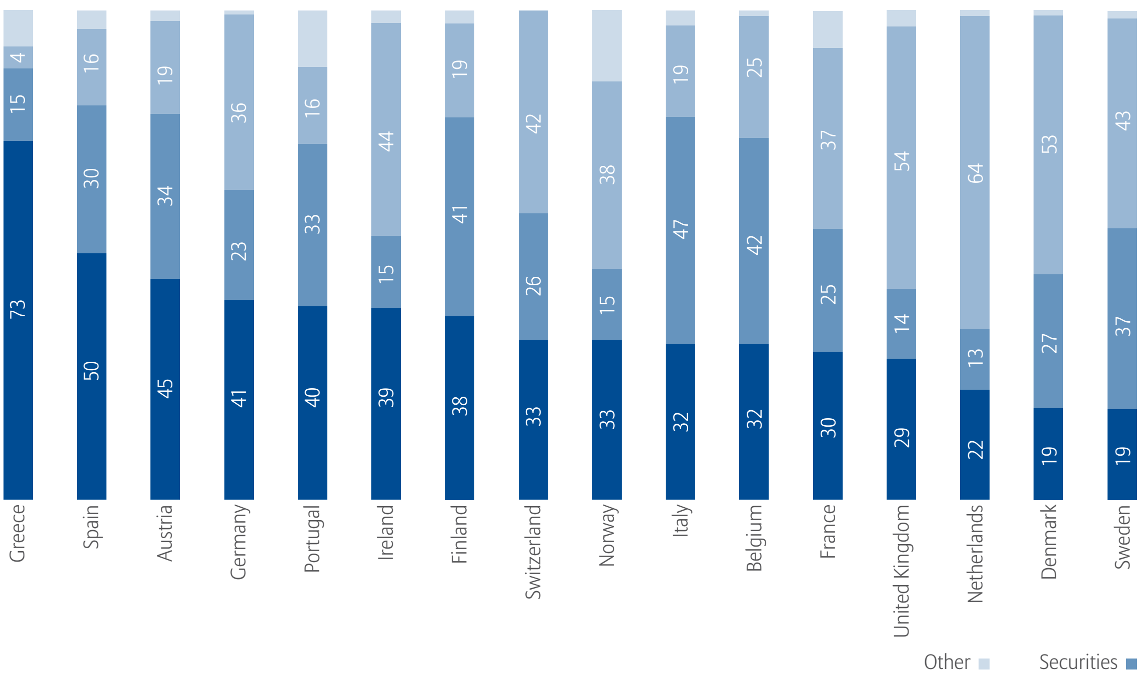
Other
Insurance and pensions
Securities
Bank deposits

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

end of 2012, they held no less than one third of their financial assets in overnight money, term deposits and savings deposits. Securities, on the other hand, only come in third on the popularity scale and their share of total assets has dwindled by almost 13 percentage points since 2000, to 26%. If we compare the individual countries with each other, the asset structure picture that emerges is anything but consistent; as far as assets held as securities are concerned, for example, the share of total financial assets ranges from 12.5% in the Netherlands to just under 47% in Italy. Dutch households, on the other hand, invest 64% of their assets in insurance policies and pensions – more than in any other western European country. This is largely due to the major role played by company retirement provision in the Netherlands – more than 90% of people in employment have this sort of protection over and above their state pensions. Bank deposits dominate the asset portfolios of households in Greece (73.3%) and Spain (50.3%), a feature that is not only due to a conscious investment decision: at the start of the last decade, these figures were much lower – securities losses, in particular, have prompted a shift in the asset structure in this respect.

Different preferences across countries

Asset classes as % of gross financial assets, 2012

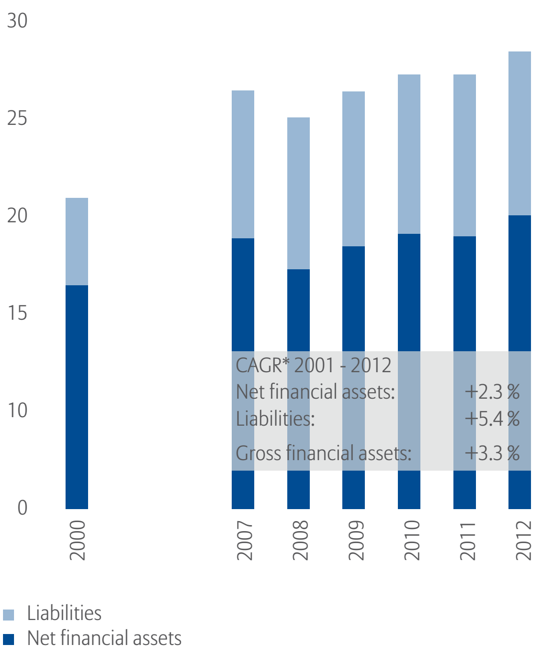


Sources: National Central Banks and Statistical Offices, Allianz SE.

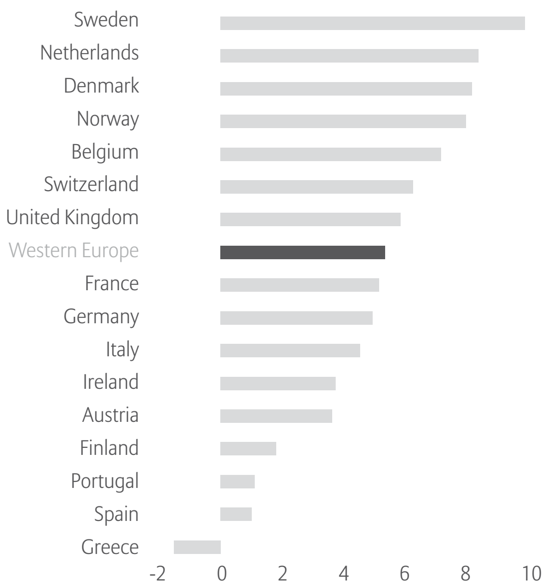
Swedish private households lead the field in terms of total asset growth, with their gross financial assets expanding by just shy of 10%. Asset accumulation in the north of the old continent is above average in general. In Norway (+7.9%), Denmark (+8.1%), the Netherlands (+8.3%), Belgium (+7.1%) and the UK (+5.8%), gross financial asset growth outpaced the western European average. Households in the two most populous countries in the region, Germany and France, were virtually neck and neck with rates of 4.9% and 5.1% respectively. Further south, Italy's households saw their assets grow by 4.5%, allowing them to compensate for the losses incurred in 2011. In Switzerland, assets were up by 6.2% year-on-year, growing almost twice as fast as in neighboring Austria (+3.6%). Fairly subdued, but nevertheless positive growth was reported in Portugal (+1.1%) and Spain (+1.0%), whereas households in Greece were troubled by further asset losses of 1.5%. At the end of last year, the gross financial assets of Greek households were a whopping 23.2% short of the record value achieved in 2007. In per capita terms, this translates into a loss of EUR 7,200. Other than Greece, households in two other southern European countries still show a loss, namely in Spain (-10.3%) and Italy (-1.4%). On average, households in these countries had EUR 6,090 and EUR 2,340 less available per capita than at the end of 2007

Broadly strong recovery of financial assets in Western Europe

Net financial assets and liabilities, in EUR tn



Percentage change of gross financial assets, 2012/2011



*CAGR = Compound Annual Growth Rate

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

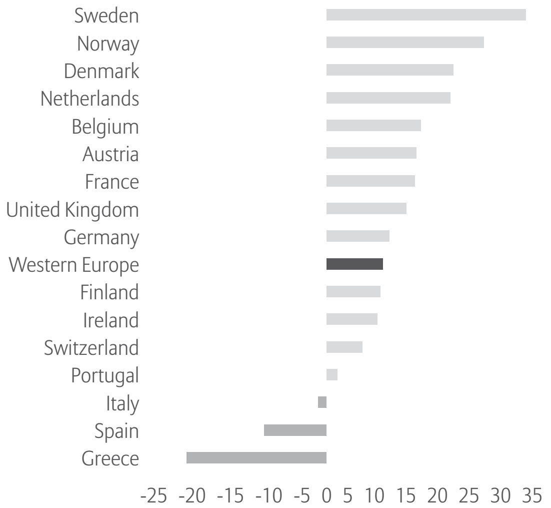
respectively. In regional terms, gross financial assets were 9.3% ahead of the pre-crisis level by the end of 2012. Particularly positive developments were witnessed in Sweden (+34.9%), Norway (+26.1%) and Denmark (+21.0%) and the Netherlands (+20.5), whereas the rate of growth in Finland (+8.9%), Ireland (+8.4%), Switzerland (+5.9%) and Portugal (+1.8%) was unable to keep up with the western European average.

Financial crisis curbs debt accumulation

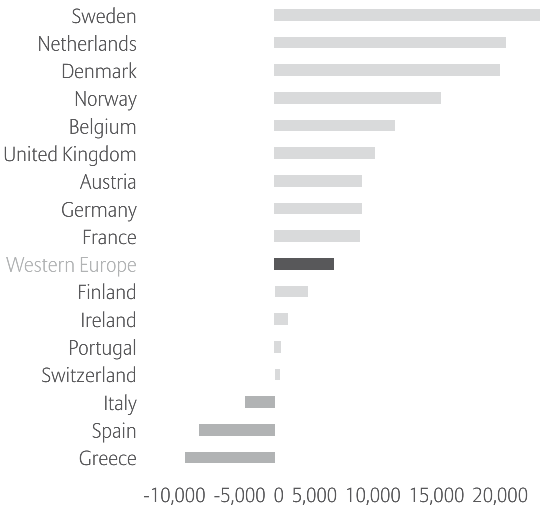
The speed at which private households are accumulating debt slowed further last year – a trend that has been a firm feature since the outbreak of the financial crisis. With growth of only 0.9%, the annual rate of change in liabilities had once again fallen slightly to below the average rate for the world's industrialized economies, namely 1.0%, for the first time in seven years. Since nominal economic output grew more or less in tandem with debt, at 1.1%, the personal debt ratio dipped only ever so slightly to 80.2%. For

Crisis scars still visible in some countries

Change of gross financial assets over 2007
in %



per capita, in EUR



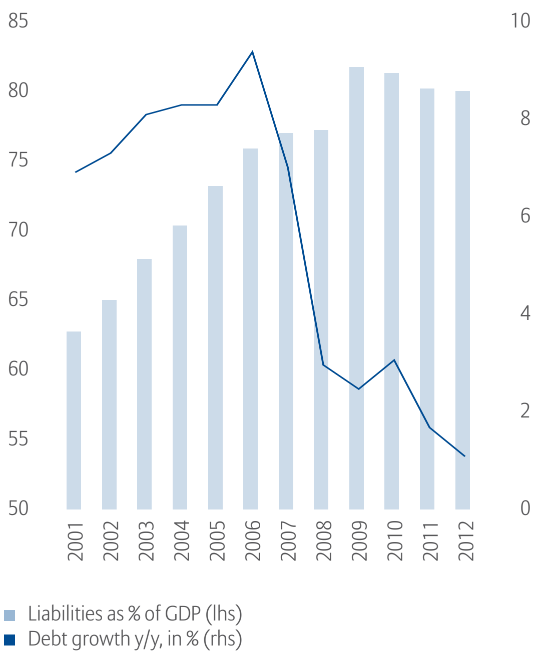
Sources: National Central Banks and Statistical Offices, UN, Allianz SE.

the advanced economies as a whole, the rate is slightly higher, at 83.6%. In western Europe, the gap separating the current personal debt rate from its peak in 2009 nevertheless comes in at 1.7 percentage points, with the industrialized nations as a whole actually achieving a drop of 5.2 percentage points.

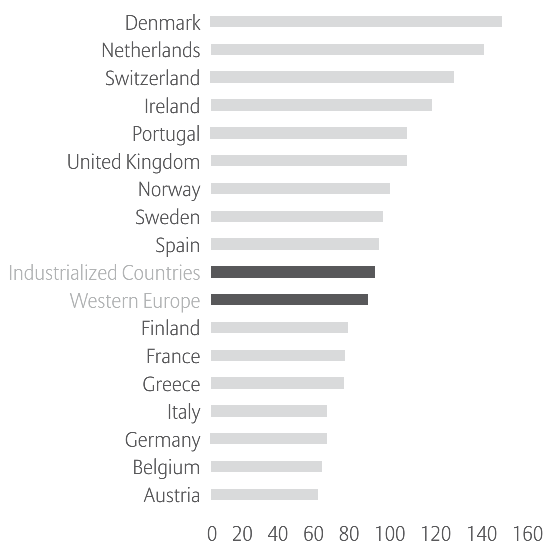
Swiss private households still have the highest per capita debt at EUR 76,200, followed by their counterparts in Norway (EUR 72,250) and Denmark (EUR 64,340). Although households in Greece, who are in the red to the tune of around EUR 12,280 per capita on average, are bottom of the regional league, no other western European country has seen debt levels rise quite as quickly as they have here in a long-term comparison. In the period from the end of 2001 to 2007, Greek households ramped up their debt by an average of around 22% a year. By way of comparison: the rate for the western European region as a whole comes in at 7.8%, with the debt growth rate on the emerging markets standing at 17.5%. Since 2008, however, the annual average growth rate in Greece has slipped back to "only" 2.6%, a trend that can be explained by more than just weaker demand and more stringent lending guidelines;

Speed of debt accumulation slows down

Debt-to-GDP ratio and growth over time in Western Europe



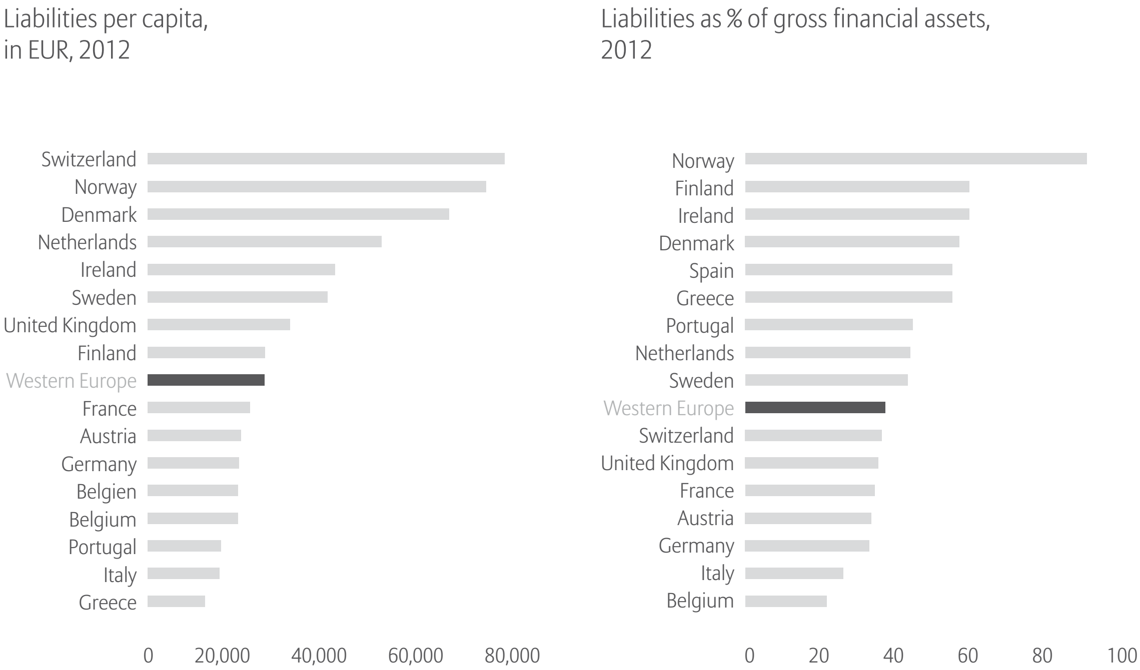
Debt-to-GDP ratio in the individual countries 2012, in %



Sources: EcoWin, National Central Banks and Statistical Offices, Allianz SE.

some households are simply no longer in a position to repay their loans and creditors are being forced to write off their receivables. The ratio of debt to nominal economic output has nevertheless risen by nine percentage points since the end of 2009, although this is largely because general economic activity has slumped by more than 13% since then. Debt, on the other hand, was up by only 0.1% on the 2009 level. With a debt ratio of 68%, Greece is still, however, well below the regional average of 80.2%. The biggest drop within western Europe was achieved by private households in Ireland, where 17.3 percentage points have been shaved off the rate since 2009. Compared with Greece, the situation in Ireland is the precise opposite: while households were working had to push their debt levels down, with debt down by 12.5% on the end of 2009, nominal economic output recovered during the same period – albeit only by 1%. It comes as little surprise that the households that lead the pack in this respect hail from those countries that also have the highest per capita debt: in Denmark (148.5%), the Netherlands (139.1%) and Switzerland (124%), the rate is well above the 100% mark. The debt ratio should, in general, be closer to the 100% mark to keep debt servicing at a manageable level, even in an environment characterized by a return to rising interest rates.

National differences in debt levels



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

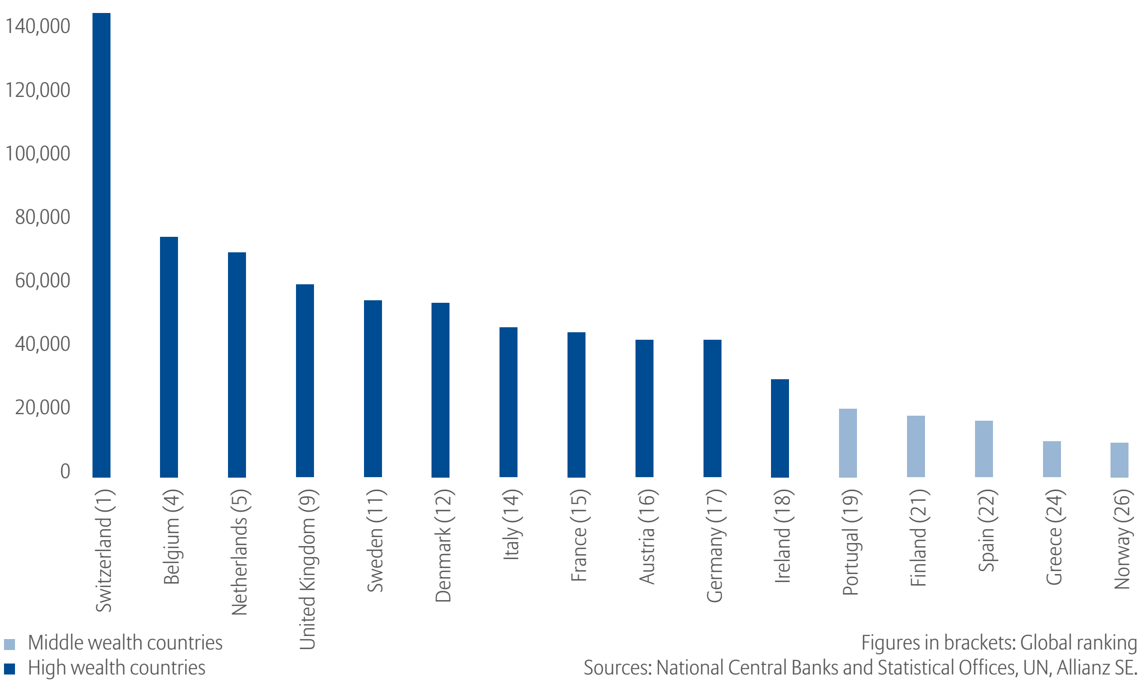
But the discrepancies in western Europe are not just limited to the absolute debt level. If we compare the liabilities of private households with the latter's gross financial assets, marked national differences emerge in terms of the relative debt burden, too. In Switzerland, the UK, France, Austria, Germany, Italy and Belgium, the ratio is below the western European average of almost 36%, with the latter achieving the lowest debt level at just under 21%. With the exception of Portugal (42.8%), the Netherlands (42.1%) and Sweden (41.5%), the ratio is more than 50% in every other country, coming in at no less than around 87% in Norway. What is interesting that this group also includes private households in the euro crisis countries of Ireland (57.2%), Spain (52.8%) and Greece (52.8%) – so it was not just the public sector that has been liberal on the debt accumulation front over the past decade.

Swiss households still the world's richest

After deductions for liabilities, regional per capita assets at the end of 2012 averaged EUR 44,780 - not even half as much as in North America. All in all, only five countries in the region still rank among the MWCs, after Ireland (EUR 29,980 per capita) made it back into the HWC club last year. In addition to the euro crisis countries of Greece, Portugal and Spain, Finland and Norway are also classed as MWCs. In Norway's case, it is the country's high relative debt burden, as already

Ranking Western Europe

by net financial assets per capita, in EUR, 2012



Figures in brackets: Global ranking
Sources: National Central Banks and Statistical Offices, UN, Allianz SE.

mentioned above, that pushes net per capita financial assets down to this low level, relegating the country to the very bottom of the regional league table, with EUR 10,590 per capita. The unchallenged front-runners are and remain private households in Switzerland. With net per capita financial assets of EUR 141,900, Swiss households top not only the regional, but also the global rankings – with a comfortable lead over the runners-up, US households (EUR 100,710). In addition to Switzerland, the world's top ten rich list includes three other western European countries, Belgium (EUR 73,520), the Netherlands (EUR 68,760) and the UK (EUR 58,910).

Western Europeans are spread fairly evenly across all three asset classes. After deductions for liabilities, around 34% of the population falls under the middle wealth bracket, and another 34% into the high wealth category, in a global context on average. Almost 130 million people have less than an average of EUR 4,900 per capita; their share of the total population has grown by a good five percentage points since 2000 - the financial and euro crises have left their mark. Surprisingly, the biggest shifts have not been witnessed in the crisis countries themselves. In fact it is precisely in "rich" countries that highly-indebted households have slipped back down into the lower wealth class. In the Netherlands, for example, the share of the population with low financial assets has quadrupled since the end of 2000, with the corresponding figure more than doubling in Norway and Sweden. The trend shows that excessive debt poses the biggest poverty risk.

The ECB's asset study

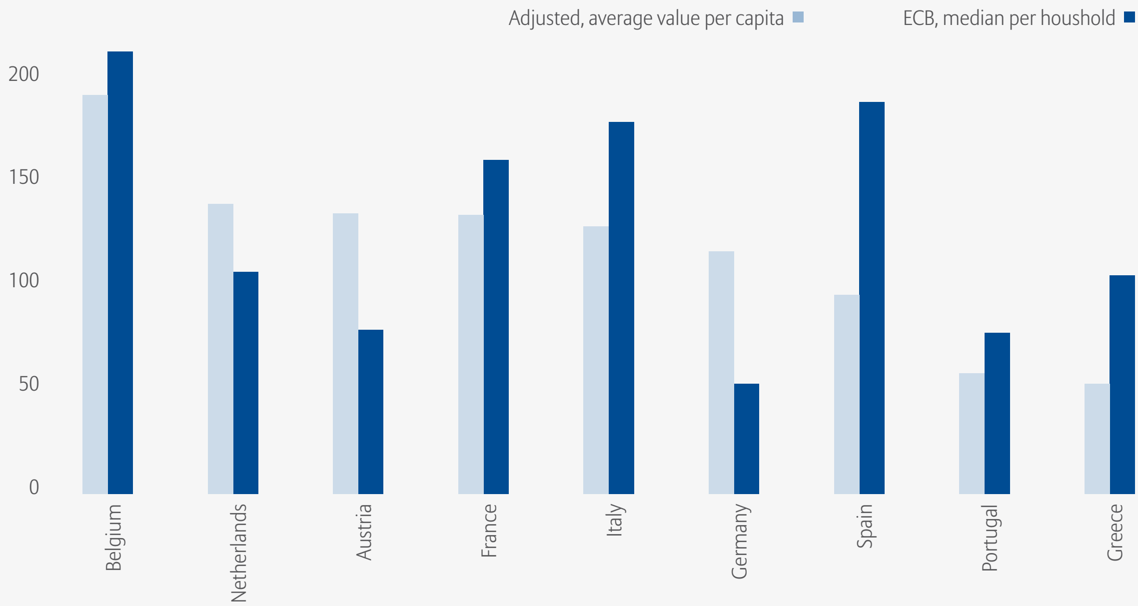
April saw the ECB publish a study on the asset situation of private households in the eurozone – a study that prompted a flurry of media reports. Why? Namely because the ECB put German households at the very bottom of the asset rankings, with even countries like Portugal and Greece faring better. At the other end of the ECB's scale, we find countries like Luxembourg, Malta and no other than Cyprus, which only recently sought refuge under the European rescue blanket to avert an imminent sovereign default.

The latter, at least, is not quite as surprising as it may appear at first glance. The data for these three mini states is evidently distorted: the small size of their populations means that the figures supplied by rich foreigners living there become much more significant. The high asset values in these countries say little about the wealth of the local (autochthonous) population and much more about how appealing they are to highly paid financial specialists or wealthy (Russian) businesspeople. The right point of comparison for, say, Luxembourg would be Munich or Frankfurt, but not Germany as a whole.

But how much truth is there behind the headline touting German households as the poorest in the eurozone? Not much, to be honest. This is because a number of methodical irregularities are lurking in the corners of the ECB's study.

1. The study looks at assets per household, as opposed to on a per capita basis. This means that household size has an impact that should not be underestimated – and nowhere else is household size smaller than in Germany.
2. The study focuses on mean values, not average values. Mean figures are usually reliable for the purposes of international comparisons because they eliminate any extreme differences in distribution. But when it comes to assessing assets in the eurozone countries, these values have one glaring shortcoming: in two countries, Germany and Austria, the proportion of homeowners is below 50%, i.e. it is only in these two countries that the average household is unlikely to own property. Since, however, property is by far the most valuable asset in all countries, the mean value is particularly low in this respect.
3. Some of the data was collected as long ago as five years back. This is particularly significant when it comes to real estate, the biggest asset class by far, which accounts for just under 70% of total private assets in the eurozone: some countries have seen real estate prices fall by more than 20% since then, while in others, these prices have increased considerably.
4. Last but not least, the results of the ECB's study are based on household self-disclosure; this is a method that can prove to be a major source of error: ignorance, for example on the market value of their properties, or other motives, such as a

Net assets of private households, in EUR 1000



Sources: ECB, Allianz SE.

fear that the data on their assets will be disseminated for further use, could motivate the individuals surveyed to provide false information. A comparison with the macroeconomic data, which identifies what are, in some cases, major discrepancies that cannot be explained by methodological factors alone, highlights just how careful one has to be when interpreting the data from the ECB's study.

Corresponding data "adjustments" and a look at the average per capita data (as opposed to mean household data) produce a completely different picture of the distribution of private assets in Europe (see figure): the "poor" are to be found in the south of Europe, mainly in Portugal and Greece, with Spain also at risk of being sucked into the vortex of the crisis. Belgium is the front-runner – thanks to the high density of EU civil servants in the country? On the other hand, Germany's households on the whole certainly do not rank among the eurozone's "rich"; rather, they can be found in the broad middle section of the rankings (together with Italy and France, for example) with average per capita assets of EUR 113,000. This means that Germany's pronounced economic strength is not reflected in the assets of the country's private households. So even though Germany's households are not the poorest in the eurozone, their asset situation is anything but satisfactory. There are two main reasons for this: first, the low home ownership rate and second, the limited prevalence of funded models to secure pension entitlements. If Germany is to rank among the European's leaders in terms of private assets, too, in the future, then there is real need for (further) political action in both areas.

For detailed information on the ECB's asset study please refer to "Assets in Europe – the impact of the low interest rate policy", Working Paper 163, Economic Research & Corporate Development, Allianz SE.

Spitzbergen
Kara-
see
Minsk
Mesopotamien
Delhi
New Delhi
Jaipur
Jodhpur

Eastern Europe

Population

Total	385 m
Proportion of the global population	5.6%

GDP

Total	EUR 3,400bn
Proportion of global GDP	6.3%

Gross financial assets of private households

Total	EUR 1,726bn
Average	EUR 4,480 per capita
Proportion of global financial assets	1.6%

Debt of private households

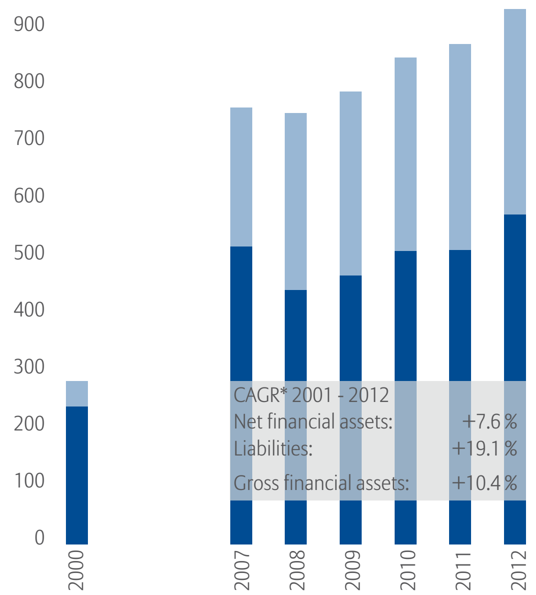
Total	EUR 725bn
Average	EUR 1,880 per capita
As % of GDP	21%

Eastern European EU members

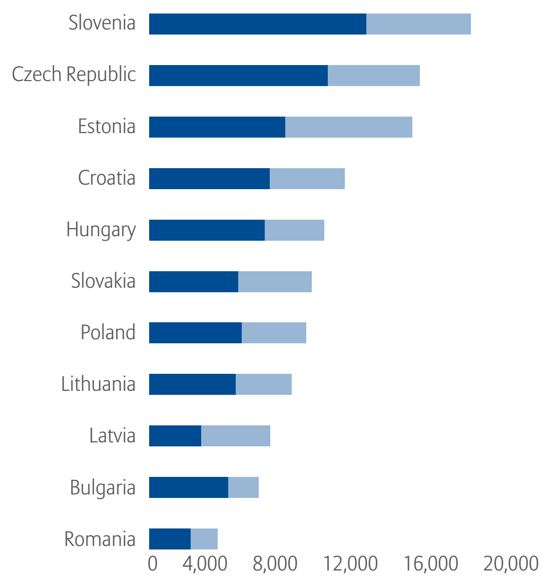
Although the eastern European EU member states are heavily reliant on the economic situation in the EMU countries in economic terms, the annual rate of change in the gross financial assets of private households in this region showed a marked improvement, rising from 2.8% in 2011 to 7.0% last year. This means that asset growth was 2.8 percentage points ahead of the nominal economic growth rate. For most economies in the region, the eurozone is their most important trading partner and the economic downturn that has plagued the eurozone has dealt a blow to export developments in the region. So to a certain extent, it is the anemic state of the eurozone economy that is to blame for plunging parts of the region into a recession. Despite the extremely robust development in gross financial assets last year, the "gold-rush" fever that once prevailed seems to be a thing of the past, at least for the time being. Whereas the region was still reporting growth of a good 17% a year on average between 2003 and 2007, the average growth rate has been on a downward trajectory over the last five years, sliding to only around 4%. The strong asset growth witnessed last year was driven primarily by the positive development in Poland and the Czech Republic, where private households saw their assets swell by 9.8% and 6.8% respectively. Together, these two countries accounted for 54% of the total gross financial assets of the eastern European EU countries.

Eastern European EU member states: Robust growth of financial assets

Net financial assets and liabilities, in EUR bn



Net financial assets and liabilities per capita 2012, in EUR



Liabilities
Net financial assets

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

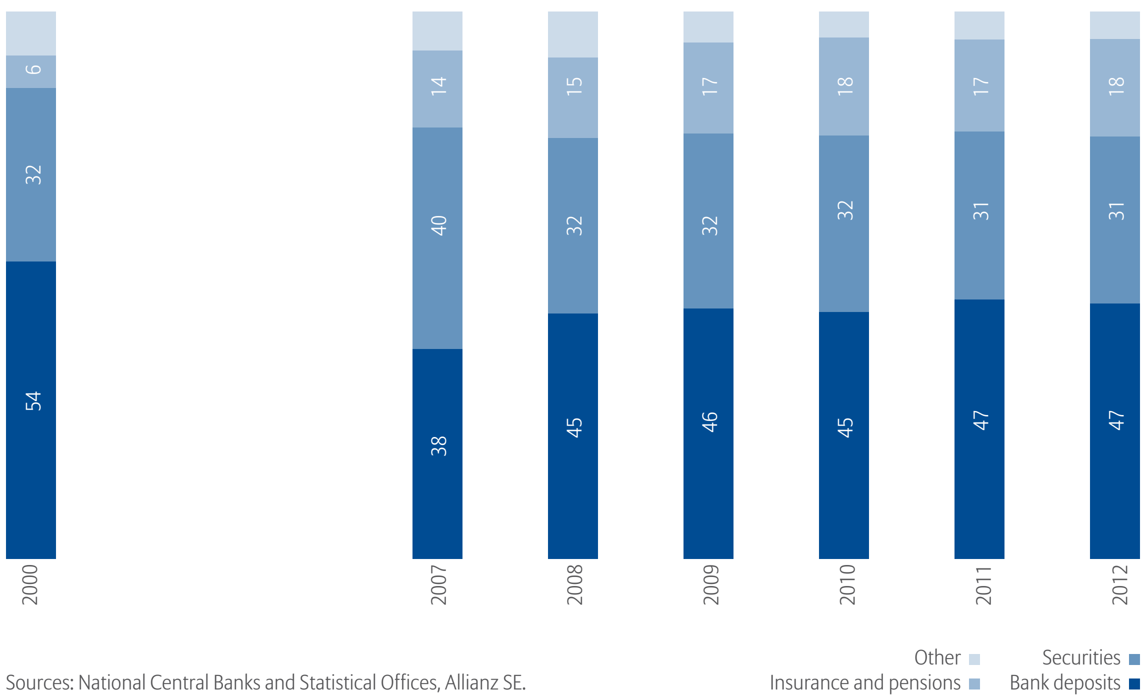
Bank deposits continue to dominate the portfolios of private households with a share of just under 47%. The biggest gains last year related to financial assets held in insurance policies and pensions (+13.2%). The development of private retirement provision structures since the start of the millennium has boosted the share of total financial assets invested in this asset class from 6% to almost 18%. Private households invest just under 31% of their financial assets in securities, almost ten percentage points less than when this asset class was at its peak.

Significant slowdown in debt growth

As far as debt growth is concerned, the countries behind the former Iron Curtain lead the global field. In the period stretching from the turn of the millennium to the outbreak of the financial crisis, average debt growth came in at over 27% on the whole, with the debt ratio more than trebling during the same period. The tremendous boom met with an abrupt end in 2009, when the financial crisis forced banks to restrict lending in, and to, eastern Europe. Since then, the annual debt growth rate has slowed to 3.8% on average, with most countries actually reporting negative growth in liabilities overall last year. Average per capita debt came in at EUR 3,330 at the end of 2012, compared to an average for the emerging markets of only EUR 1,150.

Bank deposits again dominate the asset portfolio

Asset classes as % of gross financial assets

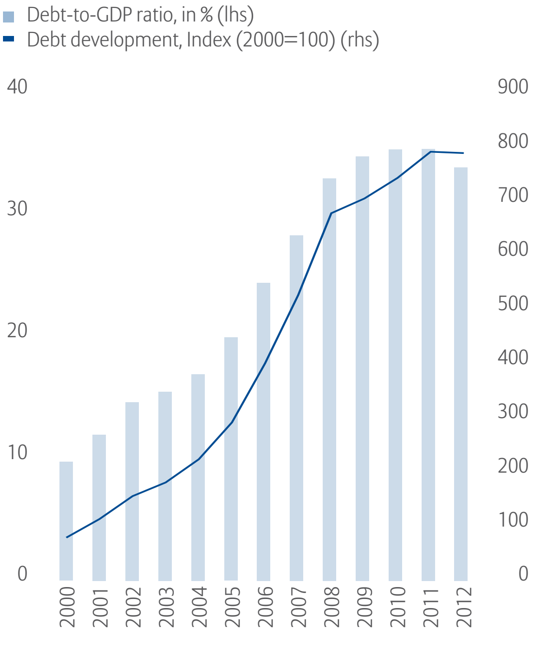


Sources: National Central Banks and Statistical Offices, Allianz SE.

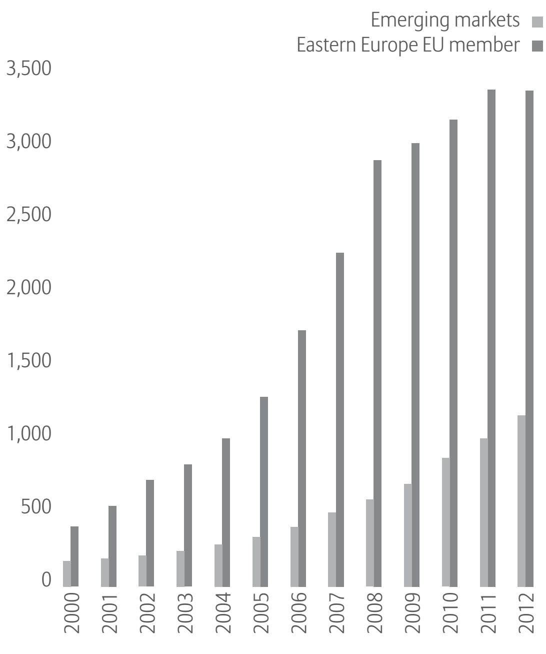
After deductions for liabilities, average per capita financial assets were just below the EUR 5,350 mark in the EU member states of eastern Europe at the end of 2012. The leader of the regional pack is and remains Slovenia, where each citizen has average assets of EUR 12,260. If we look at western Europe, net per capita financial assets in Slovenia are actually almost 12% higher than in crisis-torn Greece, although Slovenians have had to digest asset losses for two years running now – in addition to the losses affecting assets held as securities, surging unemployment and limited wage growth have forced households to resort to their savings. Although net per capita financial assets in Romania have increased almost eight-fold since the end of 2000, Romanian households are still bottom of the league with EUR 2,330 per capita. Croatia, which became the 28th EU member on July 1 of this year, is sitting in the upper mid-field of the rankings with EUR 6,790 per capita. At 6.5% on average, per capita financial asset growth has actually outpaced the growth in nominal gross domestic product per capita since 2000 (+5.8% p.a.). In economic terms, the country is still in very poor health: Croatia is still locked in the teeth of recession and the unemployment rate was recently sitting at more than 16%.

Financial crisis slows debt accumulation down

Stabilization of debt since 2009



Liabilities per capita (in EUR) higher than emerging-market level



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

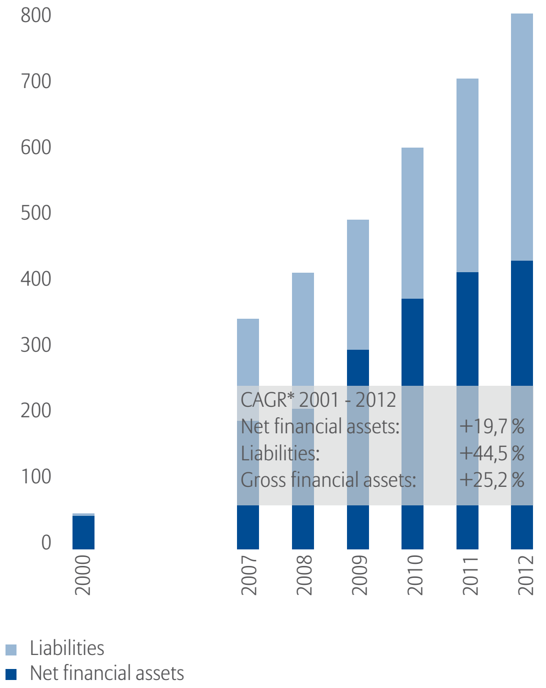
In addition to Romania, the LWCs also include Bulgaria, Latvia and Lithuania. To date, not a single eastern European EU member has managed to propel itself into the ranks of the HWCs, which requires a country to surpass a threshold of EUR 29,200 in terms of net per capita financial assets. Although per capita assets have more than doubled in the region since the end of 2000, more than 70% of the population still has less than EUR 4,900 per capita.

Eastern European countries outside of the EU

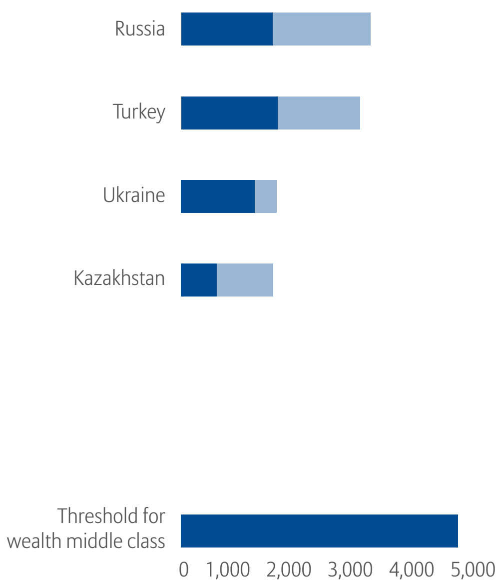
In the course of 2012, the gross financial assets of private households in Kazakhstan, Russia, Turkey and Ukraine increased by a good 14% to total around EUR 800bn. Compared with the years prior to the outbreak of the financial crisis, however, when growth in excess of 25% was the rule, the annual rates of change have slowed considerably. This growth came, however, against the backdrop of a very low starting point: ten years ago, gross per capita financial assets still totaled less than EUR 400. A glance at the debt accumulation trend tells a similar story: despite average growth of just under 45% per annum

Wealth per capita still low in these countries...

Net financial assets and liabilities, in EUR bn



Net financial assets and liabilities per capita 2012, in EUR



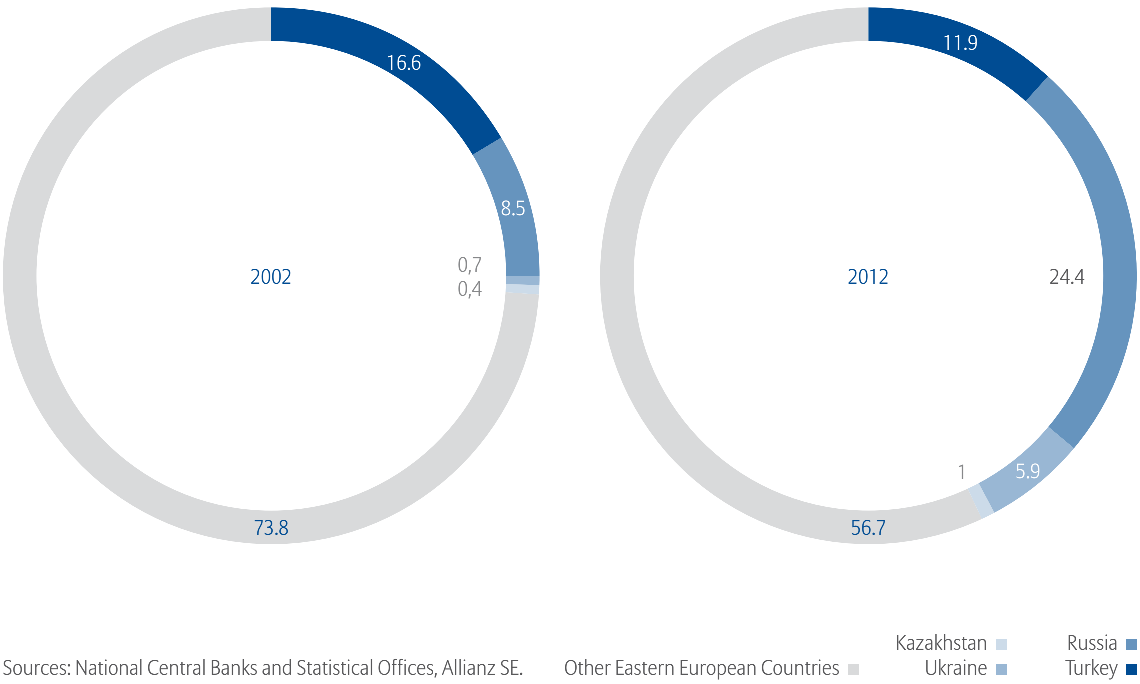
*CAGR = Compound Annual Growth Rate
Sources: National Central Banks and Statistical Offices, UN, Allianz SE.

between 2001 and 2012, the ratio of liabilities to nominal economic output is still lingering well below the average rate for the emerging markets (just under 28%) at 15.8%. Per capita debt is also the lowest in a regional comparison, averaging EUR 1,330. The same applies to the asset base: in net terms, the population has an average of EUR 1,550 per capita, less than in any other region of the world.

It comes as little surprise that around 56% of total net financial assets can be found in Russia, which is home to more than half of the region's population. Russian households have per capita assets averaging EUR 1,700 at their disposal, putting them ahead of Turkish households, where net per capita financial assets totaled EUR 1,610 at the end of 2012, for the first time. The country on the Bosporus reported negative growth of a good 2% last year, due for one thing to the comparatively rapid population growth and, for another, to the fact that debt growth outpaced the growth in the asset stock. One country where per capita assets are slightly lower than in Turkey, at EUR 1,300 in net terms, is Ukraine. Kazakhstan's households lag far behind with assets of only EUR 630. This puts them after Indonesia in last place in our global rankings.

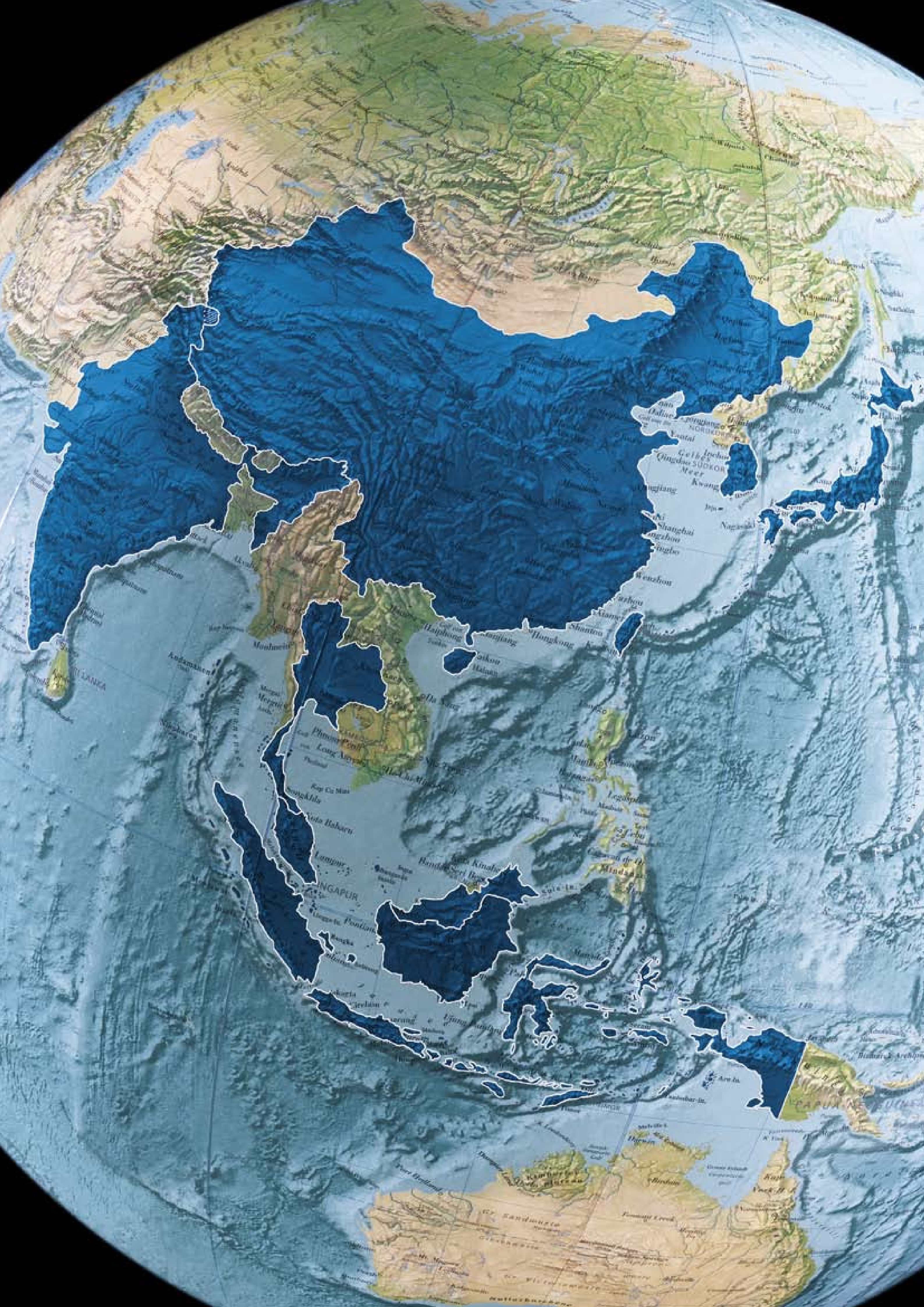
...but they are catching up

Eastern Europe outside the EU: Share of regional net financial assets 2002 and 2012, in %



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

All four countries are LWCs and have some way to go before they can expect to make the leap into the MWC group. Even in Russia and Turkey, households only have approximately one third of the assets they need at the very least to earn the title of MWCs. The region has, however, made clear progress over the past few years: almost 20 million people have been promoted to the global wealth middle class since 2000. Although around 90% of the regional population were members of the wealth lower class at the end of last year, this is in contrast to almost 98% in 2000. Looking at eastern Europe as a whole, too, i.e. including the EU member states, households in Kazakhstan, Russia, Turkey and Ukraine have certainly made progress. They have upped their share of regional net financial assets from 26% to 43% over the past ten years.



Shanghai
Wenzhou
Shantou
Hongkong
Haiphong
Qingdao
Nagasaki
Moulmein
Kota Baharu
SINGAPUR
Pontianak

Asia

Population

Total	3,169 m
Proportion of the region as a whole	86%
Proportion of the global population	45%

GDP

Total	EUR 14,639bn
Proportion of the region as a whole	95%
Proportion of global GDP	27%

Gross financial assets of private households

Total	EUR 29,015bn
Average	EUR 9,160 per capita
Proportion of global financial assets	26%

Debt of private households

Total	EUR 7,270bn
Average	EUR 2,290 per capita
As % of GDP	50%

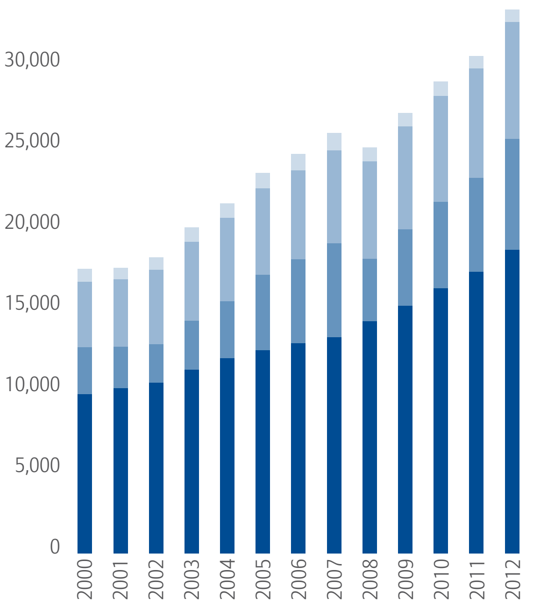
Last year, the gross financial assets of all private households in the ten Asian countries covered by our analysis[3] climbed by 9.3% to the equivalent of around EUR 29.0 trillion. This means that Asian households had approximately one quarter of global financial assets in 2012. This proportion has, however, remained more or less unchanged over the past ten years owing to the stagnation in Japan. But if we look only at the changes in the share of global assets held by Asia's emerging markets, the acceleration in the catch-up processes over the past decade really comes to light: in 2002, this proportion came in at only just under 5%, but had already risen to almost 14% by last year.

Bank deposits remained the dominant asset class in 2012, with insurance policies and pension funds on the one hand, and securities on the other, each accounting for a chunk corresponding to one fifth of gross financial assets. There were, however, marked differences from country to country in terms of amount and growth rates: at just shy of EUR 14.0 trillion, Japanese households were the clear leaders of the pack in terms of gross financial assets. They were followed by households in China, which boasted total assets of around EUR 8.5 trillion at the end of 2012, and then by households in Taiwan and South Korea, with gross financial assets of around EUR 1.8 trillion each. Indonesian households were at the lower end of the scale, with gross financial assets worth the equivalent of around EUR 280bn when 2012 came to a close.

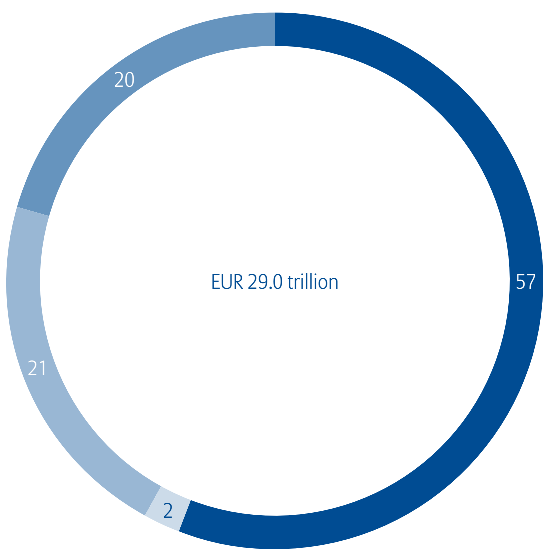
3 China, India, Indonesia, Israel, Japan, Malaysia, Singapore, South Korea, Taiwan and Thailand.

Bank deposits dominate portfolio of Asian households

Gross financial assets, in 2012 EUR bn



Structure of financial assets 2012, Asset classes in % of total gross financial assets



Others
Securities
Insurance and pensions
Bank deposits

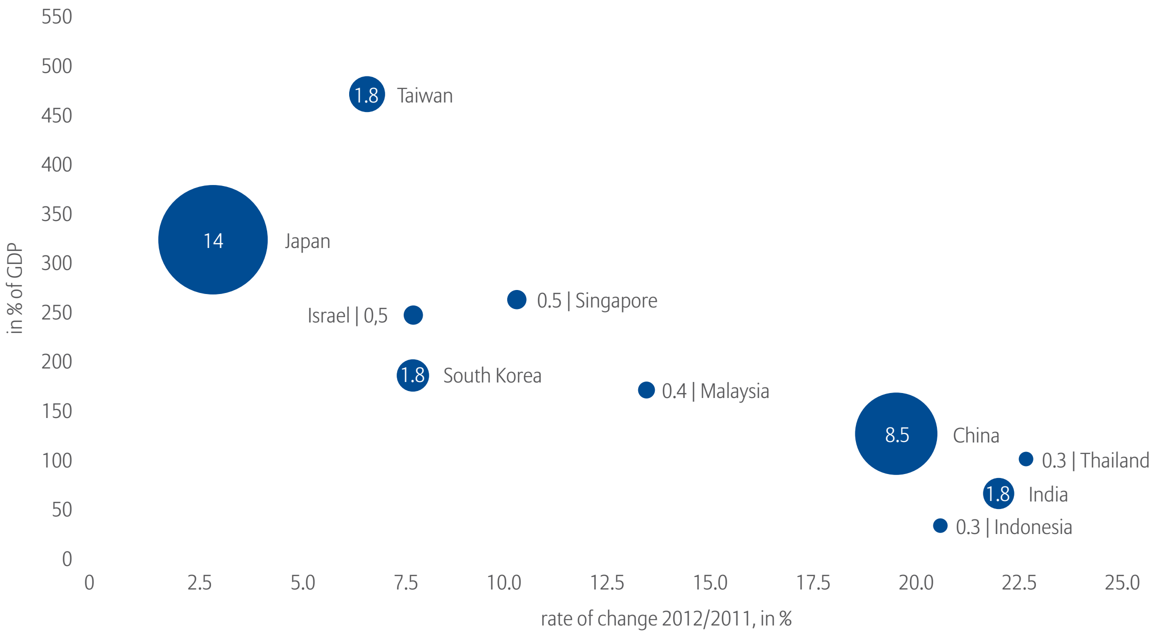
Sources: National central banks, Allianz SE.

The highest growth rates, at around 20% in each case, were seen among households in those countries with the lowest gross financial assets in relation to their GDP. These countries included Indonesia and India, where financial assets were still much lower than gross domestic product in 2012, but also Thailand and China, where the asset ratio had already climbed to between 100% and 150%. The middle of the rankings was occupied by Israel, Singapore, South Korea and Malaysia, with growth rates of between 7.9% and 13.5%. Taiwanese households, whose gross financial assets now total almost five times as much as the GDP generated by the country, reported growth to the tune of 6.8%. Japan came bottom of the class, with growth of only 3.2%. So the growth rates reflect, not least, how developed the economies in question are and also mirror the increased efforts made by the emerging markets in recent years to establish functional, efficient financial systems.

One indicator of how developed a financial system is can be found in the composition of household portfolios: the lower the proportion of bank deposits, the more developed the capital market tends to be and the broader the range of investment alternatives on offer. Whereas inves-

Gross financial assets: Growth as mirror of size and stage of development

Gross financial assets (in EUR trillion), assets-GDP-ratio and rate of change (in %), 2012



Sources: National central banks, Datastream, Allianz SE.

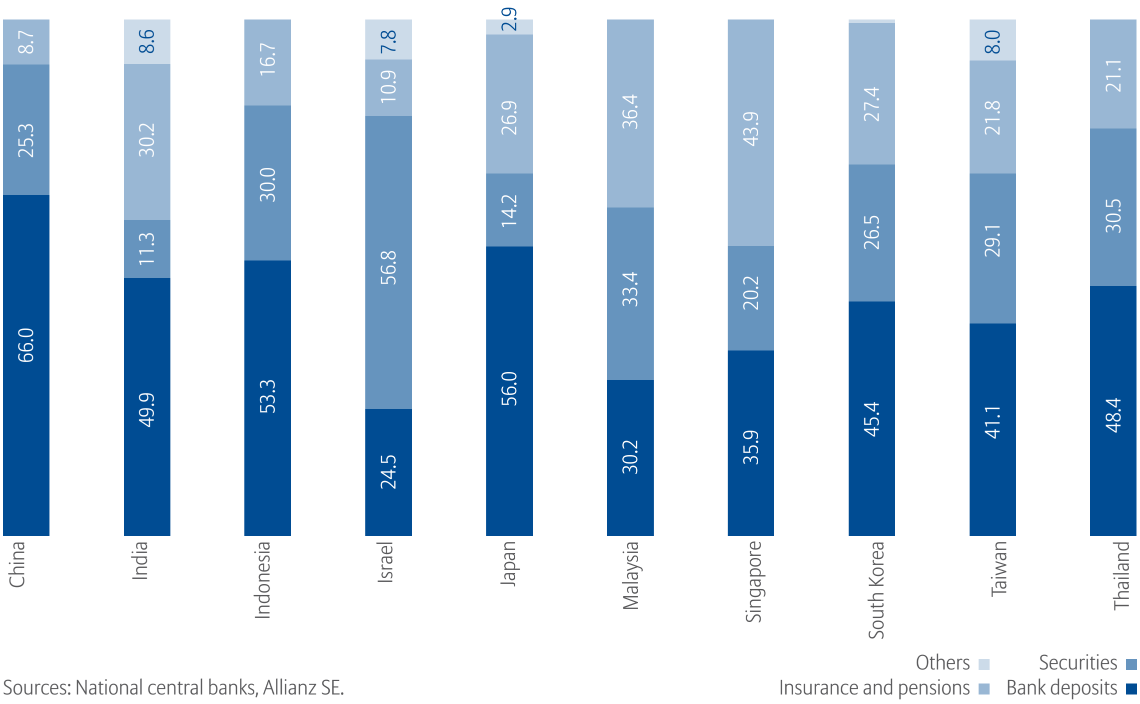
Total gross financial assets, in EUR trillion ■

tors in Israel only hold just under one quarter of their financial assets in bank deposits, instead investing the lion's share, namely around 57%, in securities/with institutional investors, almost two-thirds of the total financial assets of Chinese private households are still locked away in bank accounts. Nevertheless, Chinese households have been moving towards broader diversification of late, making a conscious decision to choose investments offering higher returns. This trend is benefitting the providers of asset management products, in particular, whereas the demand for life insurance has dipped, or stagnated, not least due to regulatory changes. The highest proportion of life insurance policies and pension funds can be found in Singaporean portfolios. The need to take out private provision - Singapore ranks among the ten countries with the lowest birth rates in the world - these investments have been accounting for more than 40% of total financial assets for years now.

One aspect that appears unusual at first glance is the fact that Japanese investors also have a large part of their portfolio, namely 56%, tied up in bank deposits. Since the performance of the Nikkei has been weak for years now - someone who invested EUR 1,000 in the Nikkei in 2000 only got EUR 750 back in 2012 - most investors are skeptical regarding equity investments these days. Younger households, in particular, are showing a clear preference for liquidity:

Portfolio structure reflects financial system's level of development

Asset classes in % of total gross financial assets 2012, by country



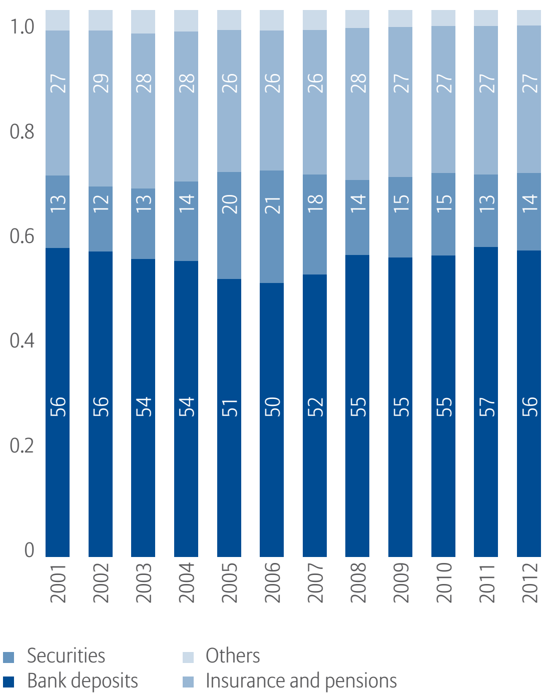
Sources: National central banks, Allianz SE.

households in which the principal earner was under 30 held around 80% of their financial assets in current accounts and term deposits at banks in 2012, with only two percent invested in securities. The highest proportion of equities (at around 14%) could be found in the portfolios of households in which the principal earner was already over the age of 70. The Japanese did, however, hold almost 30% of their total financial assets in insurance policies and pension funds; this proportion has been virtually constant for years now, not least due to the need for provision in this rapidly ageing society.

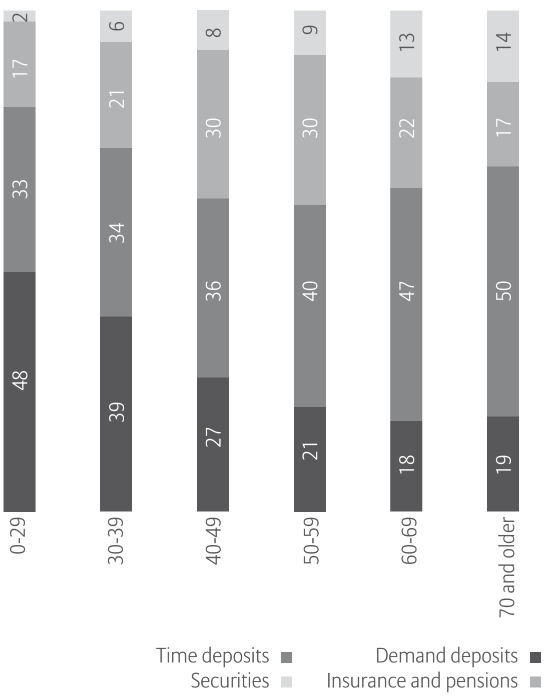
Due to the varying pace of growth, there have been marked changes in the share that the individual countries have of total gross financial assets in the region over the past few years: prior to the outbreak of the financial crisis, Japanese households were still holding on to almost two-thirds of total gross financial assets. Due to asset losses in the course of the financial crisis and relatively sluggish growth, the proportion of these assets held by Japanese households had slipped to just under 50% by the end of 2012. By contrast, the share of the region's total gross financial assets held by Chinese households, in particular, has risen considerably: from 18% in 2007 to just shy of 30% last year. After all, whereas the gross financial assets of Japanese house-

Japan - Bank deposits remain asset class of first choice

Gross financial assets, by classes, in % of total gross financial assets



Financial assets 2012,* by age group of household head and classes, in % of total gross financial assets



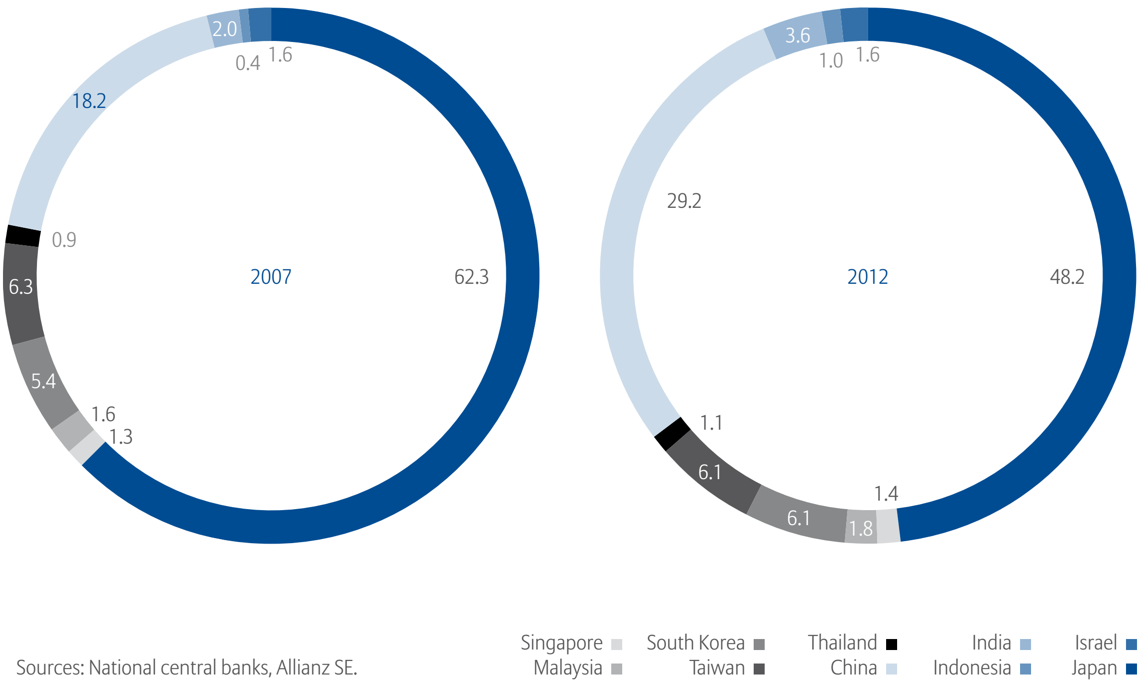
Sources: Ministry of Internal Affairs and Communications, Bureau of Statistics Japan, Family Income and Expenditure Survey, March 2013, Tab. 8-5, BOJ, Datastream, Allianz SE.

holds at the end of last year were only around EUR 12bn, i.e. a meager 0.1%, higher than they had been five years previously, Chinese households doubled their slice of the gross financial asset cake within the same period. If this trend continues, the total gross financial assets of Chinese households will exceed those of the Japanese in five years' time at the latest.

The chasm separating Japan from the other countries in terms of per capita financial assets has also narrowed, even if the gap remains immense in absolute terms due to the level of maturity of the economy as a whole and the financial sector in particular. At the equivalent of EUR 109,950 at the end of 2012, per capita gross financial assets in Japan were only EUR 100, i.e. a mere 0.1%, higher than they had been five years back. During the same period, the figure in China has doubled from EUR 2,970 to EUR 5,980, with per capita gross financial assets in Indonesia almost trebling. Households in Singapore also closed the gap separating them from their Japanese counterparts in this respect: in 2007, the gross financial assets of the average Japanese citizen were still EUR 33,000 higher than those held by the average Singaporean, a difference that had shriveled to just under EUR 12,800 by the end of last year. The financial assets of the average Japanese citizen nevertheless remained almost 20 times as high as those held by the average Chinese citizen, 100 times as high as for the average Indonesian and 130 times as high as for the average Indian, whose financial assets averaged around EUR 840.

Japan's share in financial wealth of the region decreased

Gross financial assets, by country, in %

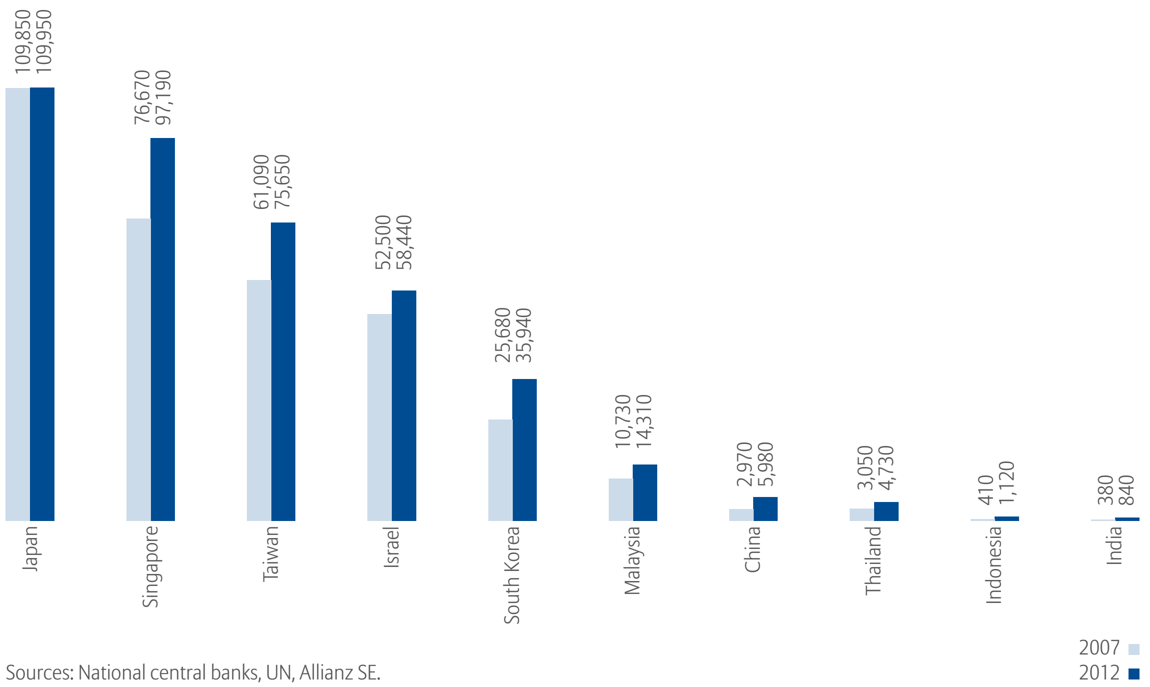


Sources: National central banks, Allianz SE.

But it is not just gross financial assets that have increased; the lending volume also continued to swell in almost all of the countries in our analysis: in 2012, private households in these ten countries were in debt to the tune of around EUR 7.3 trillion in total, a figure that is up by 6.4% year-on-year and by 36.5% as against 2007. Excluding Japan, i.e. looking only at the emerging markets, the lending volume rose by as much as 13.2% in 2012 bringing it up to a level that is twice as high as it was five years ago. The most pronounced increase in lending activity was witnessed in China and Indonesia, where the lending volume has trebled, in both cases, over the past five years to total just under EUR 2.0 trillion and around EUR 89.1bn respectively. In Malaysia, Singapore and Thailand, private households had almost twice as much debt as they did five years ago, at EUR 187.2bn, EUR 163.3bn and EUR 216.6bn respectively. Japan's households were the only ones that managed to whittle their debt down during the same period, albeit only by 2.6%, from a total of EUR 3.4 trillion to EUR 3.3 trillion.

Japan's households still region's wealthiest

Gross financial assets per capita, in 2012 EUR

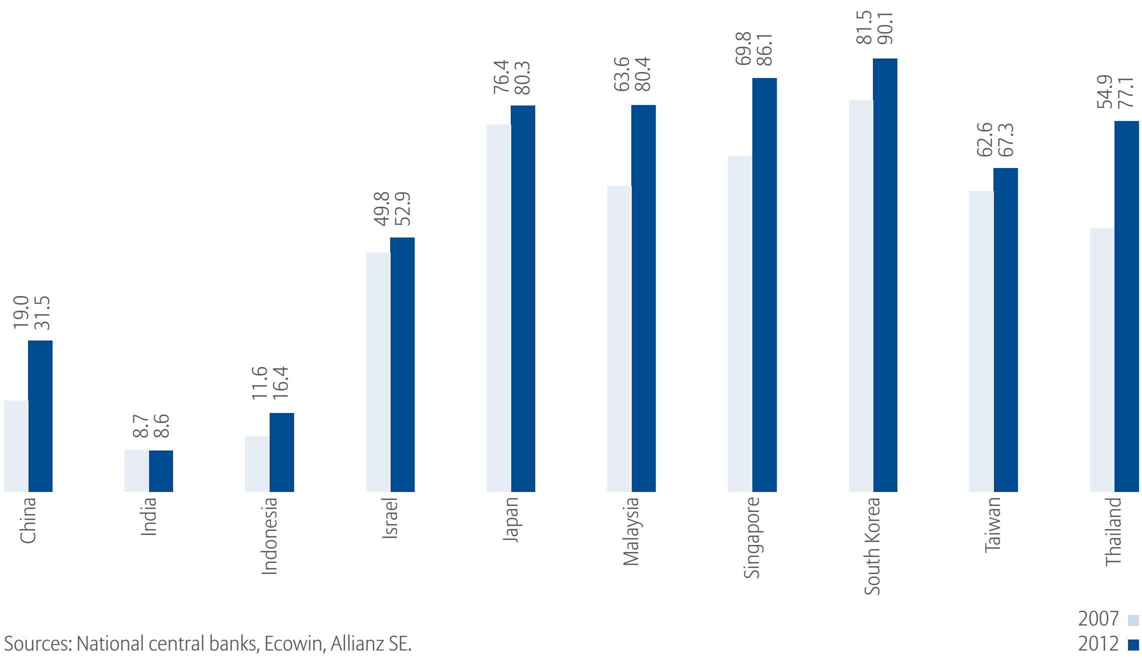


Sources: National central banks, UN, Allianz SE.

Another development that the countries have in common is the fact that the increase in the lending volume has significantly outpaced GDP growth virtually across the board since 2007. India is the only exception to this rule with a debt ratio of 8.6% in 2012, 0.1 percentage points lower than in 2007. Households in South Korea had the highest debt ratio in relation to GDP in 2012 at 90.1%, compared with 81.5% before the outbreak of the financial crisis. In second place was Singapore, where debt climbed from 69.8% to 86.1% of GDP during by the same period, followed by Malaysia, where the total debt taken out by households rose from 63.3% to 80.4%. In Japan, too, the debt ratio edged up, despite the reduction in debt in absolute terms, from 76.4% to 80.3% on the back of weak economic growth. Households in Thailand reported the highest growth in percentage point terms, with their debt climbing by 22.2 percentage points from 54.9% to 77.1%. By contrast, the debt ratio in the two countries with the highest growth in absolute lending remained far lower, not least due to the very limited access to formal bank loans in large parts of these countries: China had a debt ratio corresponding to 31.5% of GDP, with Indonesia reporting a figure of 16.4%.

Credit growth outpaced economic growth

Debt-to-GDP ratio, in %

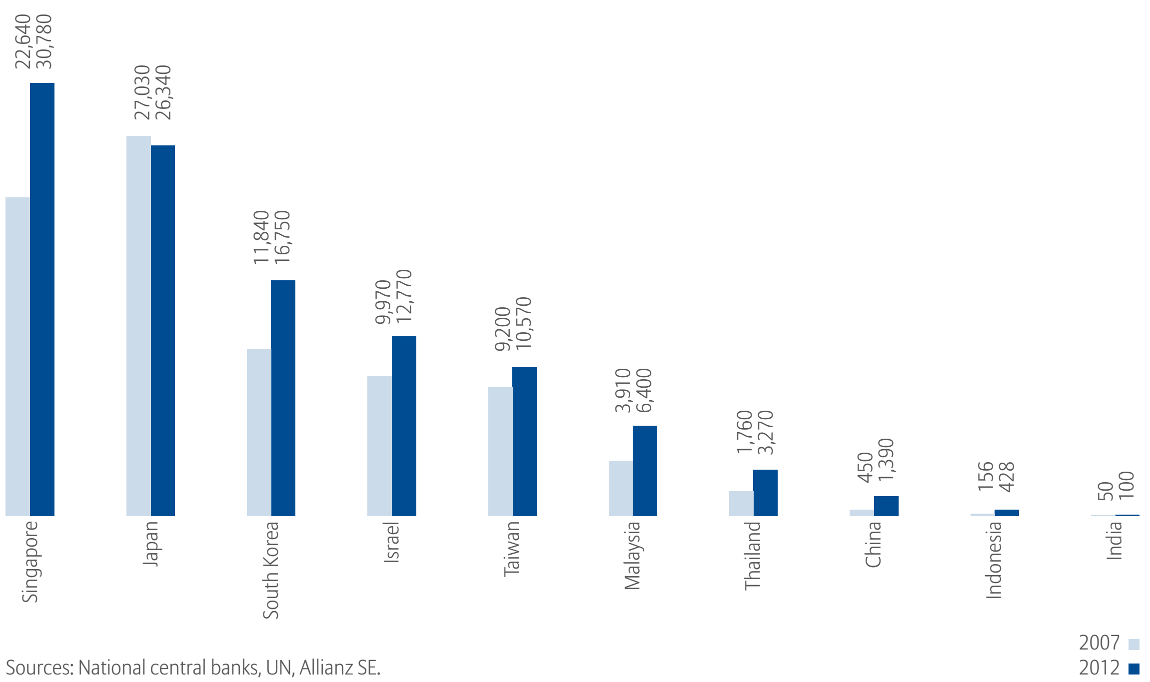


Sources: National central banks, Ecowin, Allianz SE.

This means that, in 2012, the Singaporeans were the most indebted households in the region in per capita terms: compared with 2007, they had swapped places with their Japanese counterparts and took out loans worth a total of EUR 30,780 last year; the same figure for 2007 came in at the equivalent of EUR 22,640. At EUR 26,340, the loans taken out by the average Japanese citizen were not only worth less than the average taken out in Singapore; they were also down slightly on 2007, when the average Japanese person still owed EUR 27,030. Average debt in South Korea in 2012 was much lower at EUR 16,750 per capita, followed by Israel with the equivalent of EUR 12,770 and Taiwan with EUR 10,570. Nevertheless, the debt level has risen considerably in all three of these countries since 2007. The same applies to the average Thai citizen, who took out debt of EUR 3,270, and to citizens of China and Indonesia, whose average per capita debt came in at EUR 1,390 and EUR 360 respectively. The lowest lending volume was seen in India, where the average citizen had the equivalent of just under EUR 100 in bank loans at the end of 2012.

Singapore's households ran up highest debts

Loans per capita,
in 2012 EUR

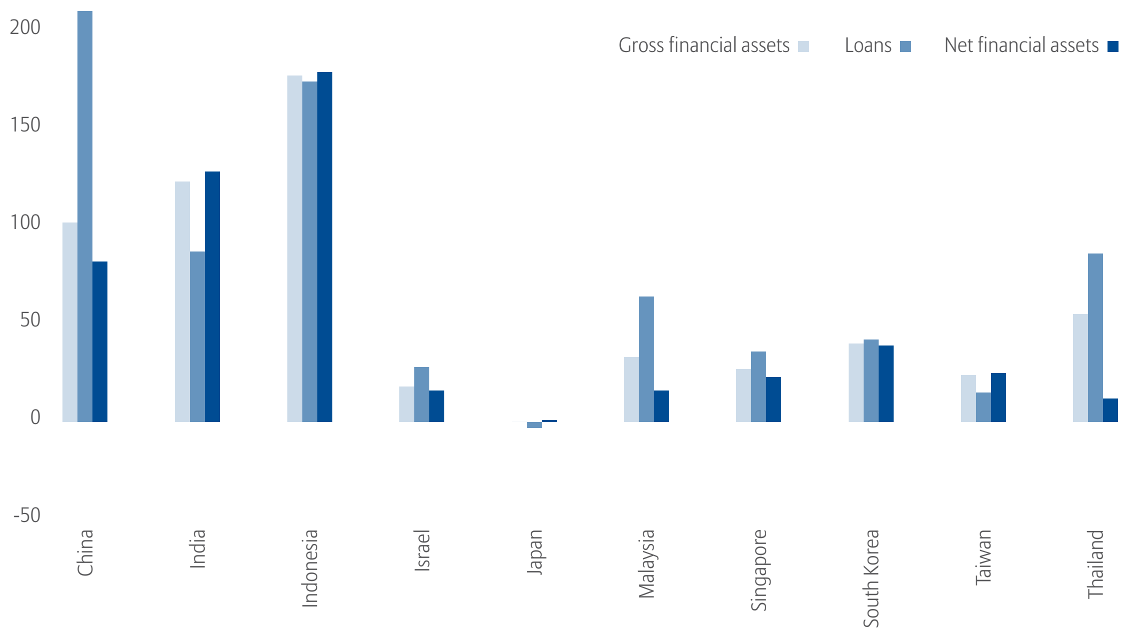


Sources: National central banks, UN, Allianz SE.

So if we use net per capita financial assets as the benchmark, the gap separating the individual countries from Japan is much greater than in an analysis based on gross financial assets: if we deduct loans from the gross financial assets, each Japanese citizen had average net financial assets worth the equivalent of EUR 83,610 in 2012. This figure is EUR 17,000 ahead of the assets held by the average Singaporean, which totaled around EUR 66,400 (by way of comparison: in terms of gross financial assets, it was only EUR 12,800 more). This gap, however, has also narrowed considerably since the financial crisis reared its head: in 2007, the absolute difference was still almost EUR 29,000. Taiwan's inhabitants have the third-highest net financial assets in the region, with an average of EUR 65,080 per capita. With average net financial assets of EUR 49,390 per inhabitant, Israeli households occupied fourth place in the rankings at the end of 2012. They were followed, albeit with a considerable gap, by South Korea, with average net financial assets of around EUR 19,180, and Malaysia, with the equivalent of only EUR 7,910. Average net financial assets in China (EUR 4,590) and Thailand (EUR 1,460) continued to languish below the EUR 5,000 mark. At the very bottom of the table, with assets averaging less than EUR 1,000, is India, with the equivalent of EUR 750, and Indonesia, with EUR 690.

Demand for loans rose more strongly than households' financial assets

Change of gross financial assets, loans and net financial assets 20012/2007, in %



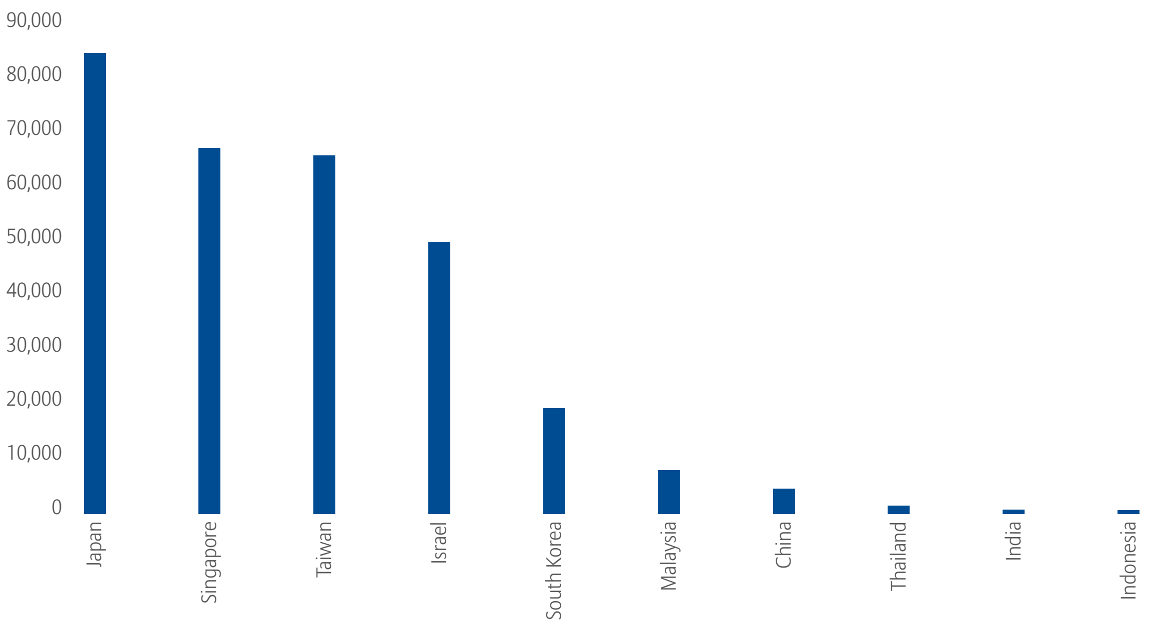
Sources: National central banks, UN, Allianz SE.

Looking at the figures over a five-year period, the increase in per capita lending demand has outpaced the growth in gross financial assets in most countries, with the only exceptions being India, Japan and Taiwan. This is due, for one thing, to the fact that the group of people who even have access to formal bank loans and services is still growing in many up-and-coming economies. For another, most of the countries included in our analysis still have considerable catch-up work to do in terms of durable and consumer goods, which are often financed using loans. This trend is likely to stick around.

This development has, nevertheless, conferred "middle wealth" status upon a far larger section of the Asian population than was the case back in 2000: whereas at the beginning of the millennium, only 3.0% of households enjoyed this status, this figure is now as high as 15.4%. The proportion of "high wealth" households in the region, however, stagnated at 3.7% due to developments in Japan, even if some of Asia's economic hubs have seen the number of people with "rich" and "super rich" status increase in recent years. Nonetheless, this development, which is positive on the whole, should not us distract from the fact that there is still a great deal of catch-up work to do, given that 80% of the region's population remains in the "low wealth" category.

Holders of highest net financial assets to be found in Japan

Net financial assets per capita 2012,
in EUR



Sources: National central banks, UN, Allianz SE.


Bismarck-Archipel
Arnhemland
Tennant Creek
Alice Springs
Port Hedland
Rockhampton
Cunnamulla
Bourke
Tamworth
Broken Hill
Port Augusta
Adelaide
Kalgoorlie
Newcastle
Sydney
Wollongong
Canberra
Bendigo
Albury
Nouméa
VANUATU
Auckland
Hamilton
Christchurch
Dunedin

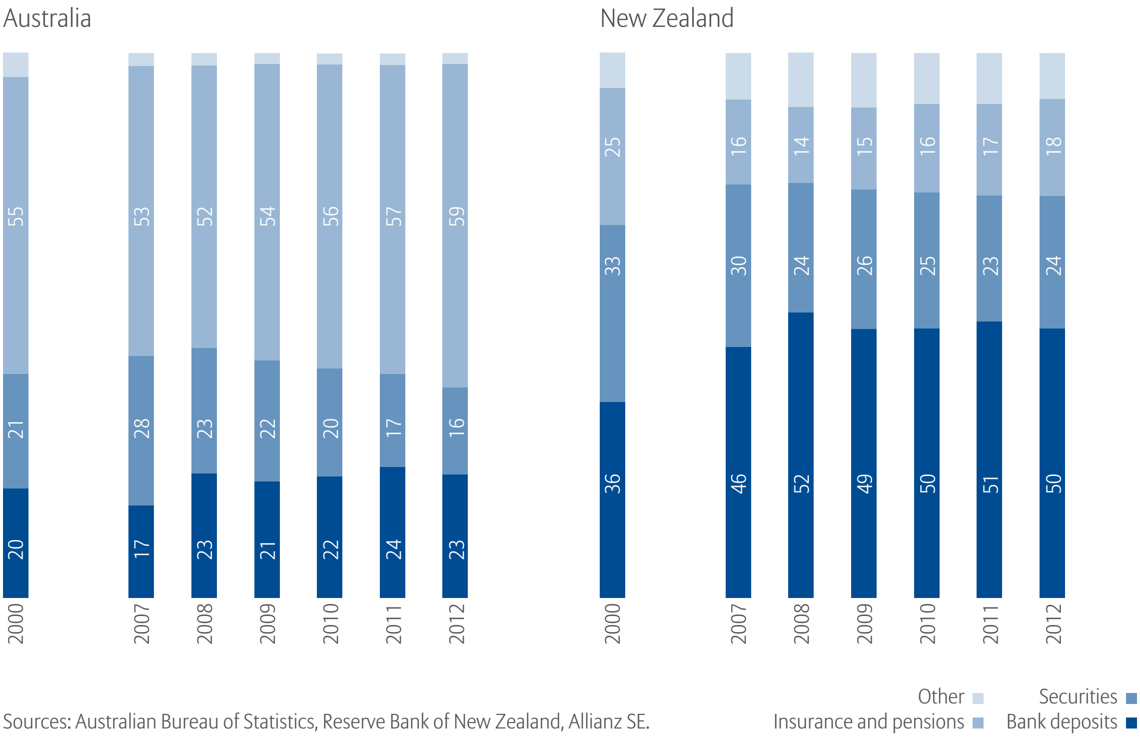
Australia and New Zealand

Population	
Total	28 m
Proportion of the global population	0.4%
GDP	
Total	EUR 1,299bn
Proportion of global GDP	2.4%
Gross financial assets of private households	
Total	EUR 2,800bn
Average	EUR 101,790 per capita
Proportion of global financial assets	2.5%
Debt of private households	
Total	EUR 1,447bn
Average	EUR 52,610 per capita
As % of GDP	111%

The gross financial assets of private households in Australia and New Zealand increased by 14.4% last year, a rate that is more than twice as fast as the asset base growth rate for the world's advanced economies as a whole. Financial assets down under came in at the equivalent of EUR 2.8 trillion at the end of 2012, with almost 95% of these assets being found in Australia. This positive development was due primarily to the marked increase in Insurance and pensions as an asset class (+20.0% as against 2011), which is the most popular way of setting money aside in Australia, in particular: the lion's share (around 59%) of the financial assets of Australian households was invested in insurance, mainly in the popular "superannuations", a combination of state and private, voluntary and tax-incentivized pension provision. Unlike its larger neighbor, households in New Zealand saved almost half of their financial assets in bank deposits, which had grown by around 31% since the end of 2007. As far as retirement provision is concerned, households in New Zealand invest more in investment funds, which fall under the Securities asset class. The latter reported growth of 15.2% in 2012, with New Zealand's leading index, the NZX 50, closing the stock market year with gains of 18%.

Unequal neighbors: Australia and New Zealand

Asset classes as % of gross financial assets



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

Savings behavior and debt

When it comes to handling their finances, Australia's private households have become more cautious in recent years compared to the period prior to the outbreak of the financial crisis. One indicator of this is the return to a higher savings rate, namely one in line with the sort of level seen in the late 1980s: last year, households set around 10% of their disposable income aside. This put the savings rate well ahead of the average for the last two decades, namely 4.7%. Australians are also adopting a more restrained approach to further borrowing. Debt growth has been slowing continually over the past few years, from 11.8% in 2007 to 4.5% last year. This has been motivated, not least, by the low interest rate environment, which has allowed many households to pay their loans off earlier than agreed. Thanks to the fact that incomes have been growing at a faster rate than liabilities at the same time, the ratio of debt to disposable income dropped from a good 153% in August 2006 to around 147% at the end of 2012. Compared with North America, the personal debt ratio was lower than that of the highly-indebted Canadians (almost 171%) but still much higher than in the US (just under 113%). Per capita debt is on a par with the all-time high at around EUR 57,590. From the perspective of financial solidity, it would be good if households could maintain their newly-adopted disciplined attitude to debt.

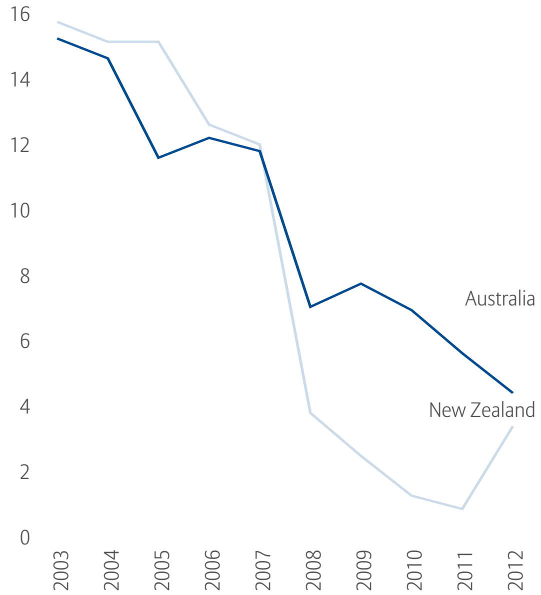
In absolute terms, the per capita debt of private households in New Zealand was much lower last year: the average New Zealand citizen had a debt burden of just under EUR 26,870 to bear. The ratio of liabilities to disposable income is also lower than in Australia, at around 96%. Measured as a percentage of gross financial assets, on the other hand, the ratio comes in at 80%, compared with "only" 50% or so in Australia. New Zealand's households have also been working on getting their debt burden on a stable footing for some years now. In the period between 2003 and 2007, the percentage increase in liabilities was still in the double digits. Since 2008, on the other hand, the debt burden has "only" been growing at an average rate of 2.5% per annum. In 2012, debt growth was up slightly again on the average for the past five years, at 3.5%. If households were to have another change of heart, this would be some cause for concern given that debt is already at a high level and in light of the potential long-term risks on the housing market. Rising house prices and the fact that banks are prepared to grant loans based on small deposits mean that new borrowers are having to shoulder more debt – in relation to their income and assets – in order to buy their own homes. In the short term, households will continue to benefit from the historically low interest rates. If, however, interest rates rise at a faster rate, and to a higher level, than households and banks expect, with income growth staying as it is, there is a risk that households will no longer be able to repay their loans. In a scenario of falling house prices, the damage to the banking system would take on even more serious proportions.

Considerable differences in per capita financial assets

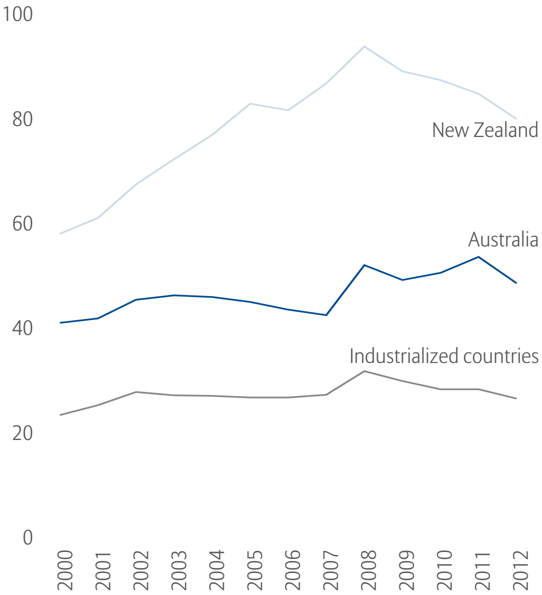
Looking at the region as a whole, around 43% of the population had high net financial assets in a global comparison, i.e. more than EUR 29,200 per capita, at the end of 2012. In North America, this proportion came in at 41%, whereas "only"

Strict debt discipline in Australia

Liabilities, percentage change over previous year



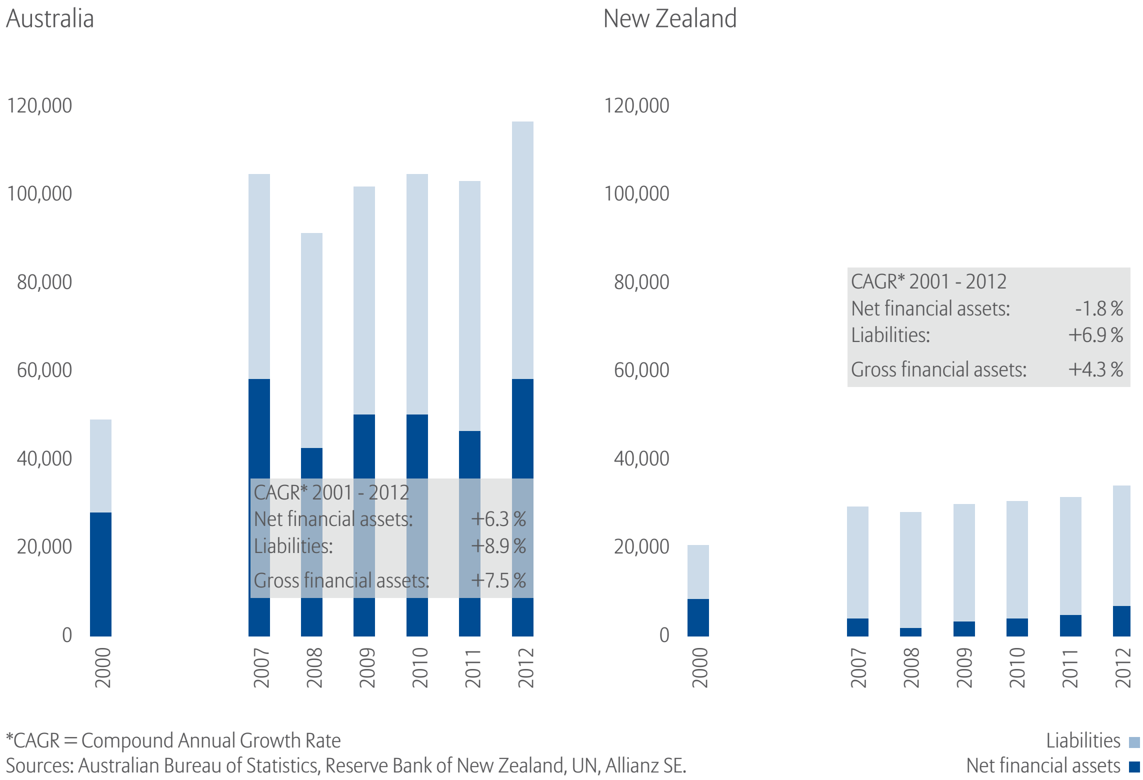
Liabilities as % of gross financial assets



Sources: Australian Bureau of Statistics, National Central Banks and Statistical Offices, Reserve Bank of New Zealand, UN, Allianz SE.

just under 35% of the population of western Europe falls into this category. If we compare the two countries with each other, a marked wealth gap comes to light: after deductions for liabilities, Australians have average per capita assets of EUR 57,400, while New Zealanders only have just under 12% of this amount – with net per capita financial assets of EUR 6.720, the country ranks among the MWCs. In the global league of the highest per capita financial assets, Australia moved two places up the rankings compared with 2011, closing last year in 10th place. Thanks to strong asset growth of 9.6% as against 2011, New Zealand actually moved up three places, but only came in 32nd overall.

Net financial assets and liabilities per capita, in EUR



*CAGR = Compound Annual Growth Rate
Sources: Australian Bureau of Statistics, Reserve Bank of New Zealand, UN, Allianz SE.

Literature

Aron, Janine; Muellbauer, John; Prinsloo, Johan: "Estimating the Balance Sheet of the Personal Sector in an Emerging Market Country. South Africa 1975 – 2003", United Nations University, UN-Wider, Research Paper No. 2006/99, 2006.

Ariyapruchaya, Kiatipong: Thailand's Household Sector Balance Sheet Dynamics: Evidence from Microeconomic and Macroeconomic Data, IFC Bulletin, No. 25, p. 91-100, 2007.

Attanasio, Orazio and Székely, Miguel: "Household Saving in Developing Countries – Inequality, Demographics and All That: How Different are Latin America and South East Asia?", Inter-American Development Bank, Working Paper No. 427, 2000.

Bricker, Jesse; Bucks, Brian, Kennickell, Arthur; Mach, Traci; Moore, Kevin: "Surveying the Aftermath of the Storm: Changes in Family Finances from 2007 to 2009", Finance and Economics Discussion Series, Division of Research & Statistics and Monetary Affairs, Federal Reserve Board, Washington, D.C..

Certified General Accountants Association of Canada: "A Driving Force No More: Have Canadian Consumers Reached Their Limits?", June 2011.

Davies, James B.; Sandstrom, Susanna; Shorrocks, Anthony; Wolff, Edward N.: "The Level and Distribution of Global Household Wealth", November 2009.

Jalava, Jukka and Kavonius, Ilja Kristian: "Durable Goods and their Effect on Household Saving Ratios in the Euro Area", European Central Bank, Working Paper Series, No. 755, May 2007.

Ministry of Internal Affairs and Communications, Bureau of Statistics Japan: Family Income and Expenditure Survey, March 2013, Tab. 8-5.

Roxburgh, Charles; Lund, Susan; Wimmer, Tony; Amar, Eric; Atkins, Charles; Kwek, Ju-Hon; Dobbs, Richard; Manyika, James: "Debt and Deleveraging: The Global Credit Bubble and its Economic Consequences", McKinsey Global Institute, January 2010.

Thorne, Susie and Cropp, Jill: "Household Saving in Australia", Australian Treasury, Domestic Economy Division, 2008.

Thorp, Clive and Ung, Bun: "Recent Trends in Household Financial Assets and Liabilities", Reserve Bank of New Zealand: Bulletin Vol. 64 No. 2, 2000.

Tiongson, Erwin R.; Sugawara, Naotaka; Sulla, Victor; Taylor, Ashley; Gueorguieva, Anna I.; Levin, Victoria; Subbarao, Kalanidhi: "The Crisis hits Home: Stress-Testing Households in Europe and Central Asia", The International Bank for Reconstruction and Development / The World Bank, 2010.

Torche, Florencia and Spilerman, Seymour: "Household Wealth in Latin America", United Nations University, UN-Wider, Research Paper No. 2006/114, October 2006.

United Nations, ECLAC: "Social Panorama of Latin America 2012 • Briefing Paper".

Appendix A: Methodological comments

General assumptions

The Allianz Global Wealth Report is based on data from 52 countries. This group of countries covers around 90% of global GDP and 69% of the global population. In 39 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, 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, for example, 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 2012.

Determination of wealth bands for the global wealth classes

Lower wealth threshold: there is a close 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. Households 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 has reached a relevant volume for the first time. This value marks the lower threshold for the middle wealth class. 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. If we use net financial assets to calculate the two thresholds, we arrive at an asset range of between EUR 4,900 and EUR 29,200 for the global wealth middle class for the year 2012. The gross thresholds lie at EUR 6,900 and EUR 41,300.

Individuals with higher per capita financial assets then belong to the wealth upper class, persons with lower per capita financial assets to the wealth lower class.

These asset bands can, of course, also be used for the purpose of country classification. Countries in which the average net per capita financial assets are less than EUR 4,900 can be referred to as "low wealth countries" (LWCs). "Middle wealth countries" (MWCs) are all countries with average net per capita financial assets of between EUR 4,900 and EUR 29,200; finally, all countries with even higher average net per capita financial assets are described as "high wealth countries" (HWCs).

Country classification based on net financial assets per capita:

HWC	MWC	LWC
Australia*	Chile*	Argentina***
Austria*	Croatia**	Brazil***
Belgium*	Czech Republic*	Bulgaria**
Canada*	Estonia*	China***
Denmark*	Finland*	Colombia***
France*	Greece*	India***
Germany*	Hungary*	Indonesia***
Ireland*	Malaysia**	Kazakhstan***
Israel**	Mexico***	Latvia*
Italy*	New Zealand*	Lithuania*
Japan*	Norway*	Peru***
Netherlands*	Poland*	Romania**
Singapore*	Portugal*	Russia***
Sweden*	Slovakia*	Thailand***
Switzerland**	Slovenia*	Turkey***
Taiwan**	South Africa*	Ukraine***
United Kingdom*	South Korea*	
USA*	Spain*	

*2012 asset balance sheet **Extrapolation based on 2011 asset balance sheet
***Approximated based on other statistics

In order to enable an even more precise analysis of asset distribution by country and to understand the different characteristics of the countries better, we have split the countries featured in our analysis into quintiles for the first time whereas the ten countries (= 20% of our countries) with the highest net per capita financial assets form the fifth quintile.

Country quintiles based on net per capita financial assets:

1. Quintil	2. Quintil	3. Quintil	4. Quintil	5. Quintil
Brazil	Croatia	Finland	Sweden	Switzerland
Romania	New Zealand	Spain	Denmark	USA
Peru	Hungary	Slovenia	Israel	Japan
Russia	Mexico	Greece	Italy	Belgium
Turkey	Poland	Chile	France	Netherlands
Colombia	Slovakia	Norway	Austria	Canada
Thailand	Lithuania	Czech Republic	Germany	Singapore
Ukraine	China	Malaysia	Ireland	Taiwan
Argentina	Bulgaria	Estonia	Portugal	United Kingdom
India	Latvia	South Africa	South Korea	Australia
Indonesia				
Kazakhstan				

Appendix B: Financial assets by country	Gross financial assets				Net financial assets	GDP
	Global share, in %	in EUR bn	2012, yoy in %	EUR per capita	EUR per capita	EUR per capita
USA	37.91	42,169	8.4	132,813	100,711	37,527
Japan	12.58	13,991	3.2	109,947	83,610	32,833
China	7.61	8,463	19.6	6,146	4,719	4,529
United Kingdom	5.04	5,605	5.8	89,277	58,905	30,309
Germany	4.44	4,940	4.9	61,437	41,954	32,891
France	3.80	4,228	5.1	66,128	44,306	31,790
Italy	3.34	3,718	4.5	61,062	45,770	25,749
Canada	3.29	3,655	8.0	104,916	66,553	39,772
Australia	2.38	2,651	14.7	114,990	57,401	50,688
Netherlands	1.78	1,984	8.3	118,709	68,756	35,917
Taiwan	1.59	1,764	6.8	75,648	65,076	15,705
South Korea	1.58	1,761	7.9	35,935	19,181	18,602
Switzerland	1.57	1,744	6.2	218,098	141,895	61,467
Spain	1.53	1,706	1.0	36,485	17,211	22,493
Brazil	1.14	1,272	14.5	6,403	2,730	8,189
India	0.94	1,043	22.1	843	747	1,120
Belgium	0.92	1,026	7.1	92,810	73,523	34,118
Sweden	0.79	879	9.8	92,462	54,065	43,626
Mexico	0.78	867	11.5	7,176	6,111	7,452
Denmark	0.59	659	8.1	117,713	53,374	43,320
Austria	0.47	524	3.6	61,910	41,985	36,579
Singapore	0.46	515	10.4	97,186	66,403	40,373
South Africa	0.45	501	17.1	9,565	7,016	5,438
Israel	0.43	475	7.9	62,160	49,394	24,114
Russia	0.41	453	17.9	3,164	1,705	10,224
Norway	0.37	414	7.9	82,842	10,589	79,254
Malaysia	0.37	410	11.1	14,007	7,803	7,960
Portugal	0.35	388	1.1	36,582	20,930	15,603
Poland	0.30	338	9.8	8,854	5,221	10,317
Ireland	0.29	320	3.7	70,029	29,978	35,580
Thailand	0.28	316	22.7	4,732	1,459	4,246
Indonesia	0.25	277	20.6	1,123	695	2,616
Chile	0.24	267	9.2	15,277	10,970	11,902
Greece	0.23	259	-1.5	23,261	10,977	18,078
Turkey	0.22	248	9.0	3,354	1,614	8,255
Finland	0.21	237	1.8	43,744	18,714	35,915
Czech Republic	0.15	163	6.8	15,297	10,096	14,518
Colombia	0.14	160	11.1	3,345	1,505	5,928
New Zealand	0.13	150	9.5	33,586	6,718	29,199
Hungary	0.09	99	3.8	9,901	6,534	10,052
Romania	0.08	84	0.5	3,853	2,327	6,192
Peru	0.07	81	14.9	2,708	2,191	5,254
Ukraine	0.07	77	8.0	1,691	1,303	2,752
Argentina	0.07	76	32.1	1,839	1,200	7,678
Slovakia	0.04	50	8.1	9,182	5,009	13,379
Croatia	0.04	48	5.7	11,056	6,791	10,425
Bulgaria	0.04	45	8.7	6,158	4,460	5,473
Slovenia	0.03	38	-0.7	18,181	12,258	17,494
Kazakhstan	0.02	26	19.6	1,619	630	9,317
Lithuania	0.02	24	7.2	8,039	4,873	10,750
Estonia	0.02	19	11.1	14,874	7,674	13,179
Latvia	0.01	14	18.4	6,823	2,918	10,491
World		111,220		22,918	16,241	

Imprint

Publisher
Allianz SE
Public Policy & Economic Research
Königinstraße 28
80802 Munich
www.allianz.com

Chief Economist
Dr. Michael Heise

Authors
Kathrin Brandmeir
Dr. Michaela Grimm
Dr. Arne Holzhausen

Editors
Heike Bähr
Alexander Maisner
Dr. Lorenz Weimann

Photos
Helge Mundt

Design
Schmitt. Kommunikation, Hamburg

Closing date
5. August 2013