Public Policy & Economic Research

Allianz Global Wealth Report 2014

Allianz

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Preface

Almost 10% growth in global financial assets last year and 29% growth since 2007, the last year before the crisis hit - the main results of this year's "Allianz Global Wealth Report" paint a very positive picture at first glance: the crisis would - finally! - appear to have been confined to the history books. Nevertheless, there are a few unpleasant truths lurking behind the figures, reminding us that we have no reason to sit back in satisfaction, let alone to become complacent.

First: the strong growth witnessed in 2013 is largely due to the exceptional performance of the stock markets in Japan, the US and Europe. Last year saw many investors clock up substantial valuation gains in their portfolios. But this is just a snapshot, not cause for complacency. The turbulence that has rocked the last few months serves as yet another painful reminder that stock market performance is not a one-way street.

Second: in many developed countries, savings are still at rock bottom. Nowhere is this more glaringly obvious than in western Europe: compared with 2007, the volume of financial assets accumulated has almost been sliced in two; leaving Germany, Europe's "savings champion", aside, it falls even further to less than 40% of the pre-crisis level. The situation in the majority of emerging markets looks quite different: here, rapid asset accumulation is being fueled largely by rising incomes and an increase in the volume of funds set aside as savings among the new middle class.

Third: for many savers, especially in Europe, bank deposits are still the investment of choice, whereas long-term investments, including equities, are still being avoided like the plague. Money is being "parked" as opposed to invested. This is clearly at odds with the new reality. After all, the crisis we have been grappling with over the past few years only serves to reinforce the need for individuals to take responsibility for their own retirement provision: with government coffers bare, the ticking of the demographic time bomb is getting louder and louder.

Fourth: it was not only assets that experienced brisker growth last year; debt growth started to pick up speed again as well. This applies, in particular, to a number of Asian countries, where the rapid increase in private household debt is already setting alarm bells ringing.

So strong asset growth alone does not necessarily point towards sustainable development on the whole. After reading this extensive analysis of the global asset and debt situation of private households, which we have continued in this fifth issue of the "Allianz Global Wealth Report", we are therefore forced to reach a sobering conclusion: all in all, our current (savings) behavior is still miles off the sort of behavior we need if we want to rise to the challenges facing us both today and in the future. In this respect, there is not really much of a difference between matters relating to wealth and matters relating to climate protection, financial market regulation or dealing with "big data". I hope that this report can provide something of a boost in getting the ball rolling so that we can strengthen the overall framework for the creation of sustainable prosperity.

Michael Diekmann
Chairman of the Board of Management of Allianz SE

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Summary

Stock markets nourish record growth

Across the globe, the gross financial assets of private households were up by just under 10% year-on-year in 2013, the highest rate of growth since 2003. This brought total global assets up to a new record high of EUR 118.3 trillion.

Securities were the main engine driving last year's growth: assets held in shares and fixed-income securities swelled by 16.5% last year, even faster than in the years immediately prior to the outbreak of the financial crisis, to more than EUR 45 trillion worldwide. This vigorous growth is certainly not, however, testimony to a rediscovered passion for equities among savers. The US was the only region in which a substantial volume of fresh funds was pumped into shares or other securities. In Europe and Japan, savers continued to pull their money out of this asset class.

Bank deposits, on the other hand, benefited from the ongoing marked preference for liquidity among investors. Despite rock-bottom interest rates and the associated value losses in real terms, most savers, especially in developed countries, once again handed over a large part of their savings to banks last year. Overnight money, term deposits and savings deposits increased by 5.5% in 2013 (compared with 6.7% in 2012) to total around EUR 34 trillion worldwide by the end of the year.

The third-largest asset class in the asset portfolio, namely private household claims vis-à-vis insurance companies and pension institutions, experienced strong growth totaling 7.2% at global level in the course of 2013. Unlike the securities asset class, however, this growth was driven not only by valuation gains, but also by substantial fund inflows. In fact, the inflow of funds into this asset class was higher than into any other. Portfolio composition still nods to the after-effects of the financial crisis. Although the proportion of securities in the global asset portfolio increased by 2 percentage points to around 38% on the back of the strong performance seen last year, their slice of the cake was still a good three percentage points smaller than the pre-crisis value of 2007. Bank deposits remain the winners of the crisis: at the end of 2013, their absolute value was 43% higher than in 2007 and they accounted for around 29% of global private financial assets. 31% of assets were attributable to insurance policies and pensions.

Latin America wavering, western Europe falling behind

Not all regions were able to report higher growth in gross financial assets last year. In Latin America, asset growth slowed down from 13.5% in 2012 to 6.4%. Growth also tapered off slightly in eastern Europe, although this trend was limited to the EU member states, in particular, where asset growth slipped back to 7.1% after reaching 8.7% in 2012. In the eastern European non-EU member states, on the other hand, the rapid growth continued virtually unabated at 16.3%. By contrast, asset growth in Asia picked up to 12.2% (from 11.2%), mainly due to the exceptionally positive development in Japan (+6.1%). Growth in North America (+11.7%) and western Europe (+5.2%) was also up in 2013 in a year-on-year comparison. So while many up-and-coming economies have been forced to pay a price for the intermittent turbulence on the capital and currency markets, private households in the developed countries have been able to reap unlimited benefits from the stock market boom. This did not, however, prevent western Europe from coming bottom of the growth league in 2013, even falling behind Japan - meaning that the western European chunk of global financial assets shrunk by 1.1 percentage points last year alone.

Eastern Europe remained the regional growth champion in a long-term comparison, with average growth of 14.5% p.a. in the period between 2001 and 2013. Asia (excl. Japan) was hot on its heels with growth of 13.6%, followed by Latin America, with 12.7%. The developed regions of North America and western Europe trailed far behind with average growth rates of 5.2% and 3.5% respectively. Japan, however, trailed the field, with the financial assets of Japanese private households having expanded by an average of only +1.2% per year since 2001.

Inflation – the real enemy of any saver

Any assessment of the high pace of asset growth in the world's up-and-coming regions should, however, also take factors such as inflation and demographic development into account. Due to population growth, in the emerging markets, the annual average growth in gross financial assets since 2001, when measured in per capita terms, is only 1.1 percentage points lower than the overall rate. In the world's developed countries, this "demographic penalty" came in at 0.6 percentage points. So taking demographic considerations into account does little to change the major growth differentials.

Inflation had much more of an impact. The growth in real financial assets, i.e. nominal financial assets less the general rate of inflation, was much lower than the growth in nominal financial assets virtually across the board. In eastern Europe and Latin America, per capita financial asset growth, expressed in real terms, is more than halved to 6% and 5.5% respectively. In Asia (excl. Japan), on the other hand, the real financial assets of private households continued to grow at a rate of around 9% p.a. North America clocks up growth of 2% a year in real terms, whereas western Europe only manages to report a rate of 1% - putting it behind Japan in a long-term comparison as well. Japanese households actually reported slightly higher growth in real terms (1.3% p.a.) than in nominal terms (1.2%). This only goes to show once again that, while inflation is the foe of anyone looking to save, "lowflation" together with a stagnating economy and extremely low interest rates helps to preserve asset value.

Debt growth starts to edge up again

The global debt burden increased by 3.6% year-on-year to total EUR 31.6 trillion. Although this puts the growth rate behind the long-term average of 5.6% p.a., it puts it ahead of the rate of change seen over the last two years (+2.9% in each case). This trend was driven by Asia (excl. Japan), where debt growth noticeably moved up a notch last year, rising by 15.8%.

In global terms, the personal debt ratio, i.e. liabilities measured as a percentage of nominal economic output, stood at 65.1% at the end of 2013. This ratio has been falling consistently since 2009, the year that touched on an all-time high of 71.5%, namely by 6.4% percentage points in total. This deleveraging is, however, solely attributable to the developed countries, and first and foremost to the US. In the emerging markets, on the other hand, the debt burden has been rising more or less continuously, also in relation to economic output, albeit at a much lower level (for the time being).

In eastern Europe, the debt ratio has more than trebled over the past 13 years, creeping up by 1.4 percentage points last year to 22.6%. In the region's EU member states, the ratio was much higher, averaging 34%, but it was still the case that not one of the countries from this region that are included in our analysis overshot the 50% mark. In Latin America, the ratio came in at 31.3% at the end of 2013. Once again, no country in the region surpassed the 50% mark. It is a different story in Asia (excl. Japan): in terms of the regional average, the debt ratio climbed by 2.3 percentage points in 2013 alone, pushing it over the 39% line. In South Korea and Malaysia, the ratio was as high as 92.9% and 86.8% respectively , overtaking the US.

The developed regions (with the exception of Oceania), on the other hand, were able to reduce their debt burden. In western Europe, the reduction in the debt ratio since 2009 comes in at a good two percentage points, bringing it down to 79.4% at the end of 2013. North America has made even more progress when it comes to scaling down its debt: almost 14 percentage points have been shaved off the debt ratio since 2009. Nevertheless, at around 83%, the ratio on the other side of the Atlantic is still slightly higher than in western Europe.

Net financial assets up by more than 12%

If we subtract debt from the gross financial assets, we arrive at a figure for the net financial assets of private households, which came in at a global total of around EUR 86.6 trillion when last year drew to a close. Since gross financial assets not only displayed strong growth in 2013, but also significantly outpaced debt growth with a year-on-year increase of 9.9%, private households saw their financial assets rise by as much as 12.4% in net terms. So looking back over the past 13 years, households did disproportionately well if we consider that net financial assets have "only" been rising by a global average of 5.1% since the end of 2000.

Transatlantic asset gap getting wider

In terms of net per capita financial assets, North America remains the unchallenged leader of the regional ranking list, with an average of EUR 114,250. Eastern Europe continues to languish at the other end of the scale, with per capita assets tallying up to only EUR 2,730, lower than in any other region, at the end of 2013, despite the impressive development seen in the past. This means that average per capita assets in North America amount to almost 42 times the per capita assets in eastern Europe, although this factor has, admittedly, more than halved over the past 13 years. Average net financial assets in Latin America came in at EUR 4,190, while net financial assets in Asia (excl. Japan) averaged EUR 3,350 per capita. In Asia-Pacific, Japanese households continued to lead the field as far as net financial assets are concerned, with average per capita assets of EUR 71,190. When it comes to gross financial assets, however, Singapore has already edged its way past Japan, also due to foreign currency translation effects. The asset level in western Europe is much lower, with private households left with assets of EUR 48,180 per capita at the end of 2013 after their liabilities are deducted. Consequently, the wealth gap between western Europe and North America continued to widen last year. Back in the first half of the first decade following the turn of the millennium, per capita net financial assets in Europe totaled around 50% of the American level on average. This ratio now comes in at only 42%. Australia and New Zealand came last among the more prosperous regions, with the region "down under" reporting per capita assets of EUR 46,580.

Western Europe and Japan lag behind on growth

Not surprisingly, the growth ranking is also juggled about a bit if personal debt is taken into account. Asia (excl. Japan) tops the table if we look at things from this angle, with net per capita financial assets in this part of the world growing at an average rate of 12.7% p.a. over the past 13 years. Due to its rapid debt growth, eastern Europe "only" comes in second, with average annual growth of 11%, followed by Latin America (9.7%). With an average growth rate of 6.5% p.a., Oceania is the best-performing prosperous region, with asset growth proving to be much slower in North America and western Europe, at 4.3% and 2.3% respectively. Japan once again comes bottom of the league, with average growth of 1.9% a year. But the gap separating Japan from western Europe is no longer a very big one. Both regions increasingly seem to be playing in a league of their own, quite a bit behind the rest of the pack. As a result, asset development is another area in which fears of a "Japanese model" emerging in Europe cannot be dismissed entirely.

Crisis worsens wealth inequality

For the very first time, this report features a global wealth matrix consisting of four "wealth quadrants", which are used to assess how wealth distribution has changed since 2000 in a national context. The results are not necessarily consistent with the theory of sharply increasing inequality. In actual fact, there are more countries in which the richest population decile holds less than half of the total wealth, mainly in eastern Europe and also in Asia. And there are also more countries in which the distribution of wealth has changed little or actually improved over the past decade, most of them in Latin America. So globally speaking, the results are positive on the whole.

In the majority of the developed countries wealth distribution has however deteriorated, i.e. the proportion of wealth in the hands of the richest ten percent has grown again. Nowhere is this development more marked than in the US. Having said that, inequality has also increased considerably in a number of European countries (France, Switzerland, Ireland or Italy). When asset growth slows in the aftermath of a crisis, this would appear to hit the low and middle wealth categories particularly hard.

Global wealth middle class edges closer to the one billion mark

An analysis based on global wealth classes corroborates this heterogeneous picture. In order to conduct this analysis, 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, encompassed all individuals with assets of between EUR 5,300 and EUR 31,800 in 2013.

Based on this breakdown, 912 million people with net financial assets in the middle range were living in the countries included in our analysis in 2013, meaning that, on the whole, almost 19% of the world's total population belonged to the global wealth middle class (2012: 18%). The momentum driving the ascent of the global middle class becomes particularly evident if we look at a longer period of time: since the turn of the millennium, the share of the population that falls into the wealth middle class in global terms has doubled in Latin America, has almost trebled in eastern Europe and has increased seven-fold in Asia. 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, almost every second member comes from Asia - and that is even leaving Japan aside. The share attributable to North America and western Europe has fallen to around 30%.

65 million losers, 491 million winners

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, a good 65 million people have been demoted from the "wealth upper class" over the past few years - so part of the new middle class has, in fact, been recruited from the ranks of those relegated from the category above. The most pronounced absolute shifts in this direction have been witnessed in the US, Japan, France and Italy - all countries in which the distribution of wealth within the country itself has become significantly "less equal", too.

The number of members of the low wealth class has remained relatively constant in recent years, at around 3.5 billion. This is mainly, however, a by-product of strong population growth. If the trend is adjusted to reflect this natural increase, a true story of advancement can be found lurking behind the figures: almost half a billion people have managed to be promoted to the global wealth middle class over the past 13 years. This figure, more than any other indicator, highlights the fact that, in a global comparison, more and more people are managing to participate in global prosperity. So from this angle, inequality certainly cannot be said to be on the increase.

Analysis of real estate assets

Another aspect that has been included in this report for the first time is an analysis of real estate assets, at least for some countries covered by the report, which offer data on private property ownership from the macroeconomic wealth accounts.

Real estate assets are smaller than gross financial assets in most of the countries analyzed; but the trend has been surprisingly stable over the past few years. This is not necessarily consistent with the picture painted by asset surveys or the most recent real estate crises. Our results are, however, also likely to have been partly influenced by the group of countries analyzed.

Property does not offer any reliable protection against demographic change

In addition, the growth in real estate assets has been pretty much in sync with the growth in financial assets. As a result, the shifts in the "prosperity ranking" of the individual countries that occur when we take building values into account are not too dramatic.

Interesting conclusions can be drawn nonetheless - particularly as far as the "Japanese omen" is concerned. The Japanese housing market has been locked in a state of permanent crisis since the property bubble burst in the early 1990s. Personal real estate assets in Japan now only account for a fraction of the overall assets held by private households; in per capita terms, the values are now on an eastern European level. This trend also reflects the phenomenon of an ageing and shrinking society. After all, no matter where you go, private residential property is almost always a local asset. Consequently, Japan is only a very early and extreme example of protracted negative momentum on the real estate market – in the light of demographic trends, many other countries and regions look at risk of following in its footsteps. The implications are clear: real estate is not "demographically-sound", because - unlike financial assets - it cannot be internationalized. It does not provide any reliable protection against demographic change. Personal financial assets are a better indicator when it comes to measuring a society's prosperity.

Development in global financial assets

Growth with a few cosmetic flaws

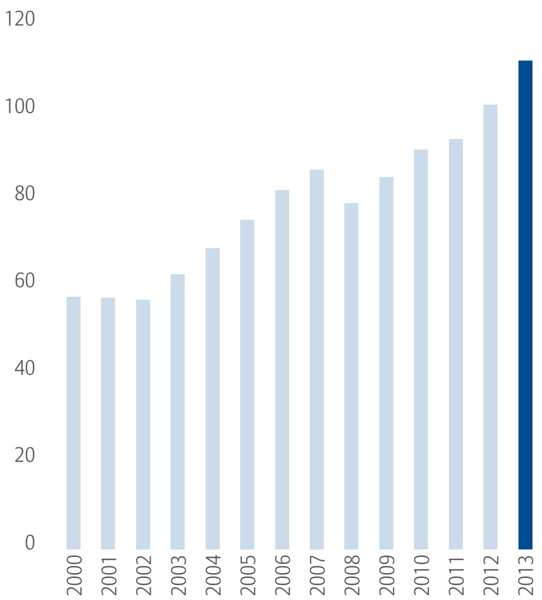
In 2013, global wealth development picked up where the strong recovery of 2012 left off: globally, the gross financial assets of private households climbed by 9.9% in the course of year, bringing the global asset base up to a new record high of EUR 118.3 trillion. This means that last year's development was above-average in both a short and long-term comparison: asset growth in 2013 was not only ahead of the growth rates registered in the two previous years (8.3% in 2012 and 2.8% in 2011), it was also streets ahead of the long-term average growth rate from 2001 to 2013 of 5.2% a year.[1]

And it was not only compared with the previous years that private savings growth picked up speed: last year also saw global financial assets grow more than twice as quickly as global nominal economic output (+4.4% as against 2012). This, however, was an exceptional upward deviation: in a long-term analysis, economic growth has been developing in tandem with asset growth since the start of the millennium, at an average rate of 5.2% p.a. Taking the continuous growth in the global population into account, the long-term growth rates in per capita terms drop back by almost one percentage point to 4.3% p.a. Based on an average global inflation rate of 2.6% p.a. during the same period, this results in real asset growth of 1.7% per year and capita - meaning that more than half of the annual asset growth has been eaten away by in-

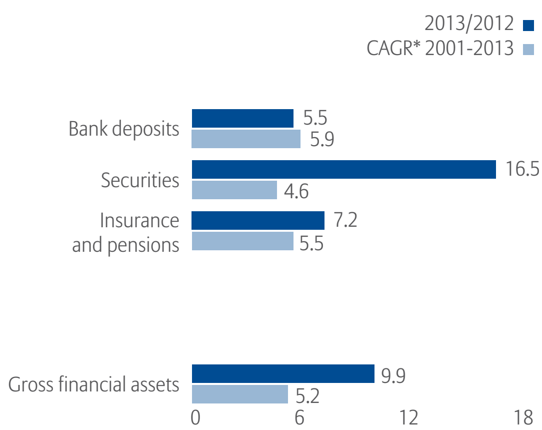
1 In order to rule out exchange rate distortions over time, the financial assets were converted into the national currency based on the fixed exchange rate at the end of 2013

Global financial assets: Strong development continues in 2013

Global gross financial assets
in EUR tn



Change of asset classes
in %



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

flation. At the end of 2013, gross per capita financial assets at global level came in at EUR 24,130, with nominal economic output of EUR 9,920 per capita; net financial assets per capita amounted to EUR 17,680.

When will savers reignite their love of shares?

Although all three major asset classes had their part to play in the strong development, securities have been the main driving force behind growth over the past two years: after increasing by 11% in 2012, assets held in shares and fixed-income securities swelled by a further 16.5% last year, outpacing the rate of growth seen in the years immediately prior to the outbreak of the financial crisis. This dynamic growth is certainly not, however, testimony to a rediscovered passion for equities among savers. The US was the only region in which a substantial volume of fresh funds was pumped into shares or other securities: this asset class witnessed an inflow of funds to the tune of just under EUR 280 billion last year. In Europe and Japan, on the other hand, savers continued to pull their money out of this asset class. In western Europe (excl. Switzerland), the fund outflows came in at around EUR 45 billion or approximately EUR 110 per capita, while in Japan, the figures totaled almost EUR 80 per capita or just under EUR 10 billion in total. This means that the substantial growth in assets held in securities in these regions – +7.3% in western Europe and as much as +26.5% in Japan – is attributable solely to portfolio valuation gains.

These obviously include, first and foremost, the considerable price gains on the stock markets. Spurred on by nascent hopes of a global economic revival and an end to the recession in the euro area, loose monetary policy, among other things, set the stage for an exceptional year on the stock markets. There was only a temporary bout of turmoil in the second quarter, when the US Federal Reserve surprised market participants in May 2013 by hinting at a possible reduction in its bond-purchasing program, triggering a large-scale sell-off of assets from up-and-coming economies across the globe. The pronounced uncertainty on the international financial markets translated into substantial corrections on the capital markets and currency devaluation on the emerging markets. In the developed economies, however, the markets soon regained their composure again and share prices continued to head north in the second half of the year. Looking at 2013 as a whole, all of the major share indices in developed countries from the West to the Far East charted a vigorous increase. The S&P 500 closed the year almost 30% higher than it had started it and the Eurostoxx also reported convincing performance, gaining almost 18%. Japan's Nikkei rocketed by almost 57% in total after the central bank loosened the monetary policy reins again as part of the government's new growth strategy.

Although shares remained unpopular with many investors, this strong performance increased the proportion of the asset portfolio held in securities: last year alone, this asset class gained around 2 percentage points at global level to make up around 38% of total financial assets. Due to the previous losses induced by the crisis and the resulting tendency to flee towards supposedly low-risk investments, however, this proportion was still a good three percentage points down on the 2007 level. It was only last year that the value of securities assets held by private households in the world's advanced economies bounced back to the pre-crisis level, whereas at global level these losses had already been fully compensated for by 2012. Global securities assets totaled more than EUR 45 trillion at the end of 2013.

Bank deposits: who's afraid of low interest rates?

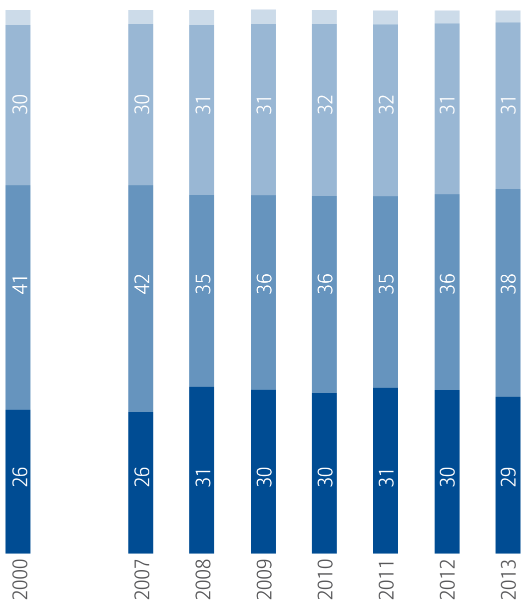
Bank deposits have benefited the most from the increasing preference for liquidity over the past few years. Global overnight money, term deposits and savings deposits totaled around EUR 34 trillion at the end of 2013, up by around 43% on the level seen in 2007. Last year, too, the rate of growth came in at 5.5%, roughly in line with the long-term average (average of 5.9% p.a.) Compared with the two prior years, however, the rate of growth slowed slightly in almost all regions, particularly in the US but also in large parts of western Europe. It remains to be seen whether this signals the start of a gradual move away from bank deposits. Despite rock-bottom interest rates and value losses in real terms, most savers, especially in developed countries, once again handed over a large part of their savings to banks last year. In western Europe, for example, bank deposits remain the most popular form of investment.

Insurance policies and pensions: the saver's favorite toy

The third-largest asset class in the asset portfolio, namely private household claims vis-à-vis insurance companies and pension institutions, once again experienced strong growth totaling 7.2% at global level in the course of 2013, more or less on a par with the increase witnessed in 2012 (+7.5%). Unlike the securities asset class, however, this growth was driven not only by valuation gains, but also by substantial fund inflows: it was this asset class that registered the highest inflow of funds of all. The rate of change was well ahead of the average growth rate for the past 13 years of 5.5% p.a. In a global analysis, private households have kept the share of their financial assets invested in insurance and pensions relatively constant over the past 13 years; just under 31% 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 around EUR 36 trillion - almost one-third more than before the outbreak of the global economic and financial crisis.

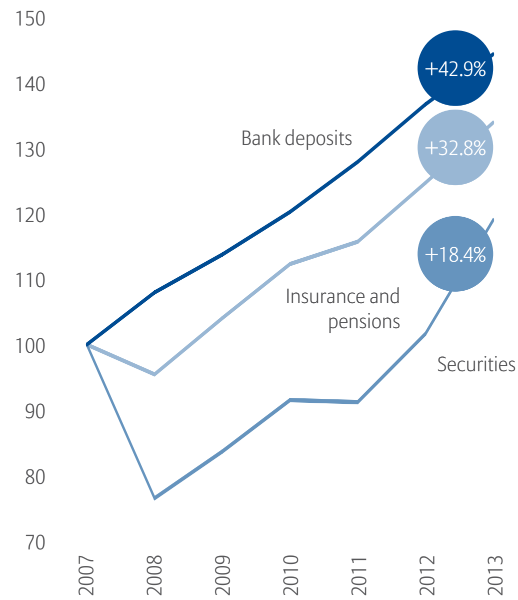
Bank deposits remain most popular, securities are catching up

Asset classes as % of gross financial assets



■ Other
■ Insurance and pensions
■ Securities
■ Bank deposits

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



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

Latin America with anemic growth

In a regional comparison of asset development, the relatively weak development in Latin America in a long-term comparison really stands out: in 2013, asset growth slackened to 6.4%, compared with 13.5% a year earlier, putting the region well behind the emerging market average (+17.1% as against 2012). Slower asset growth was accompanied by curbed economic development: over the past two years, nominal gross domestic product has been growing at an average rate of only 7.7% p.a., whereas past growth rates largely ran into the double digits. In a long-term analysis, however, this weaker year is practically negligible: since the end of 2000, the receivables of Latin American households, which grew at an average annual rate of 12.7% in the period between 2001 and 2013, have increased almost five-fold. During this period, the region's slice of the global gross financial asset cake has expanded from 0.9% to 2.2%.

Growth also tapered off slightly in eastern Europe in 2013, although this trend was limited to the EU member states, in particular, where asset growth slipped back to 7.1% last year after reaching 8.7% in 2012. In the eastern European non-EU member states, on the other hand, the rapid growth continued virtually unabated at 16.3%. In terms of long-term development, the region as a whole can therefore hold on to the title of growth champion: average growth to the tune of 14.5% p.a. since 2000 remains the strongest performance by any world region. And this holds true 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 the eastern European EU member states alone, the average annual growth rate has slid from a total of 16.1% p.a. in the period between 2002 and 2007 to "only" 4.9% p.a. over the last six years. In Slovenia, for example, the richest country in eastern Europe in per capita terms, average gross per capita financial assets were only up by a paltry 1.1% on the pre-crisis level at the end of 2013. By contrast, those countries in eastern Europe that are not part of the EU have been reporting stable growth of around 16% over the past three years in total. This robust development has been driven mainly by two heavyweights, Turkey and Russia, which account for almost 86% of the total financial assets in this group of countries.

The only group of countries to go one better and outperform eastern Europe in terms of average growth over the past 13 years has been the group of Asian emerging markets: households in China, India, Indonesia, Malaysia and Thailand combined achieved growth averaging 17.8% p.a. If we factor the other Asian economies in our analysis into the equation (Israel, Singapore, South Korea and Taiwan), the growth rate drops to 13.6%. If we then bring Japan into the group, the average annual growth rate slips back to 6.2%. Last year, however, asset growth in Asia had bounced back to well above this long-term average, coming in at 12.2%. Buoyed not least by the extremely positive development in Japan (+6.1%), Asia bucked the trend set in Latin America and eastern Europe and actually reported higher growth in 2013 than it did in 2012.

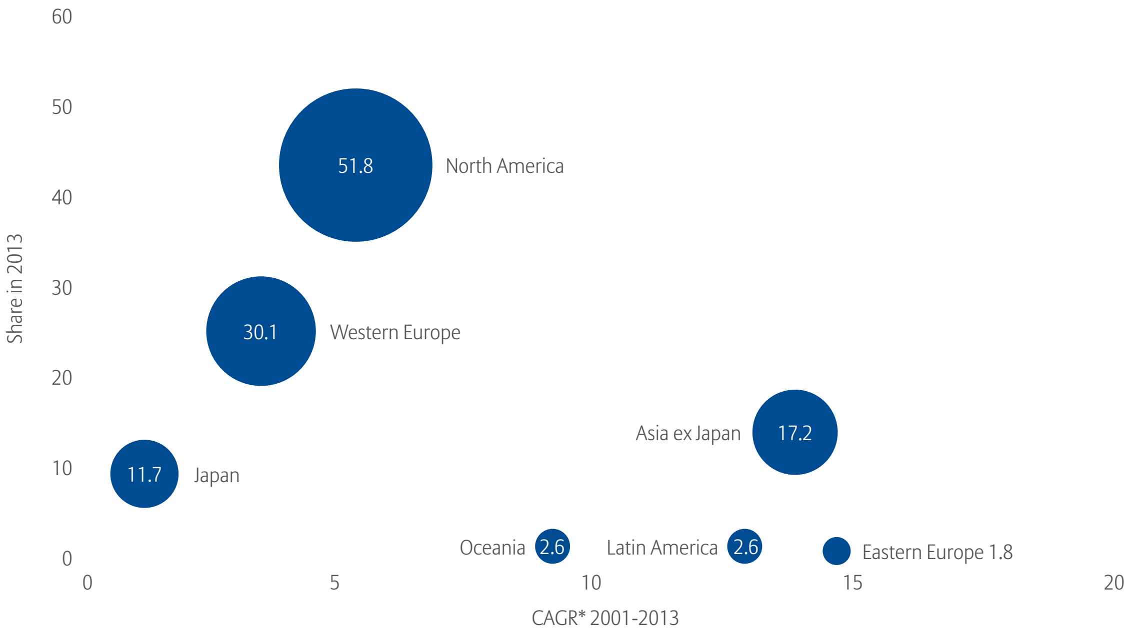
Western Europe falling behind

The pace at which financial assets have been growing since the turn of the millennium has been much more sedate in the prosperous parts of the world, where private households already have a substantial asset cushion behind them. Japan comes bottom of the league. Despite a strong 2013, financial assets in Japan have been growing at an average rate of 1.2% p.a. since 2000, still a long way off the average rate for the industrialized nations of 4.3%.

There are two main reasons behind the weak asset development in Japan: first, the Japanese hold the lion's share of their financial assets, or 54%, in bank deposits. The low interest rates that have now been on the scene for decades, however, mean that this asset class does not provide savers with adequate nominal returns. Second, it has been virtually impossible to generate any value gains on the stock market; the first decade of the new millennium saw the Nikkei fall back to levels which, in some cases, were last seen in the early 1980s. Last year, however, marked the start of a turnaround. Thanks to a spectacular increase, Japan's leading index had gained a good 18% on the 2000 level by the end of 2013 - one year earlier, it was still lagging almost 25% behind the 2000 level. As a result, the assets of private households held in equities and fixed-income securities soared by 26.5% in 2013 to total around EUR 2 trillion. All in all, the asset base grew by 6.1% last year as a result, an astounding growth rate by Japanese standards.

Wealth levels and growth by region

Share of global gross financial assets 2013 and compound annual growth since end of 2000
in %



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

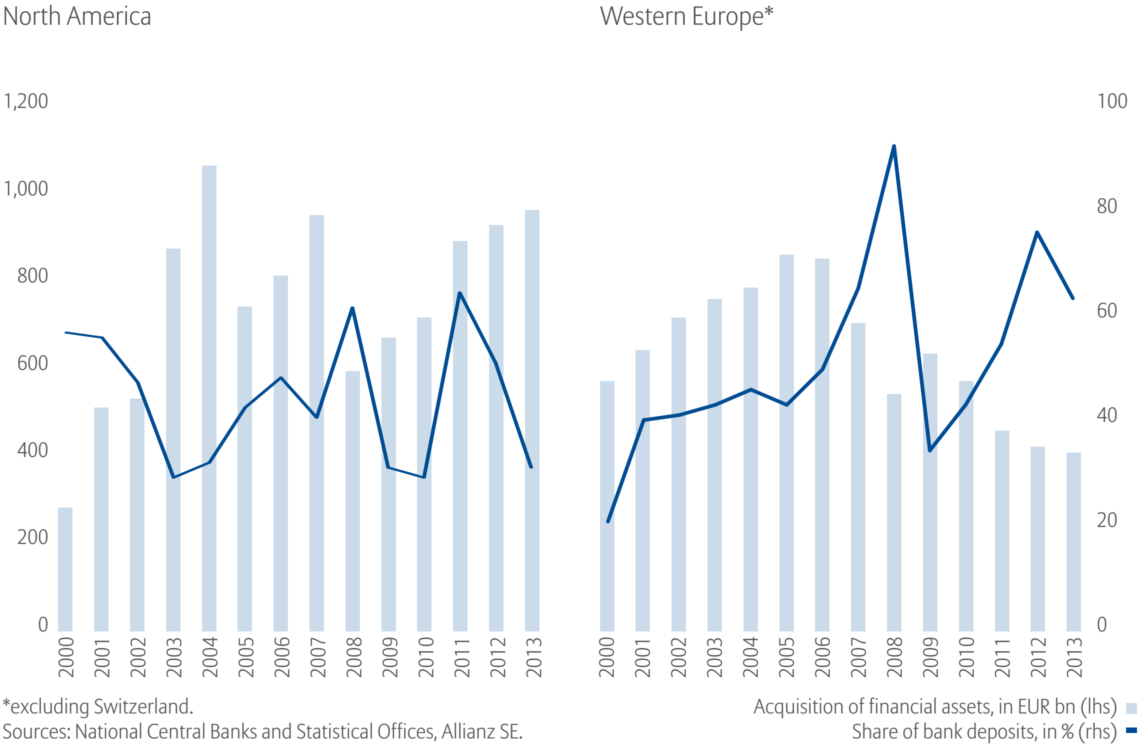
Absolute amount of gross financial assets, in EUR tn

Households in Oceania, too, were able to enjoy strong financial asset growth of 10% in the course of 2013. The main growth driver was the "insurance and pensions" asset class, which plays a crucial role in Australia, in particular (+11.6%). Thanks, not least, to the commodities boom, the long-term average growth rate in the region is also fairly high, at 9%.

The development in gross financial assets in North America was positively subdued in comparison. In the period between 2001 and 2013, the assets of private households grew at an average rate of 5.2% a year. US households had to digest painful losses during the financial crisis of 2008 due to their more risk-prone asset structure. It ultimately took three years to make up for the biggest asset slump of the post-war era again. Now, however, growth is being driven by no other asset class than securities: at 16.7%, this asset class reported by far the most substantial growth. The developments in the US serve as an example of the sort of risk/return potential that this investment strategy offers. All in all, gross financial assets in North America were up by 11.7% on 2012, outpacing the rate of growth seen in the two previous years (+2.3% in 2011 and +8.1% in 2012). This is not attributable exclusively to valuation gains, however, but also to a return to increased financial asset accumulation on the whole. Last year, the fund inflows even exceeded the volume saved in 2007. The phase during which most of this new money was destined largely for bank deposits also appears to be over. Whereas private households were still putting most of their savings into secure bank deposits in 2011 and 2012, they started investing more in equities and other securities again last year. The return to the "traditional" American way of saving suggests that US savers have actually digested the crisis psychologically as well.

Western Europe's fresh savings flow preferably to banks

Acquisition of financial assets and the share of bank deposits



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

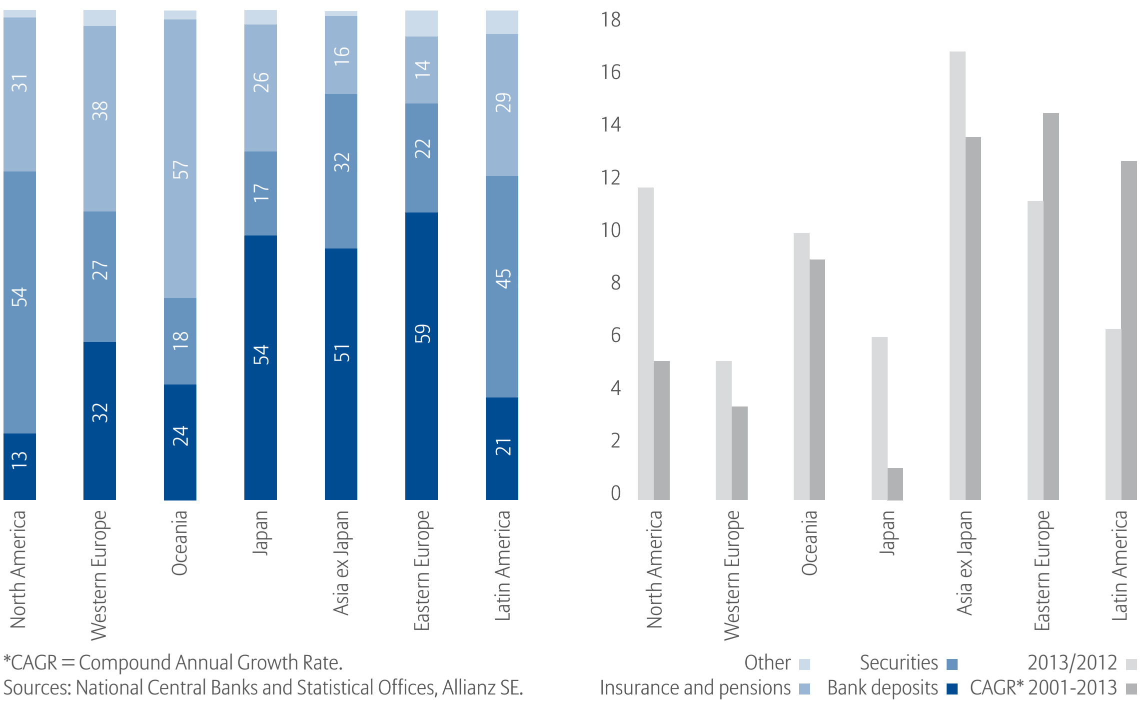
The situation in western Europe is a different matter. Over the past few years, savings have been on a virtually continuous downward slope, with the level of savings having been more than slashed in two compared with the record high of 2005. Savers continue to shy away from securities, with banks remaining their preferred destination for any new savings. As a result, it comes as little surprise that the asset accumulation process in western Europe has been much slower than in North America: over the past 13 years, the financial assets of private households have been increasing at an average rate of only 3.5% p.a. Last year, asset growth came in at 5.2%, meaning that the region even fell behind Japan: western Europe came bottom of the global league in 2013, with its share of global financial assets shrinking by 1.1 percentage points last year alone.

Unlike in North America, western European households are more conservative when it comes to their asset structure. In 2013, they held around 70% of their financial assets in bank deposits, insurance policies and pensions, with only just under 27% of the asset portfolio attributable to securities. 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, last year; at 7.3%, however, the rate of change as against 2012 was not even half as high as in North America. This major gap is due not only to the relatively weaker development on the stock markets, but also to the investment decisions made by savers: on the whole, western European households have reduced the amount they have invested in securities, while the opposite is true in North America.

Asset structure and growth by region

Asset classes as % of gross financial assets 2013

Rate of change of gross financial assets in %



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

"Power shift" in slow motion

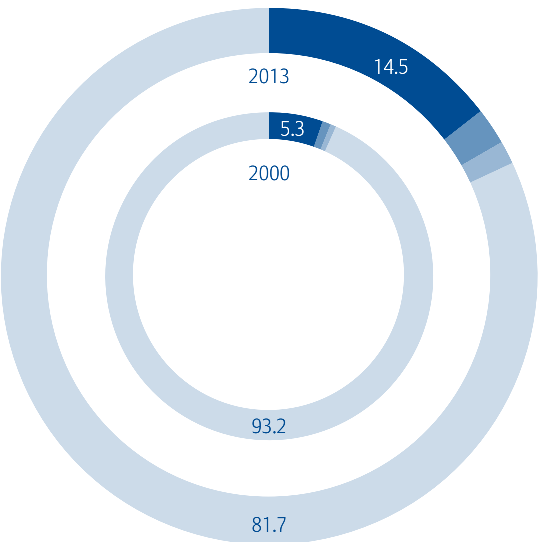
Although the developed countries have shown much poorer development in the long run, the weightings on the global asset map are only shifting very slowly. Since the end of 2000, the proportion of global gross financial assets that is attributable to North America and western Europe has fallen by 6 percentage points. Having said that, both regions still accounted for a combined total of almost 70% of the global asset base at the end of 2013. With a "global share" of almost 44%, North America was the richest region on the planet. In Asia-Pacific, a further 10% was concentrated in Japan, with 2.2% 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 (18.8%) of the earth's population.

The remaining 18% or so of the world's financial assets are distributed among Latin America (2.2%), eastern Europe (1.6%) and the other Asian countries (just under 14.5%), i.e. among a total of 3.9 billion people. Last year alone, however, their share of global financial assets rose by 0.8 percentage points and it has almost trebled in the space of the last 13 years.

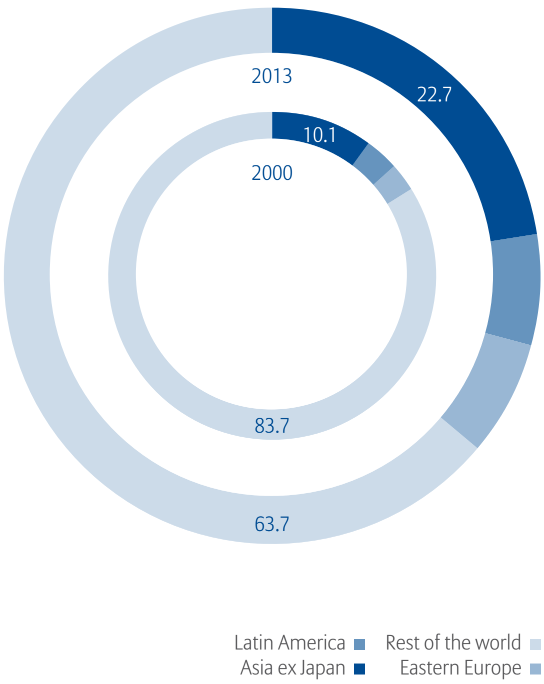
Compared with economic output, this is, nevertheless, something of a "power shift" in slow motion: in terms of gross domestic product, the weightings have already shifted further away from the richer regions and much closer to the world's poorer regions. By way of example, not only was the proportion of global gross domestic

Slow catching-up process in wealth

Share of global gross financial assets
in %



Share of global GDP
in %



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

product attributable to the two heavyweights, North America and western Europe, far lower than their share of global assets, coming in at a good 54% at the end of 2013, but the decline to the tune of around 13 percentage points since the end of 2000 was also far more pronounced than the extent to which their share of the asset base has contracted. Vice versa, the world's poorer regions have upped their share of global economic activity by 20 percentage points, to 36%, during the same period. The increasing role played by the up-and-coming economies in global economic growth is even more dramatic: whereas back in 2001, the Asia (excl. Japan), Latin America and eastern Europe regions were still contributing only 36% to the absolute growth in global gross domestic product, this figure had risen to just shy of two-thirds by 2013. This trend owes itself, to a large degree, to the rapid catch-up work done by Asia or, more precisely, by China: in 2013, the Middle Kingdom alone was responsible for almost 31% of global economic growth.

The different weightings attached to the rich and poor countries when we look at economic output and assets are not, however, very surprising. After all, while incomes and assets are closely linked, there is a certain time lag involved: households have to exceed a certain income level before accumulating any wealth to speak of is even an option. 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 bear testimony to the cumulative economic successes of the past. For many of the world's emerging markets, this process has only just begun.

Inflation – the real enemy of any saver

But it is not only the different starting points that have to be taken into consideration. Any assessment of the racing pace of asset growth in the world's up-and-coming regions cannot ignore factors such as inflation and demographic development. Admittedly, the latter does not have any major impact: in the emerging markets, the annual average growth in gross financial assets since 2001, when measured in per capita terms, is only 1.1 percentage points behind the overall rate. In the world's developed countries, this "demographic penalty" came in at 0.6 percentage points - so this does little to change the major differentials.

If we look at asset growth in real terms, i.e. less the general rate of inflation, however, the effects are much more pronounced. This approach reduces the per capita asset growth rate significantly across the board, with the most pronounced drop seen in eastern Europe and Latin America: on average, the annual rate of growth falls to 6% (instead of 14.4%) and 5.5% (instead of 11.4%) respectively. Asia (excl. Japan) is now the clear leader of the pack in a long-term comparison and can still testify to growth of a good 9.% p.a. since the turn of the millennium.

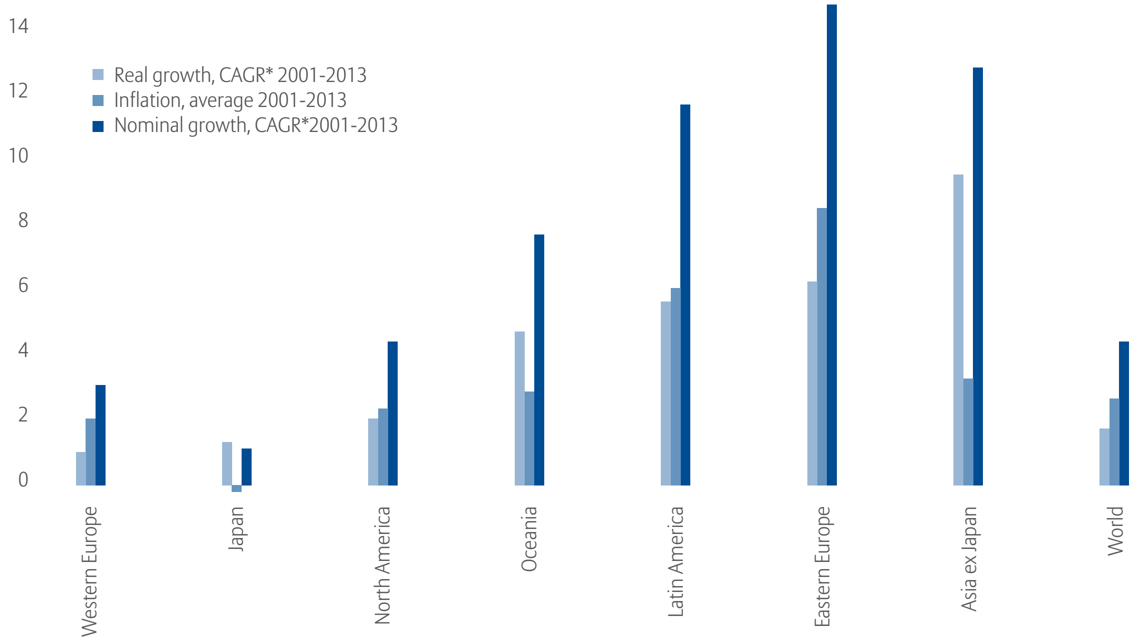
So in real terms, the growth differentials compared with the developed countries, mainly North America and western Europe, no longer look quite as pronounced, even if inflation is obviously putting a damper on asset accumulation in these regions, too. North America is now clocking up growth of 2% a year (real gross per capita financial assets since 2001), whereas western Europe only manages to report a rate of 1% - putting it behind Japan in a long-term comparison as well. Japanese households actually reported slightly higher growth in real terms (1.3% p.a.) than in nominal terms (1.2%). This only goes to show once again that, while inflation is the foe of anyone looking to save, "lowflation" together with a stagnating economy and extremely low interest rates helps to preserve asset value. Given the current environment, European savers, too, should not be as worried about stagnating prices as they should be about the return of inflation. In this sort of scenario, financial repression would take on much more painful proportions.

Debt growth starts to edge up again

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 2013, almost 72% of global debt was being carried on the collective shoulders of North America, western Europe and Oceania, with a further 8.4% being borne by Japanese households. Just under 14% is attributable to other Asian countries. With a share of 2.4%, eastern Europe is bottom of the debt league, followed by Latin America (3.2%) in second-last place.

Western Europe falling behind in growth terms

Real growth in wealth even slower than in Japan
Inflation rates, real and nominal growth of global gross financial assets per capita, in %



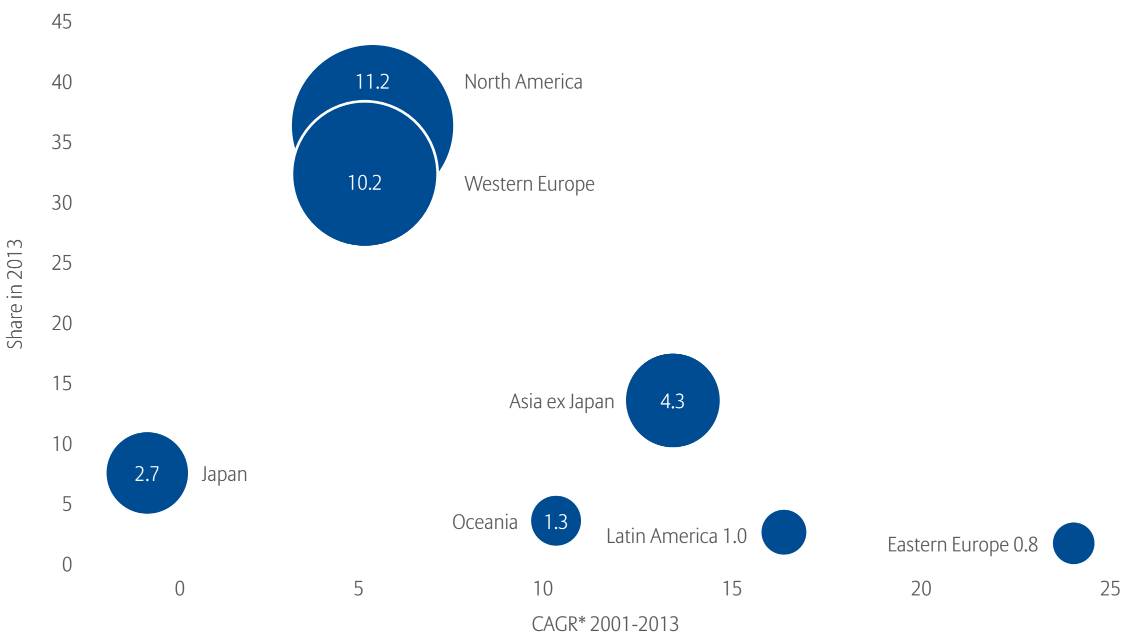
*CAGR = Compound Annual Growth Rate.
Sources: EcoWin, National Central Banks and Statistical Offices, UN Population Division, Allianz SE.

All in all, the global debt burden climbed by 3.6% year-on-year in 2013 to total EUR 31.6 trillion. Although this puts the growth rate behind the long-term average of 5.6% p.a., it puts it ahead of the rate of change seen over the last two years (+2.9% in each case). This trend is being driven by Asia (excl. Japan), where debt growth noticeably moved up a notch last year, rising by 15.8%. Nevertheless, the outbreak of the global economic and financial crisis seems to have triggered a more disciplined attitude to debt in many countries. The average global rate of change in liabilities has slowed to an average of 2.9% p.a. since the end of 2007, compared with a rate of 8.3% in the years between 2002 and 2007.

Although eastern Europe accounts for the smallest proportion of the global debt burden, at 2.4%, eastern European households lead the growth pack on the liabilities side of the asset balance sheet, too: over the past 13 years, eastern European households have been upping their liabilities by an average of around 24% a year, with the absolute debt level climbing by a factor of 16 since the end of 2000 and rising by 13.2% in 2013 to total EUR 760 billion. This increase in recent years is, however, solely attributable to the non-EU member states, particularly Russia and Turkey. In the countries that belong to the EU, debt growth has come to a virtual standstill, with liabilities in these countries growing by an average of less than 1% over the past two years.

Debt levels and growth by region

Share of global debt burden 2013 and compound annual growth since end 2000



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

Absolute amount of gross financial assets, in EUR tn

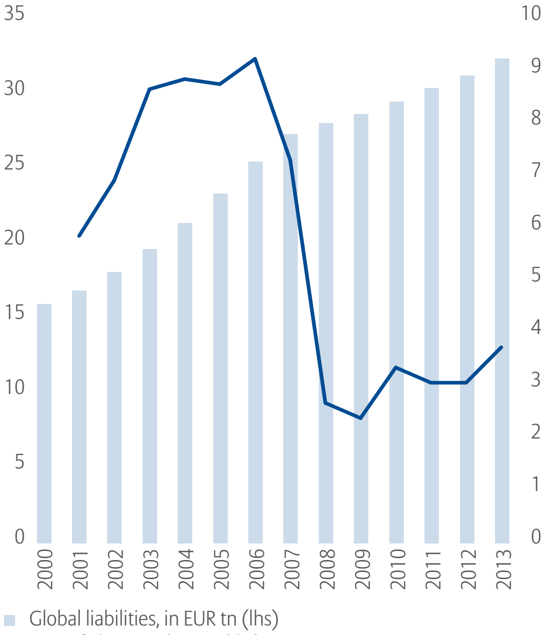
There were no signs of a similar phenomenon of increased debt discipline in the other emerging regions of Latin America and Asia (excl. Japan), which were not hit as hard by the financial crisis as eastern Europe, whose economy is heavily reliant on the situation in the eurozone. Private households in Latin America have kept their average debt growth fairly constant in the period before and after 2007, at almost 16%. in Asia (excl. Japan), the average annual growth rate has actually increased from 11% in the period between 2002 and 2007 to 15.9% in the period between 2008 and 2013. Nevertheless, at an average of EUR 1,410, per capita debt in Asia is still the lowest in the world, followed by eastern Europe (EUR 1,930) and Latin America (EUR 2,220).

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 10.3% p.a., private households in North America have actually been reducing their debt burden in absolute terms since the end of 2007, namely by an average of 0.1% a year – also thanks to payment defaults and write-downs on mortgage loans. By contrast, last year brought a slight increase in debt to the tune of 1.4% in this region of the world, too, although this sort of debt accumulation is still light years away from the excessive trends witnessed in the past. On the whole, liabilities were 0.6% lower than the pre-crisis level at the end of 2013.

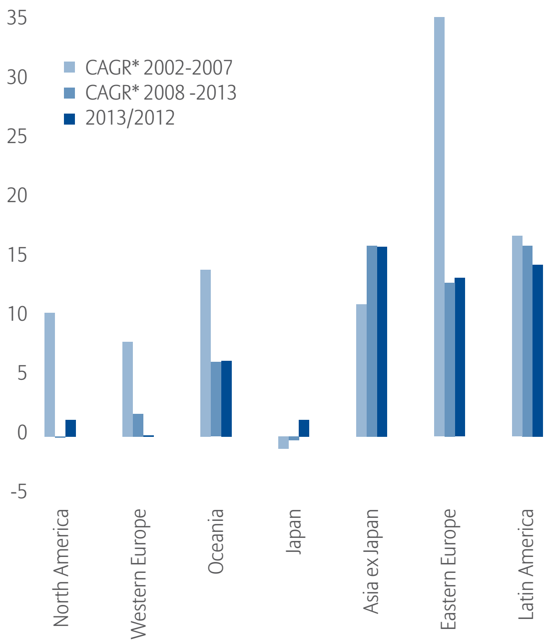
Down under, debt had been growing at an even faster rate than in North America, with Australian households stepping up their liabilities by an average of 13.9% p.a. in the run-up to the crisis. The population has, however, been adopting a more restrained approach to further

Debt growing somewhat faster again

Development of global debt burden



Change in debt
in %



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

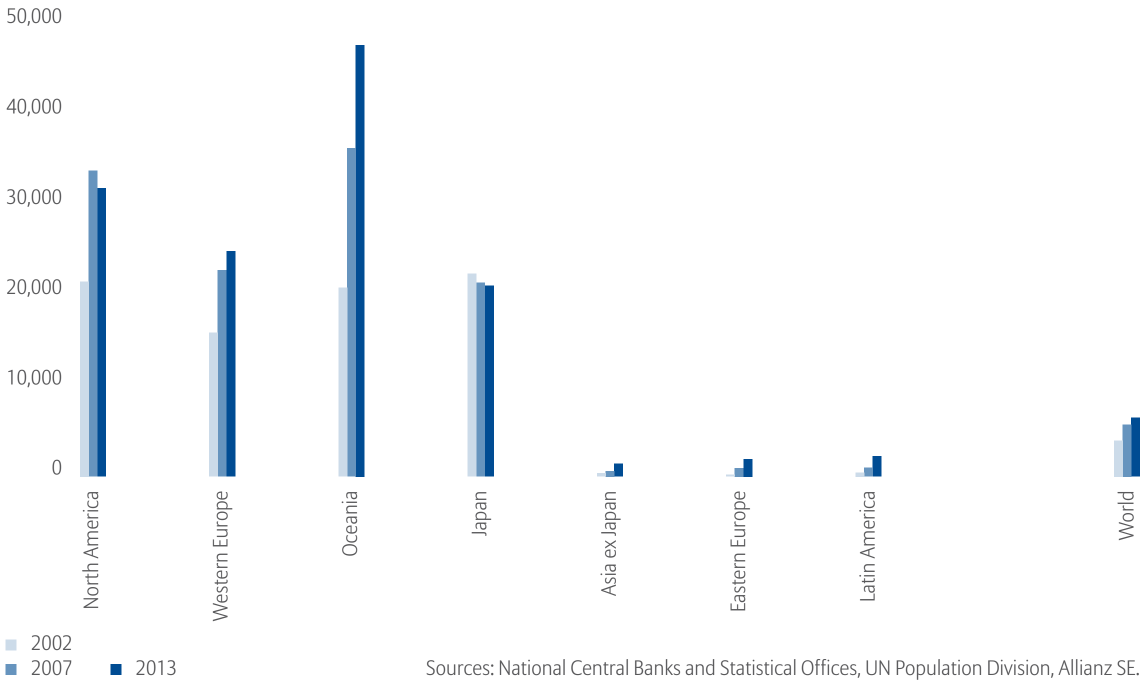
borrowing since the end of 2007. At 6.2%, the average annual growth rate has been more than sliced in half since then, with the year-on-year rate of change coming in at 6.3% last year.

In western Europe, debt growth progressed at a slower pace than in North America and Oceania in the years between 2002 and 2007, with the rate of increase averaging 7.9% p.a. This trend is, however, primarily attributable to the region's largest economy, Germany, were private households took an extremely disciplined approach to debt even in the years prior to the crisis. Leaving Germany out of the equation, the average rate of growth comes in at 10.2% p.a., virtually neck-and-neck with North America. After the outbreak of the crisis, many private households were forced to follow the example set by Germany, pushing average annual debt growth in the region as a whole down to 1.9%. In 2013, the rate of growth was only +0.1%, although the absolute debt level was still sitting almost 12% above the value seen in 2007.

At the end of 2013, per capita debt in western Europe averaged EUR 24,730, meaning that western Europeans have far less debt, in per capita terms, than their counterparts in North America (EUR 31,650) and Oceania (EUR 47,370). Per capita debt in Japan (EUR 20,960) is even lower than in western Europe, although this can also be partly explained by the marked devaluation of the Japanese yen in the course of year. On the other hand, debt levels in the land of the rising sun 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 1% a year, with an average annual rate of decline of 0.3% since the end of 2007. All in all, liabilities were down by almost 11% on 2000 at the end of 2013.

Regional differences in debt per capita

Liabilities per capita
in EUR



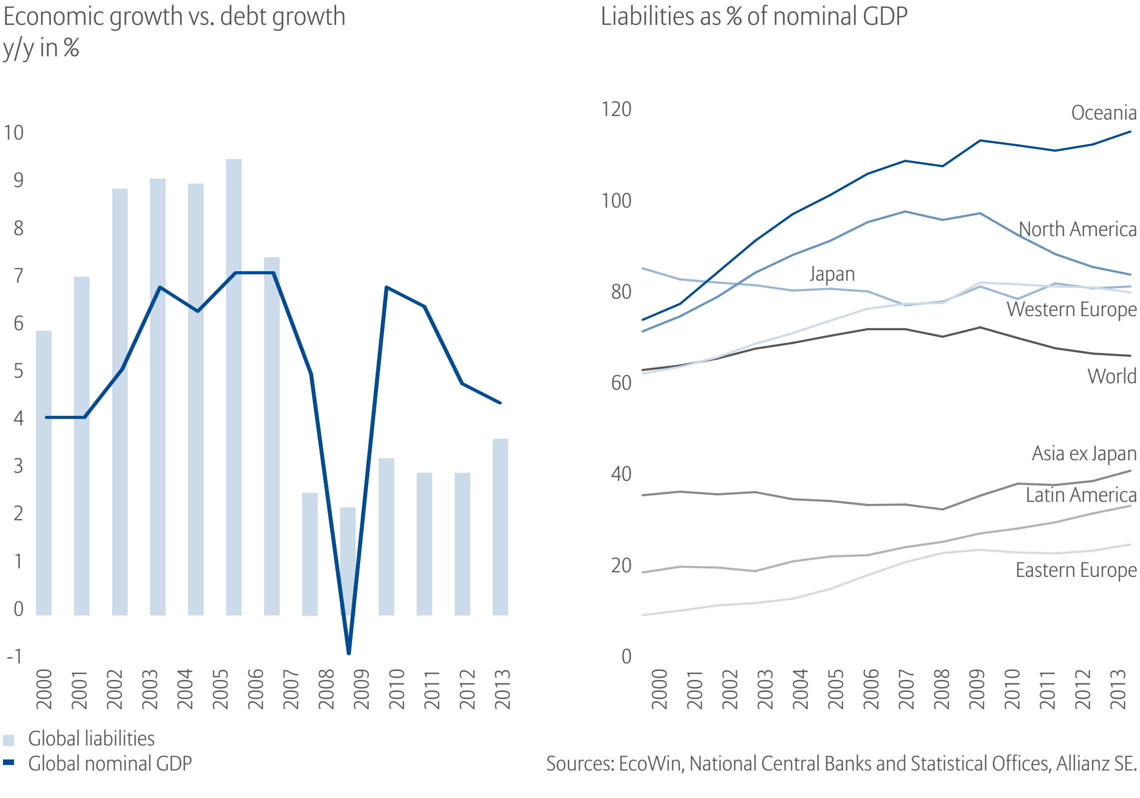
Sources: National Central Banks and Statistical Offices, UN Population Division, Allianz SE.

Personal debt ratio: Asia tiptoeing closer to the danger zone

In global terms, the personal debt ratio, i.e. liabilities measured as a percentage of nominal economic output, stood at 65.1% at the end of 2013. Over the past four years, the growth in economic output has been outpacing the growth in the debt of private households, meaning that the ratio was 6.4 percentage points lower than the record high seen in 2009. This deleveraging is, however, solely attributable to the developed countries, and first and foremost to the US. In the emerging markets, on the other hand, the debt burden is rising more or less continuously, also in relation to economic output, albeit at a much lower level (for the time being).

Despite the rampant credit 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 13 years, the ratio has, nonetheless, more than trebled, climbing 1.4 percentage points up the ladder last year to around 22.6%. In the region's EU member states, the ratio was much higher, averaging 34%, but it was still the case that not one of the countries from this region that are included in our analysis overshot the 50% mark. The ratio in Latin America is almost nine percentage points higher than in eastern Europe at a good 31%, with liabilities growing at a much faster rate (average of around 16% a year) than economic output (average of 10.6% a year) since late 2000. Having said that, no country has overshot the 50% mark to date in this region either. There is more cause for

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



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

concern when it comes to Asia (excl. Japan). The highest debt ratio among the emerging regions can be found in this particular area, with the ratio climbing further by 2.3 percentage points to over 39% in 2013. In South Korea and Malaysia, the ratio was as high as high as 92.9% and 86.8% respectively, overtaking the US.

Japanese households have a debt ratio in excess of the global average, but one that remained virtually stable in a year-on-year comparison in 2013 at 80.7% (2012: 80.3%). The debt ratio of households in western Europe has come in at a similar level over the past two years. Compared with 2012 (80.5%), the ratio had dipped slightly by the end of 2013 (79.4%). The drop in the debt ratio since 2009 comes in at a good two percentage points. North America, however, has made the most progress to date when it comes to whittling down its debt: almost 14 percentage points have been shaved off the debt ratio since 2009. Nevertheless, at around 83.4%, the ratio on the other side of the Atlantic is still higher than in western Europe. Finally, there is no other region of the world where the relative debt burden is as high as in Oceania. Over the past 13 years, the debt ratio of private households has climbed by a whopping 42 percentage points to total 115.6%. After dropping slightly for two years on the trot, the ratio climbed again by 1.4 and 2.8 percentage points in 2012 and 2013 respectively, largely due to the slowdown in economic growth.

Net financial assets up by more than 12%

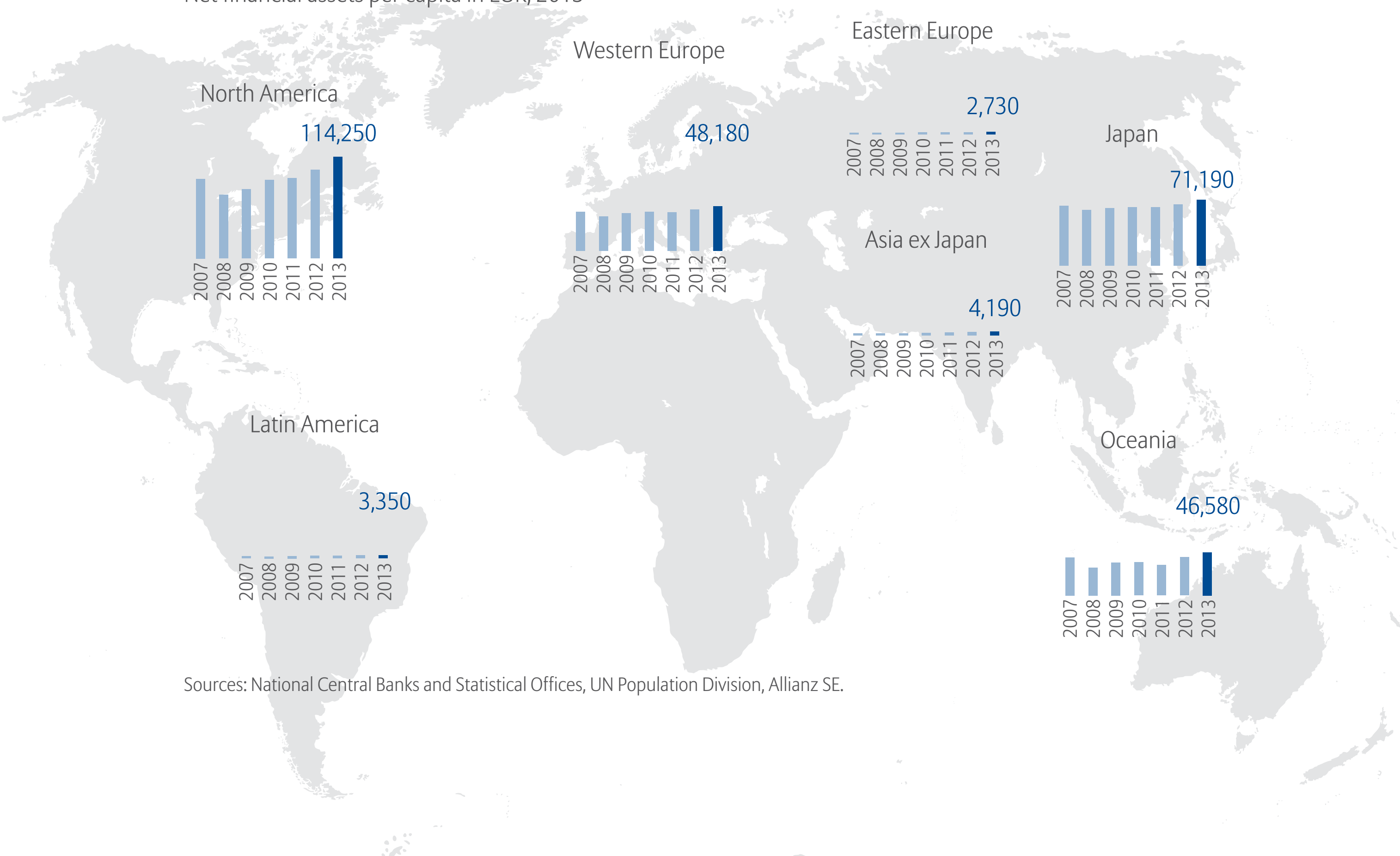
If we subtract debt from the gross financial assets, we arrive at a figure for net financial assets, which came in at a global total of around EUR 86.6 trillion at the close of last year. Since gross financial assets not only displayed strong growth in 2013, but also significantly outpaced debt growth with a year-on-year increase of nearly 10%, private households saw their financial assets rise by as much as 12.4% in net terms. So looking back over the past 13 years, households did disproportionately well if we consider that net financial assets have "only" been rising by a global average of 5.1% since the end of 2000. Looking at the long-term average, the growth in global net financial assets managed to keep up with the growth in gross financial assets (averaging +5.2% p.a.) - thanks to the deleveraging process among private households in rich countries sparked by the financial crisis.

Transatlantic asset gap getting wider

Although the differences between the world's rich and poor regions have become less pronounced in absolute terms when we take their liabilities into account, the discrepancies are still screamingly obvious. Households in North America are crowned the richest worldwide, with net financial assets averaging EUR 114,250 per capita at the end of 2013. Eastern Europe is at the other end of the scale, with per capita assets coming in at only EUR 2,730, lower than in any other region, at the end of 2013, despite the impressive development seen in the past. This means that average per capita assets in North America amount to almost 42 times the per capita assets in eastern Europe, although this factor has, admittedly, more than halved since the start of the 21st century. In Asia-Pacific, Japanese households continued to lead the field as far as net financial assets are concerned, with average per capita assets of EUR 71,190. When it comes to gross financial assets, however, Singapore has already edged its way past Japan, also due to foreign currency translation effects.

Global wealth map at a glance

Net financial assets per capita in EUR, 2013



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

The asset level in western Europe is much lower, with private households left with assets of EUR 48,180 per capita at the end of 2013 after their liabilities are deducted. Consequently, the wealth gap between western Europe and North America continued to widen last year. Back in the first half of the first decade following the turn of the millennium, per capita net financial assets in Europe totaled around 50% of the American level on average. This ratio now comes in at only 42%.

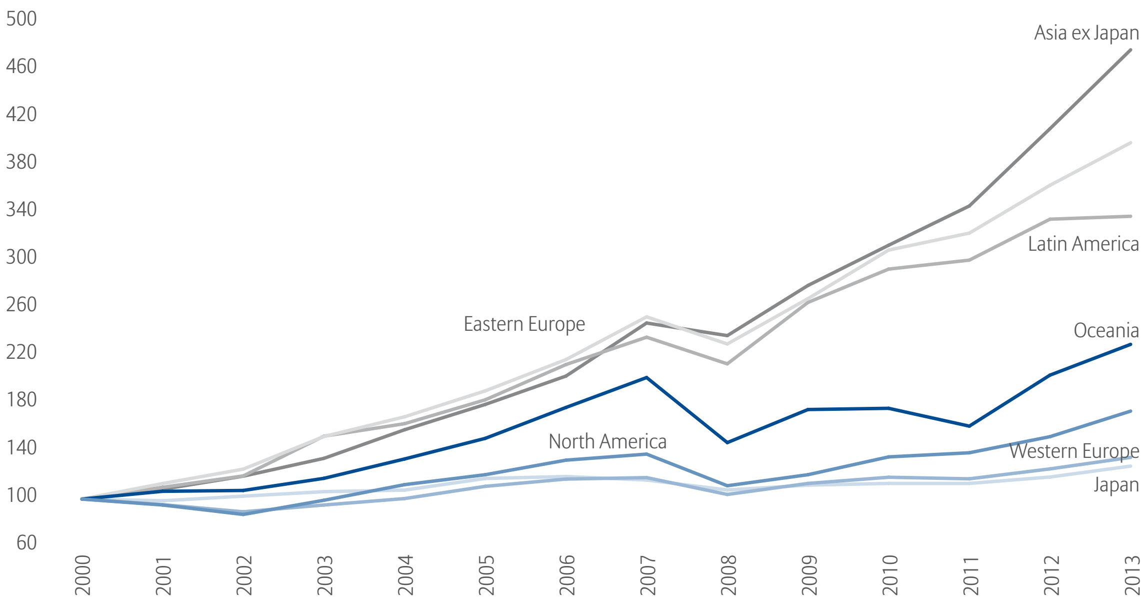
Oceania came last among the more prosperous regions, with the region "down under" reporting per capita assets of EUR 46,580. Households in Latin America and Asia (excl. Japan) can testify to per capita assets of EUR 3,350 and EUR 4,190 respectively.

Western Europe edging closer to Japan

Not surprisingly, the growth ranking is also juggled about a bit if personal debt is taken into account. Asia (excl. Japan) tops the table, with net per capita financial assets in this part of the world growing at an average rate of 12.7% p.a. over the past 13 years. Due to its rapid debt growth, eastern Europe "only" comes in second, with average annual growth of 11%, followed by Latin America (9.7%). With an average growth rate of 6.5% p.a., Oceania is the best-performing prosperous region, with asset growth proving to be much slower in North America and western Europe, at 4.3% and 2.3% respectively. Japan once again comes bottom of the league, with average growth of 1.9% a year. But the gap separating Japan from western Europe is no longer a very big

Japan and Western Europe lagging behind in growth terms

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



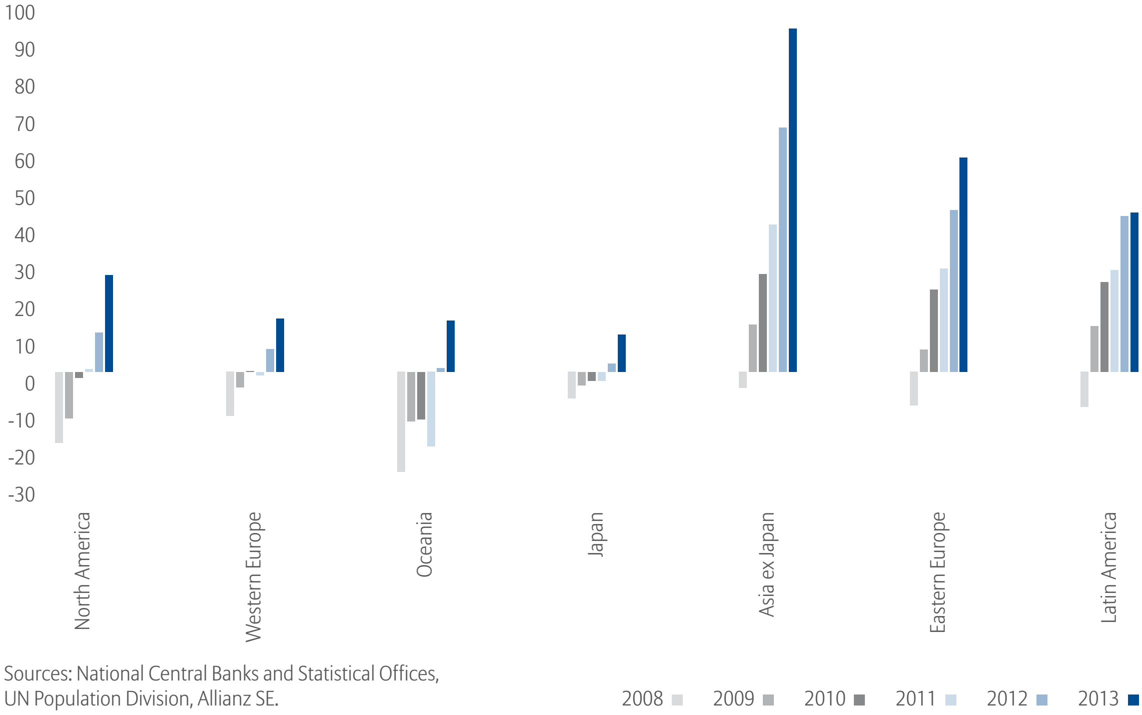
Sources: National Central Banks and Statistical Offices, UN Population Division, Allianz SE.

one. Both regions increasingly seem to be playing in a league of their own, considerably behind the others. As a result, asset development is another area in which fears of a "Japanese model" emerging in Europe cannot be dismissed entirely.

The rate at which the individual regions have recovered from the losses resulting from the crisis varies considerably. It took the net per capita financial assets of private households in Oceania, western Europe and Japan until the end of 2012 to bounce back to exceed the high reached in 2007. North America, on the other hand, had already made up for the losses a year earlier. 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 2013, the gap separating them from the 2007 level came in at almost 43% in Latin America, around 57% in eastern Europe and as much as almost 92% in Asia (excl. Japan).

All regions exceed pre-crisis level

Rate of change of net financial assets per capita per region, in % compared to 2007



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

Varying impact of 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. If the average interest rates in the period prior to the crisis, i.e. from 2003 to 2008, are used as a yardstick, it is possible to analyze the exact impact that these low interest rates have had on income: on the deposit side, there is the interest lost and, on the lending side, the interest gains/reduced interest burden. The balance of these two values shows whether households as a whole can be classed as the “winners” or “losers” of the low interest rate policy.

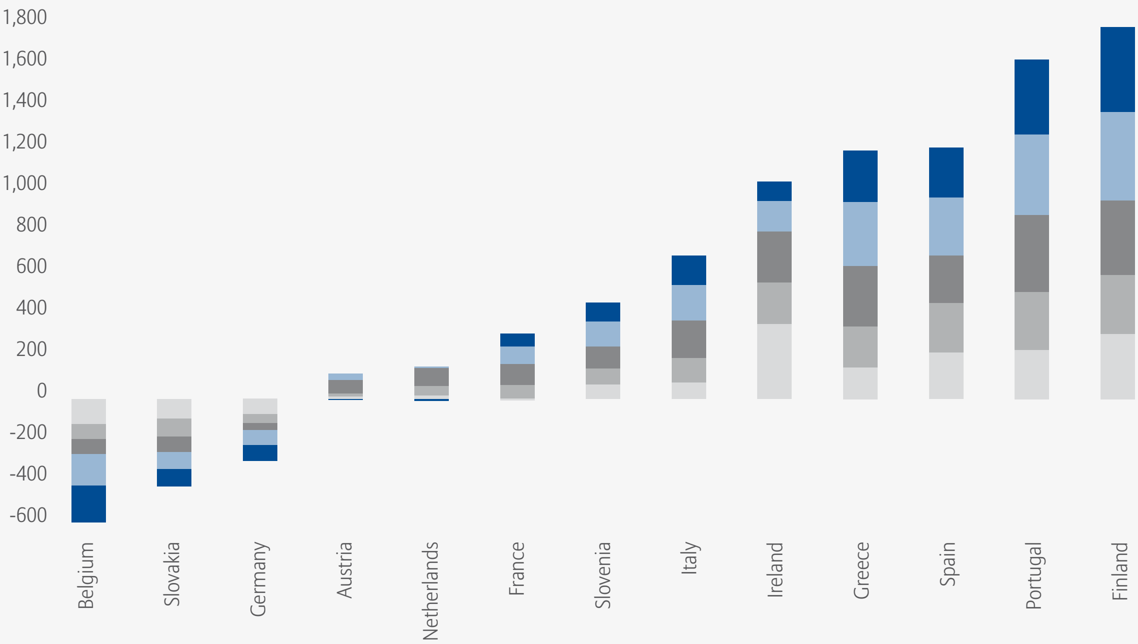
We had already used this method last year to look at the impact the low interest rates are having on the incomes of private households in the eurozone. This time round, we have not only updated this analysis, but have refined and enhanced it further. We now calculate interest rates not only on an annual basis, but also on a monthly basis, allowing us to better reflect fluctuations during the year, too. We have also increased the number of countries and years included in the analysis: we now include all EMU countries, excluding only the Baltic states and the small countries of Malta, Cyprus and Luxembourg. The interest gains and losses have also been calculated for the past five years, i.e. since 2010; for this year we have used projections based on the figures for the first quarter.

Ultimately, however, the new calculation methods do not result in any significant changes: in Germany, the balance of private household interest losses and gains is negative every single year. On average, German households have “lost” EUR 281 per capita over the past five years, with total interest losses of just under EUR 23bn since 2010. Belgium and Slovakia are the only other countries where the figures are similarly negative. In Austria, too, any gains made over the years have been fairly modest, with Austrian households expected to join the ranks of the “interest losers” this year. Not surprisingly, this quartet of countries also boast the lowest household debt ratios in the eurozone.

In the rest of the eurozone, on the other hand, some countries have even benefited from marked interest gains on the whole. The net interest gains are particularly fulsome in Spain, Greece, Ireland and Portugal; in all four of these countries, households have gained around EUR 1,000 per capita or more; all in all, the interest gains made in these four countries since the outbreak of the crisis come in at EUR 87bn, making the countries on Europe’s periphery the biggest winners of the low interest rate policy. Italy is the only country that does not fare quite as well, which can be explained by the relatively low levels of personal debt among Italian households. With interest gains to the tune of EUR 655 per capita (EUR 39bn in total), however, the relief is obviously still considerable. Viewed alongside these more or less expected results, the extremely high interest gains in Finland come as something of a surprise. This trend is due primarily to the marked drop in lending rates, with the average interest rate on home loans coming in at less than 2% from 2013 onwards.

Interest earnings and losses in the eurozone

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



*based on Q1-numbers.
Sources: ECB, UN Population Division, own calculations.

In Germany's case, interest losses on the deposit side are the decisive factor. Whereas interest gains are roughly consistent with many other EMU countries in per capita terms, 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 (or because of) the particularly low deposit interest in Germany, which mirrors the country's strong banking sector in relative terms. Deposit interest rates in Germany are now 30 basis points lower than the average level for the other countries in the euro area; prior to the crisis, by contrast, Germany still had a lead of around 20 basis points.

This conclusion is ambivalent for the ECB's crisis policy. On the one hand, the ECB's monetary policy is, as hoped, providing 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, restricting opportunities for consumption. 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 "The impact of the low interest rate policy on private households in the eurozone", Working Paper 176, Group Public Policy & Economic Research, Allianz SE.

Wealth distribution

A mixed picture

It is not just since Thomas Piketty's "Capital in the Twenty-First Century" achieved bestseller status that the wealth distribution topic has been a hot topic of debate. With one side of the story full of tales of economic crisis and rising unemployment, while the other celebrates booming stock markets and glittering success stories, particularly in the IT sector, the overall picture that emerges would appear to point towards an increasingly divided society. So what answers do the figures unearthed by the Allianz Global Wealth Report provide?

As in previous years, we have addressed the question of global wealth distribution on two levels: first, we have used population deciles to show how the situation has developed in a national context in recent years. Second, we have split all households/individuals into global wealth classes to show how many people across the globe are getting their share of global prosperity (or not, as the case may be).

Data on national wealth distribution is not, however, available for all of the countries covered by our report. As a result, we have used the results of Davies et al. (2009), whose studies showed that there is a stable link between income and wealth distribution, for many of the countries analyzed. We have used this link to draw conclusions as to wealth distribution 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 global asset matrix

The next step involves splitting all of the countries into "wealth quadrants". The x-axis represents the share of wealth attributable to the top population decile; the simple average for all of the countries included in our analysis is pretty much bang on the 50% mark. The y-axis shows how this proportion has changed, expressed in percentage points, since 2000; the zero line has been chosen as the differentiator for obvious reasons. This allows us to create a wealth matrix comprising four quadrants (see graphic).

The bottom left-hand quadrant is home to the more "egalitarian societies", in which the below-average share of total net financial assets attributable to the top population decile suggests more balanced distribution; at the same time, this distribution has "improved" even further in recent years: the share attributable to the "top ten-thousand" has become even smaller - which, in turn, implies greater wealth participation among the other sections of society. On the other side, societies in the top right quadrant can be described as being more "elitist": wealth distribution tends to be fairly uneven, as the top population decile holds more than 50% of the total assets; at the same time, this proportion has continued to increase over the past decade. Finally, the other two quadrants contain the "transition societies". In these societies, wealth distribution either is relatively egalitarian but has "deteriorated" over the years (top left quadrant) or distribution is relatively uneven but has shown a marked improvement towards greater equality.

One aspect of these wealth quadrants that is striking at first glance is that there would appear to be more countries to the left of the 50% line and, similarly, more countries below the zero line. This means that wealth distribution does not appear to be quite so unequal in a large number of countries and that developments in recent years seem to be headed in the "right" direction. Naturally, however, it is worth taking a closer look.

Progress in Asia and Latin America

The wealth matrix for Asia and Latin America looks more or less as one would expect: wealth distribution in the Latin American countries is, on average, less equal than in the more egalitarian Asia, especially in a comparison with societies that still have a strong Confucian influence, like China, Japan or South Korea. In the South American countries included in our analysis, the top population decile generally holds more than 60% of the total assets. The only exception is Argentina, where wealth is currently distributed in a more homogenous manner than in the neighboring countries. This can, however, be read in two ways: the trend could be the result of the prolonged crisis, which even the upper class has been unable to escape entirely unscathed. Alternatively, it could reflect the growing black

Wealth distribution: World

Share of the top population decile in net financial assets 2013 in %
and change since 2000 in percentage points

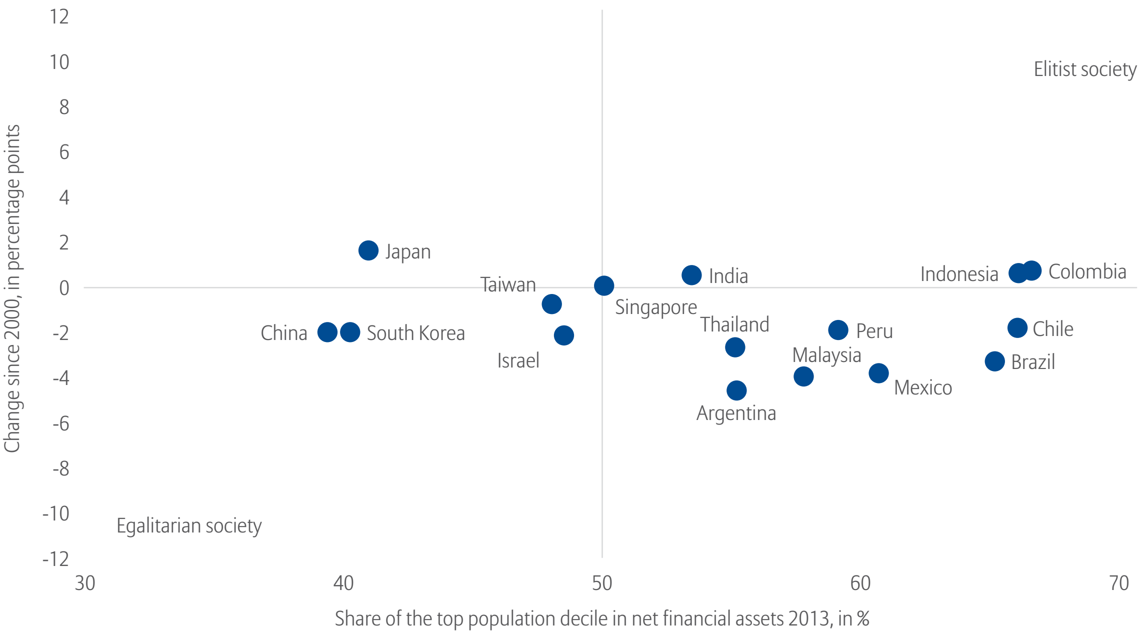
Sources: ECB, National Central Banks and Statistical Offices, UN Population Division, UNU WIDER, World Bank, Allianz SE.

market economy in the country, which is posing ever more of an obstacle to the reliable recording of assets. At least in Argentina's case, the difference between the official data on income and wealth (which we have taken as a basis for this report) and the actual situation is likely to be particularly pronounced. Developments in recent years, however, are unreservedly positive: with the exception of Colombia, where wealth distribution has barely changed since 2000, all other countries have made real progress in terms of moving towards greater social participation. These positive changes are particularly pronounced in the two economies in the region that have also made the most economic progress over the past few years: Mexico and Brazil.

The wealth situation in Asia, on the other hand, is much more of a mixed bag. The egalitarian societies mentioned above are countered by societies like Indonesia, Malaysia, Thailand or India, where more "Latin American" conditions prevail. The picture is equally mixed in terms of the progress made: in four countries, there has been no improvement over the past decade and in one, Japan, there has actually been a significant deterioration. There is no doubt that Japan is paying the price of the prolonged economic standstill, which is slowly but surely at risk of leaving what was once the most homogenous society in the world frayed around the edges. The standstill in India also comes as a disappointment. Without substantial reform and growth impetus, Indian wealth distribution is unlikely to see any long-term improvement in the future either. In this respect, Thailand and Malaysia, on the other hand, can look back on what has certainly been a successful decade.

Wealth distribution: Asia and Latin America

Share of the top population decile in net financial assets 2013 in %
and change since 2000 in percentage points



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

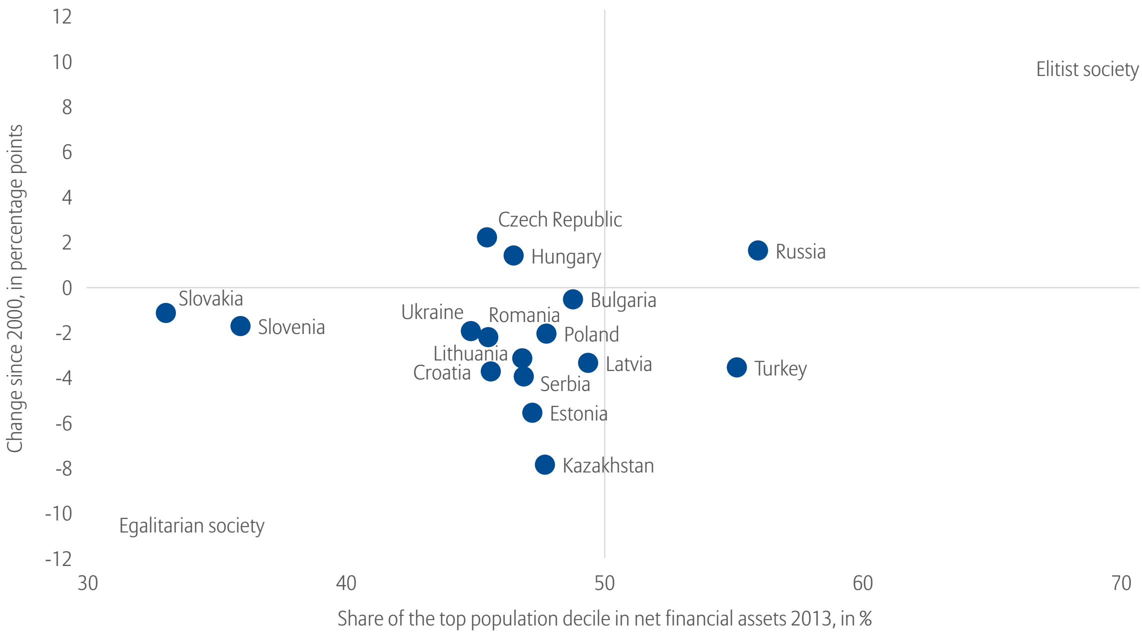
Russia dancing to a different tune

The eastern European wealth matrix is fairly uniform. In most countries, wealth is distributed in such a manner that the top population decile holds around 45% of total net financial assets. This relatively homogenous distribution is likely to be a direct consequence of the fact that these countries only opened their doors to the West and embraced a free market economy 25 years ago; so there has not yet been much time available to (legally) accumulate private assets which, as a result, means that no marked differences have emerged to date.

In most countries, distribution has also improved over the past decade. This is due to the turbulent nature of asset growth that has affected large parts of society. The only countries that do not fit this pattern are the Czech Republic and Hungary which - starting from a low level - have seen the distribution situation deteriorate slightly and, first and foremost, Russia. Russia already had marked wealth differences to begin with, a gap that has only widened even further in recent years. On the other hand, the considerable progress made in Kazakhstan should be interpreted, as with Argentina, with a pinch of salt. This is not the case for Turkey, on the other hand, whose economic ascent is also reflected in wealth development and distribution. Nevertheless, "South American" conditions still tend to prevail in Turkey, too, as the country does not share the experience of resetting the clock, so to speak, 25 years ago as the other countries in the region do.

Wealth distribution: Eastern Europe

Share of the top population decile in net financial assets 2013 in %
and change since 2000 in percentage points



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

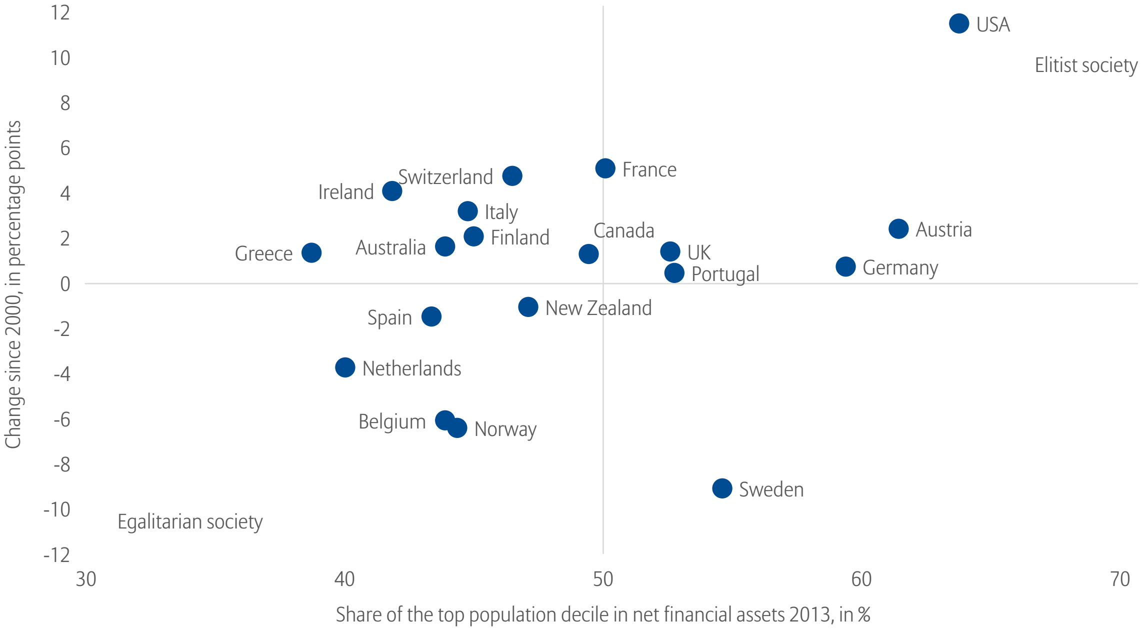
Financial crisis taking its toll

The wealth matrix for the developed countries in Europe, North America and Oceania varies considerably, with an exceptionally large gap between distribution levels themselves and the rates of change. Most of these countries, however, have seen a (sometimes considerable) increase in the inequality of distribution in recent years. The big exception is definitely Sweden, although this is due to the fact that the country had already suffered its real estate and financial crisis back in the 1990s, meaning that developments over the past ten years can be seen more as a return to normal "Swedish" conditions.

The same cannot be said for the US, where the crisis and the sluggish economic recovery that followed have evidently caused a dramatic deterioration in wealth distribution. Although none of the other countries have seen developments on the same scale, it is striking that it is in those countries that were hit particularly hard by the crisis - for example, Greece and Ireland but also Italy and France - that the proportion of assets attributable to the upper wealth decile has swollen considerably. Households in the low to middle wealth categories would appear to have borne the brunt of the asset accumulation setbacks resulting from the crisis, with high wealth households not affected to the same extent. In the US, the digital revolution is certainly another factor that is adding to this phenomenon, with at least the main protagonists increasingly discovering this trend as a "wealth accelerator". One word on the situation

Wealth distribution: Western Europe, North America, Oceania

Share of the top population decile in net financial assets 2013 in %
and change since 2000 in percentage points



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

in Germany: the distribution of wealth has barely changed since 2000; contrary to its own (national) self-image, however, Germany is actually one of those countries with relatively uneven wealth distribution in an international context. This is, however, likely to be one of the relics of the country's long division into East and West more than anything else.

Growth instead of taxes

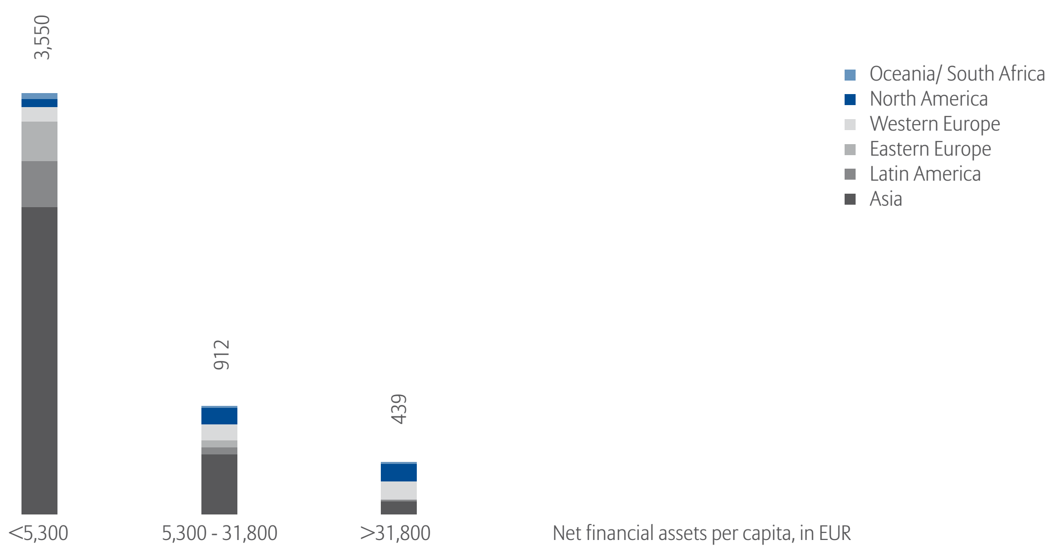
So what conclusion can we draw from our tour d'horizon through the national statistics on wealth distribution? Contrary to the fears voiced by Thomas Piketty, we would appear not to be faced with an unstoppable force driving a wedge through society and clearly dividing rich from poor. On the contrary: in this respect, the past few years have shown fairly encouraging developments in many of the countries featured in our analysis, i.e. they are moving towards a more even distribution of wealth. Nevertheless, "exceptions" confirm the rule - and can be found in the examples of France and, more so, the US, two countries that Piketty's study happened to focus on. These two countries, as well as the other developed countries where wealth distribution has changed for the worse, confirm the theory that crises and asset losses are poison to the ideal of an egalitarian society. On the other hand, wherever total assets have experienced rapid growth, more and more people would appear to be able to participate in this prosperity. If you choose only to look at the (similarly meteoric) rise in the number of millionaires, you lose sight of the positive developments taking place "lower down", among the population at large. The current progress made by many countries in Asia, Latin America and eastern Europe is a success story from a distribution policy perspective, too. Anyone hoping to achieve more even wealth distribution should not aim to limit asset growth by imposing taxes and levies, but rather to do absolutely everything possible to foster asset growth as a whole. Here, too, there is real truth in the theory that growth is the best way of achieving social justice.

Global wealth classes in 2013

An analysis based on global wealth classes corroborates this picture. First of all, however, we have to define the individual global wealth classes. As in previous years, we have taken the average global net per capita financial assets, which totaled EUR 17,700 in 2013, as a basis. The global wealth middle class encompasses all individuals with assets corresponding to between 30% and 180% of the global average. This means that for 2013, the asset thresholds for the global wealth middle class stand at EUR 5,300 and EUR 31,800. The "low wealth" category, on the other hand, includes those individuals with net financial assets that are below the EUR 5,300 threshold, while the term "high wealth" applies to those with net financial assets of more than EUR 31,800 (for details on how the asset thresholds are set, please refer to Appendix A).

Global wealth middle class approaches the one-billion-mark

Population (53 countries analyzed)
in million



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

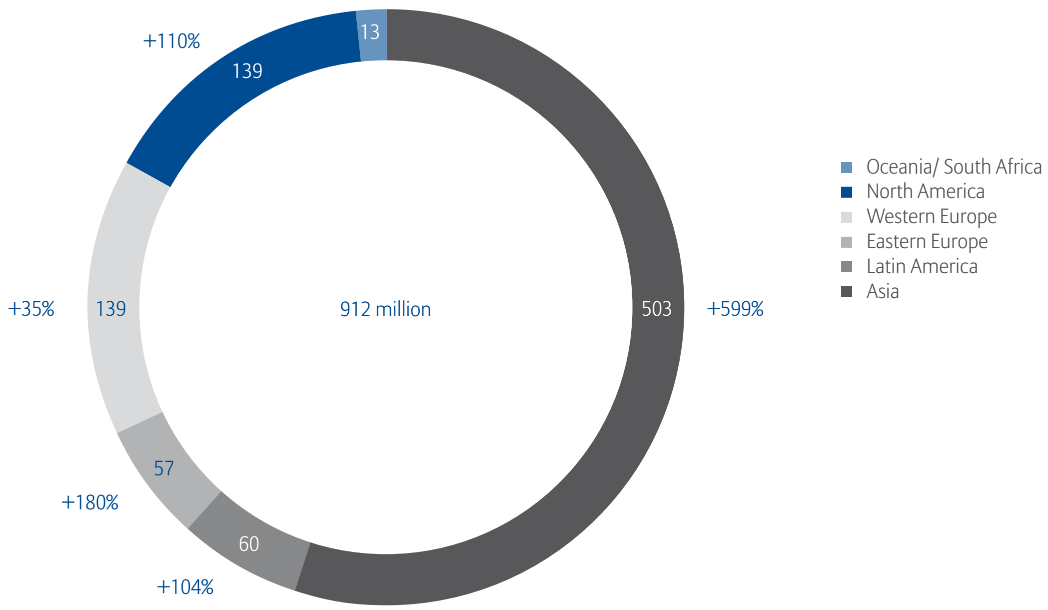
912,000,000 people belong to the global wealth middle class

Based on this breakdown, 912 million people with net assets in the middle range lived in the countries included in our analysis in 2013, a good 60 million people more than a year before. Much of this growth is attributable - in addition to general population growth - to the US and Japan, albeit for different reasons: in the US, the strong recovery made on the stock markets and the drive to forge ahead with debt reduction in recent years are having a positive impact, which is why more Americans can at least count themselves among the global wealth middle class again. In Japan, on the other hand, the wealth upper class has shrunk, although this is most likely due mainly to the poor exchange rate development, which resulted in Japanese households losing ground in an international comparison.

This means that, on the whole, just under 19% of the world's total population belonged to the global wealth middle class in 2013 (2012: 18%). The momentum driving the ascent of the global middle class becomes particularly evident if we look at a longer period of time: since the turn of the millennium, the share of the population that falls into the wealth middle class in global terms has doubled in Latin America, has almost trebled in eastern Europe and has increased seven-fold in Asia. 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, almost every second member comes from Asia - and that is even leaving Japan aside. The share attributable to North America and western Europe has fallen to around 30%.

Ex orient wealth middle class

Wealth middle class by region in million and change over the year 2000



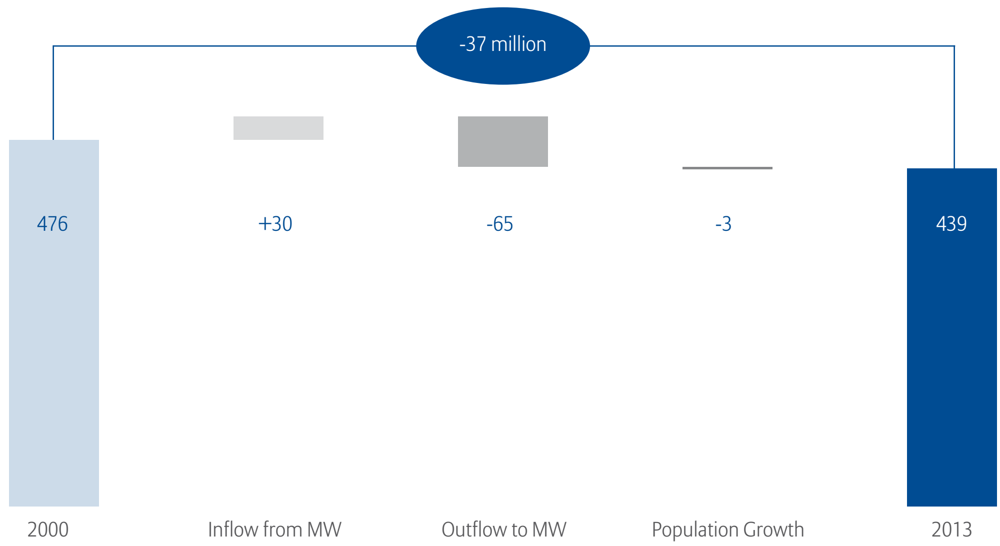
Sources: ECB, National Central Banks and Statistical Offices, UN Population Division, UNU WIDER, World Bank, Allianz SE.

65,000,000 losers

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, a good 65 million people have been demoted from the "wealth upper class" over the past few years - so part of the new middle class has, in fact, been recruited from the ranks of those relegated from the category above. This obviously only applies to the developed economies: the most pronounced absolute shifts in this direction have been witnessed in the US, Japan, France and Italy - all countries in which the distribution of wealth within the country has become significantly "less equal", too. The number of "losers" clearly exceeded the number of winners, meaning that the wealth upper class has shrunk at global level as well. This, again, does not necessarily confirm fears of an increasingly unequal society. This trend has also given the "high wealth class" a much more international face. Whereas at the start of the millennium, three-quarters of its members hailed from western Europe and North America, this figure had slid to only around two-thirds by the end of 2013.

More outflows than inflows in the wealth upper class

Changes in the wealth upper class
in million



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

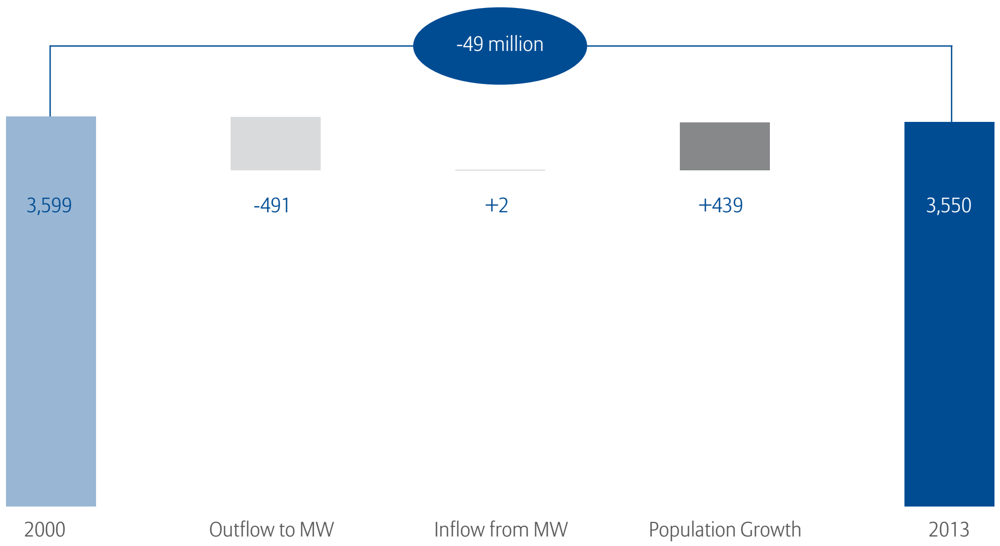
491,000,000 winners

The trend in the "low wealth" category more or less mirrored this: in many developing countries in Asia, Latin America and eastern Europe, this category has become must 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 wealth lower class remained fairly constant in the period between 2000 and 2013. Despite major shifts, however, there has been little change in the overall number of people belonging to this class (just under 3,600 million) during this period. This is due to general population growth, which stood at 520 million people in the countries included in our analysis, with the lion's share of this growth attributable to the lowest and biggest wealth class. It is only when this "natural" increase is taken into account that the true story of advancement lurking behind the figures on the wealth lower class emerges: almost half a billion people have managed to be promoted from this class to the global wealth middle class over the past 13 years. This figure, more than any other indicator, highlights the fact that, in a global comparison, more and more people are managing to participate in global prosperity. So from this angle, inequality certainly cannot be said to be on the increase.

A look at the absolute population figures also shows, however, that the growth of the wealth middle class is unlikely to have reached the end of the line. The "sea of poor people" is still huge. This applies, not least, to very populous countries like India or Indonesia which - despite having made considerable progress - are still a long way off having reached their full potential.

Almost 500 million move up from the wealth lower class

Changes in the wealth lower class
in million



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

Real estate assets

A somewhat peculiar wealth category

In the past, the Allianz Global Wealth Report has not taken personal real estate assets into consideration. And there are very pragmatic reasons why: for most of the countries included in the analysis, there is currently no data available in the macroeconomic wealth accounts that would allow conclusions to be drawn as to the value of real estate in private hands. However, even when that data is available, varying statistical definitions of non-financial assets make a consistent comparison between countries somewhat difficult. In its balance sheet for the non-financial assets of private households, Eurostat, the Statistics Office of the European Union, reports the values of residential buildings, non-residential buildings and land and soil separately. While values for residential buildings are available for 19 member states, data on non-residential buildings is currently only available for ten countries, with only three countries having information available on the value of the land and soil of private households. A comparison with the situation in non-EU countries, however, is only possible in individual cases; the only OECD information available for Switzerland and the US, for example, relates to the value of residential buildings including land and soil.

In order to enable comparability, we have therefore restricted the group of countries in our ranking to the EU member states covered by Eurostat and have set out the situation in other selected countries merely as anecdotal examples.[2]

2 For information on the data sources and the group of countries whose private real estate assets have been analyzed, please consult the Appendix A.

Conceptual problems when it comes to measuring real estate assets

The inclusion of real estate assets in the wealth analysis also gives rise to other problems of a conceptual nature. Whereas it is fairly easy to determine the value of financial assets without leaving any room for ambiguity, this is not necessarily the case for real estate assets. While most statisticians use house prices as a basis, one has to ask whether these really reflect the "value" of a property? Or do they not tend to be based more - as is generally the case with capital goods - on the income that can be generated, i.e. the return, which in this case means the actual or, for owner-occupiers, the implicit rental income? This is by no means a trivial question, because house and rental prices have been moving further and further apart in many countries over the last few decades. Another reason why the use of house prices to determine value is problematic is that properties are only sold in very rare (emergency) cases in order to generate additional income/ consumption opportunities. If properties are sold, then the intention in the vast majority of cases is to buy another property elsewhere; this means that price increases cancel each other out and do not imply any real asset growth. Even in old age, the property ownership ratio only dips marginally as a result, because the overwhelming majority of homeowners only own the house that they actually live in. In the eurozone, for example, almost 95% of homeowners could "only" call their own four walls their own (cf. Eurosystem Household Finance and Consumption Survey). So in this sense, real estate assets are, in actual fact, sui generis assets, which – unlike the variety of financial assets – have less to do with saving, i.e. postponing consumption until the future, e.g. old age, but rather, in the vast majority of cases, are more similar to commodities whose "real" value is ultimately an emotional one and lies primarily in the (long-term) use of or commitment to the property.

Nevertheless, it is, of course, interesting to take a look at real estate assets. After all, a private individual's own home tends not only to be the biggest individual item in his or her wealth balance sheet, but can also be used in emergencies to prevent against financial hardship.

Real estate assets lower than financial assets

A look at the ratio of real estate assets to gross financial assets shows that, in most of the countries included in our analysis, the value of gross financial assets is much higher that of real estate assets; on average, real estate assets in 2012 corresponded to 80% of gross financial assets. While throughout the entire observation period (from 2000 onwards), the proportion of real estate assets in Denmark, the Netherlands, Italy and Poland was significantly below the average for the EU countries analyzed, in Estonia, Slovenia, Slovakia and Hungary that value has been exceeding the value of gross financial assets for years.

This is likely due primarily to the relatively high levels of home ownership fueled by the waves of privatization that followed moves to open the markets in the 1990s. Whereas many households became the owners of their own homes virtually overnight, it took them much longer to accumulate financial assets using their own savings - although this was a much steadier development: in all of the eastern European countries included in our analysis, the ratio of real estate assets to financial assets has dropped significantly in recent years, falling from 3.0 (2004) to 1.9 (2012) in Slovakia, for example.

The conclusion that can be drawn from this comparison is that, in developed countries, real estate assets tend to be worth much less than gross financial assets. Most household surveys on wealth, however, including the Eurosystem Survey cited above, conclude the opposite. So how can we explain this discrepancy? The main reason is likely to be that private households tend to overestimate how much their own property is worth (for emotional reasons) when surveyed, whereas financial assets, and in particular entitlements from insurance policies or pensions, are systematically underestimated because they are not declared. In some cases, a comparison of the results of the Eurosystem Survey with the macroeconomic wealth accounts reveals discrepancies of 50% and more for financial assets alone. We believe, however, that the objective results of the macroeconomic wealth accounts are a much better reflection of the actual wealth situation of private households than the subjective "sense of prosperity" that comes to light in the surveys.

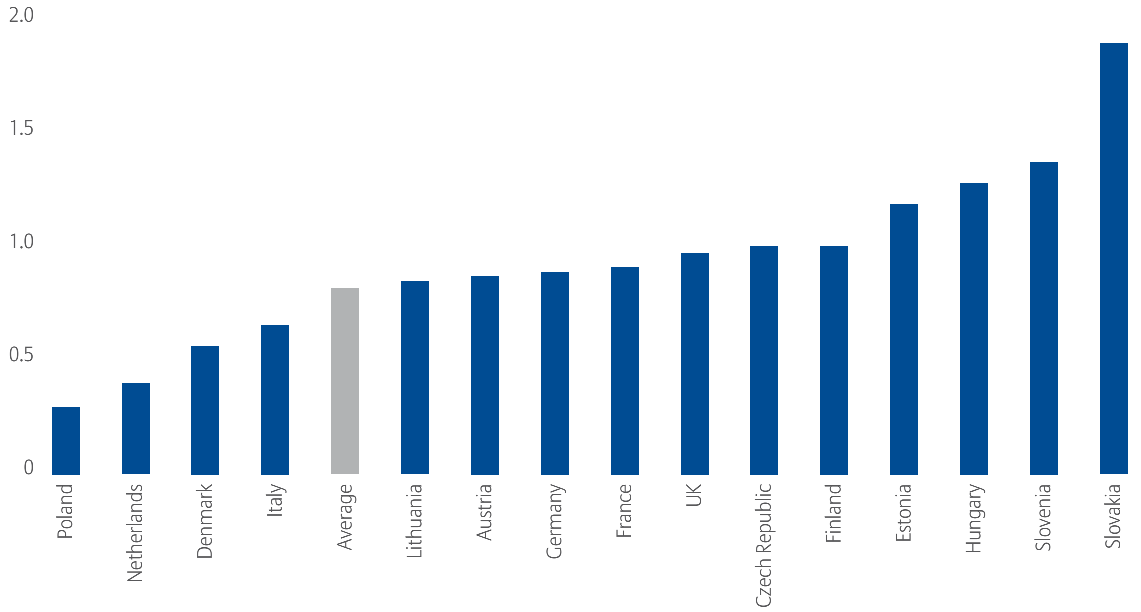
Steady development in real estate assets

In most of the countries in our analysis, property values rose more or less steadily between 2001 and 2012. The average rate of growth since the turn of the millennium is 4.9% a year.

In the US, on the other hand, real estate assets, including land values, were on a continual downward spiral over the five years from 2006 to 2011, ultimately losing around 27% of their value in total. It was only possible to put an

Real estate assets mostly lower than financial assets

Ratio of real estate assets to gross financial assets, 2012



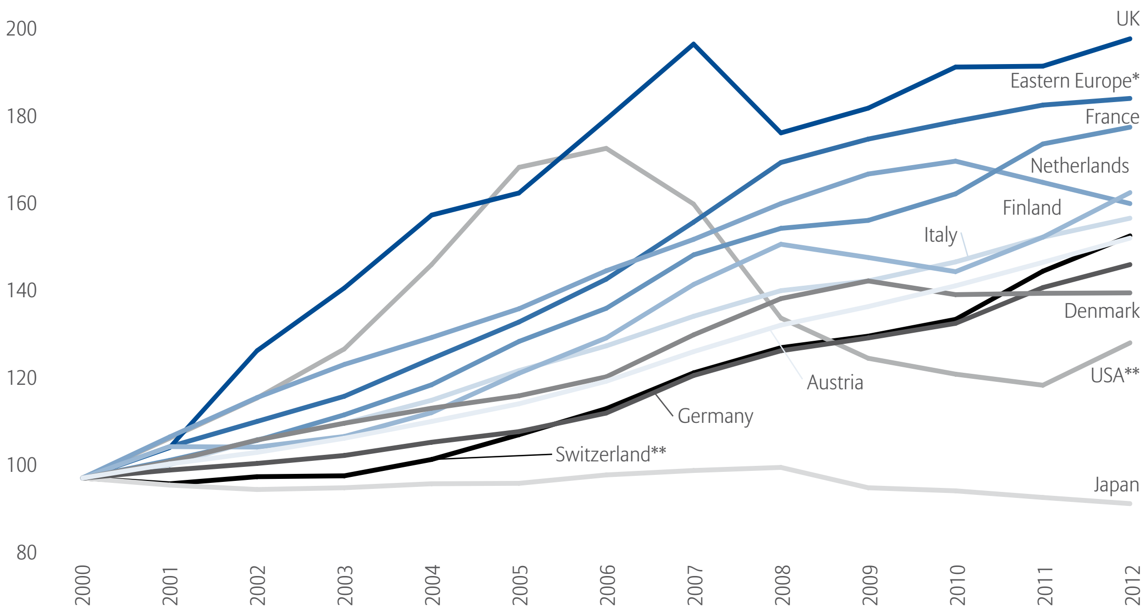
Soruces: National Central Banks and Statistical Offices, Eurostat, Allianz SE.

end to this downward trend in 2012, when the region made a return to strong growth again: after growth of almost 9% in 2012, the growth rate in real estate values is likely to have picked up to more than 11% last year. This sort of development is not, however, what we would expect to see in Japan, the other country to report disappointing development in property prices: Japan's national real estate market has been locked in a phase of permanent decline since the 1990s and is unlikely to receive any new impetus in the future if the forecasts regarding population development hold true.

According to Eurostat, out of all the EU countries analyzed, only Dutch and Lithuanian households had to accept a drop, in absolute terms, in the value of their real estate assets. According to the information provided by the Greek central bank, this was also the case in Greece (land values included in the calculation). By contrast, in most other countries, only a slowdown in growth has been observed to date. Germany and Switzerland, however, buck this trend, as they still have some catching-up to do based on the development in the pre-crisis years. Despite a picture of real estate asset development that is positive on the whole, we have to bear in mind that no data is available for the countries on Europe's periphery, namely Spain, Portugal and Ireland. Here, asset development is likely to be closer in line with the US trajectory.

Different speed of growth

Development of real estate assets in selected countries and in eastern Europe, index (2000=100)



* Czech Republic, Estonia, Hungary, Lithuania, Poland, Slovakia, Slovenia.
Sources: Eurostat, OECD, Allianz SE.

**including value of residential land.

Real estate and financial asset growth largely in tandem with each other

But it is not only an analysis of real estate asset growth per se that yields interesting information. A comparison with gross financial asset development is also of interest. Despite marked differences from country to country, the trends have been fairly consistent across the board on average. In the period between 2000 and 2012, the annual rate of growth in gross financial assets in the countries analyzed came in at 3.8% on average. So the cluster of points representing the long-term average growth rates for real estate and financial assets is relatively symmetrical along the 45° axis. This parallel development, however, does not really come as much of a surprise. After all, at least in the long term, the same fundamental data that impacts real estate asset growth - namely population development, economic growth and inflation - should also be the main drivers behind the development in financial assets.

Real estate assets and financial assets

Compound annual growth of real estate and gross financial assets since 2000

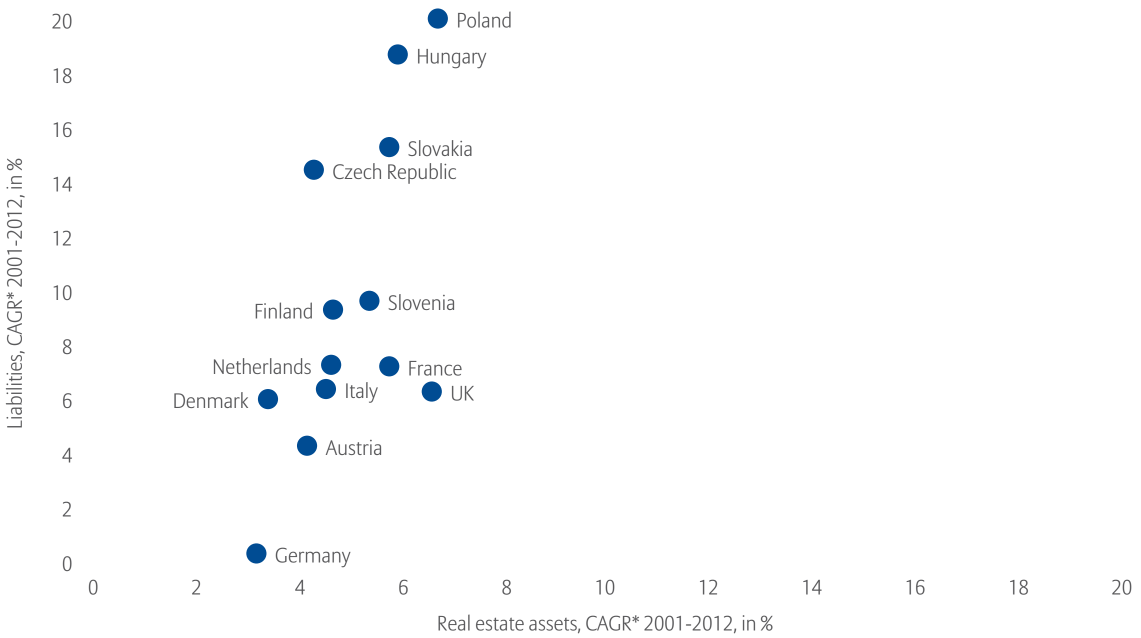
*CAGR =Compound Annual Growth Rate.
Sources: National Central Banks and Statistical Offices, Eurostat, Allianz SE.

Eastern European liabilities growing at a faster rate than real estate assets

If, however, we compare real estate asset growth with debt momentum, we can still spot signs of a close link. With an average growth rate of 5.1% per year, the value of liabilities only increased at a marginally quicker rate than that of real estate assets (4.9%) between 2001 and 2012. At country level, however, a number of outliers dominate the scene. If we map the average annual development in real estate assets and liabilities over the observation period in a diagram, we are left with a cluster of individual data values arranged more or less vertically. If we take a closer look, however, we can see that this asymmetrical development can be attributed primarily to eastern European countries, where debt growth has consistently been in the double digits since the turn of the millennium. Nevertheless, the debt ratio (liabilities expressed as a percentage of GDP) in these countries, which comes in at around 34%, is still well below the values seen in western Europe (touching on 81%) and North America (85%, both values for 2012).

Real estate assets and liabilities

Compound annual growth of real estate assets and liabilities since the end of 2000



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

UK in the lead, with Japan as the biggest "real estate loser"

To round off our analysis of real estate assets, we would like to take a brief look at the absolute per capita figures. Given that the prosperity gap between the East and the West remains significant, the country ranking list is by no means surprising: among the EU member states analyzed, the UK had the highest value of per capita real estate assets at the end of 2012 with EUR 82,030, followed by Denmark (EUR 63,140) and France (EUR 58,890). Polish households (EUR 2,580) remain at the bottom of the league, behind Lithuania, even though the value of their real estate assets has already more than doubled since the turn of the millennium.

If we look at Japan, the county would now appear to be on a par with eastern Europe as far as its private real estate assets are concerned. By way of example, Slovenia, which has the highest value of per capita financial as well as real estate assets of all eastern European EU countries, has per capita real estate assets that are almost 40% higher than in Japan, where two decades of a property market slump have left lasting scars.

If we now add the per capita real estate assets to the net per capita financial assets, we arrive at a new ranking. As expected, only minor shifts can be observed in the case of the 15 EU countries included in our analysis. The position of the majority of the countries has either stayed the same or only moved up or down by one notch. The UK, which is undoubtedly already benefiting from its strong - perhaps even overheated? – real estate market, has been able to defend its position as the leader. Denmark, on the other hand, which has shown the lowest increase in the value of its per capita real estate assets of all EU countries since 2000, has slipped down by one position. Private households in the Netherlands, which traditionally hold an above-average proportion of their total assets in the form of financial assets, even managed to be promoted by four places and are now in 2nd place. Germany is the only country to lose two places, since with a value of EUR 42,050 at the end of 2012, it was second only to Finland in having the lowest value of per capita net financial assets of all of the western European EU countries included in our analysis.

If we were also to include non-EU countries like Switzerland, the US and Japan in the ranking, Swiss households would come out on top globally not only in terms of net financial assets alone, but also with the inclusion of real estate assets (a total of EUR 306,580 per capita). Despite the relatively low value of their real estate assets (EUR 45,050 per capita), the Americans were, nonetheless, in a position to defend their title as the second wealthiest nation in the world. Strictly speaking, however, this comparison is only meaningful to a limited extent, since, as was mentioned earlier, land values are included in the calculations for the US and Switzerland. Japanese households, on the other hand, which come fifth in the global country ranking list as far as per capita net financial assets are concerned, drop back by five places after house values were taken into consideration, once again finding themselves sandwiched between Italy and Finland.

Real estate assets and net financial assets

Real estate assets per capita in EUR (2012)

UK	82,030
Denmark	63,140
France	58,890
Germany	53,440
Austria	53,310
Netherlands	46,570
Finland	42,880
Italy	40,370
Slovenia	24,540
Slovakia	16,800
Czech Republic	13,450
Estonia	13,210
Hungary	12,110
Lithuania	6,870
Poland	2,580

Net financial assets per capita in EUR (2012)

Netherlands	68,840
UK	56,810
Denmark	50,090
Italy	47,400
France	43,420
Austria	42,960
Germany	42,050
Finland	18,520
Slovenia	12,450
Czech Republic	9,070
Hungary	6,390
Poland	5,430
Lithuania	5,170
Slovakia	4,920
Estonia	4,900

Real estate plus net financial assets per capita in EUR (2012)

UK	138,840
Netherlands	115,410
Denmark	113,230
France	102,300
Austria	96,270
Germany	95,490
Italy	87,770
Finland	61,400
Slovenia	36,990
Czech Republic	22,520
Slovakia	21,720
Hungary	18,500
Estonia	18,110
Lithuania	12,040
Poland	8,010

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

Property does not offer any reliable protection against demographic change

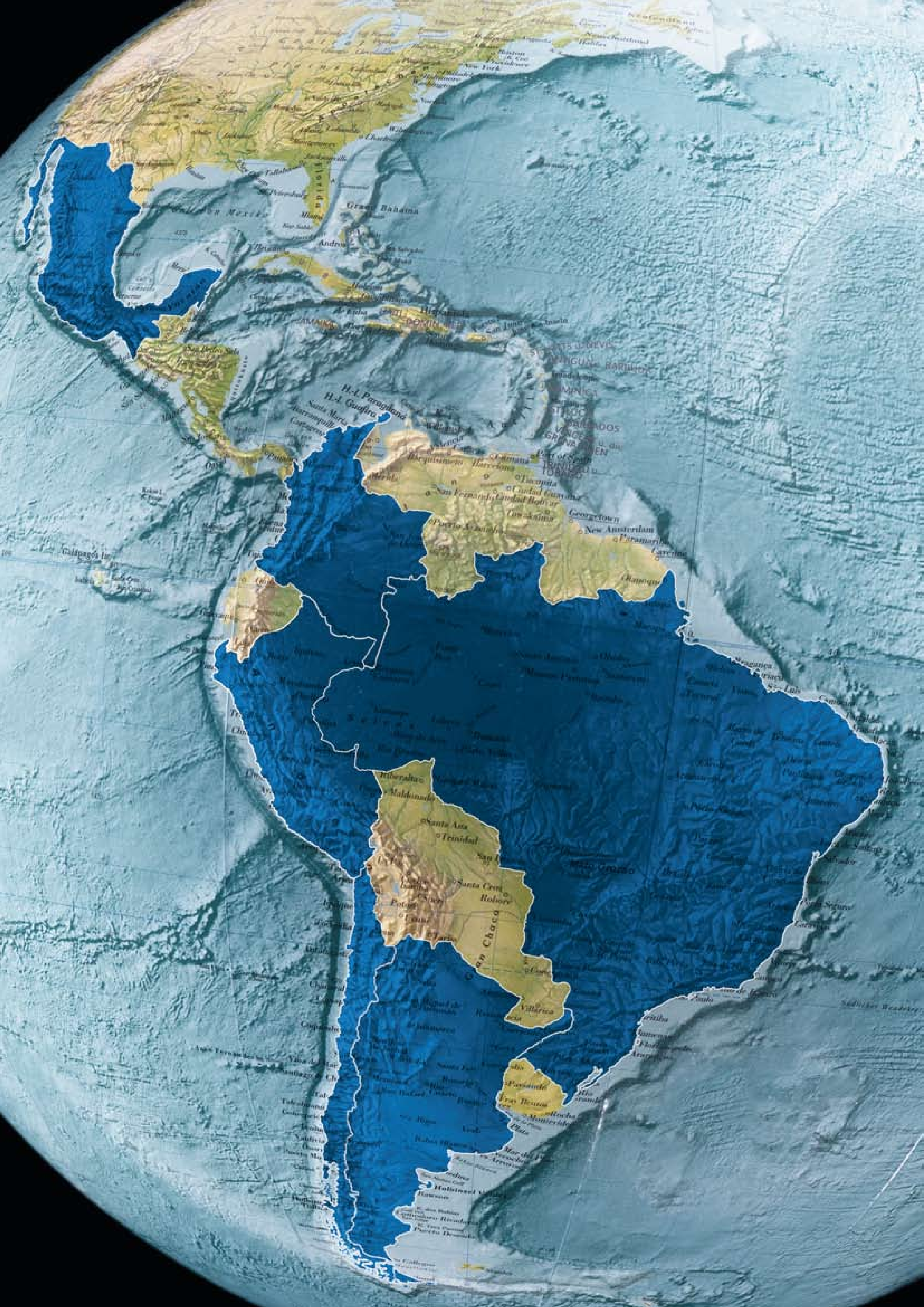
If our analysis has proved anything, then it is that real estate assets are a somewhat peculiar wealth category. According to the macroeconomic wealth accounts, property values would not appear to be as high as their owners like to think. Similarly, developments have not been as volatile as the repeated crises on the real estate market appear to suggest. On the other hand, there is a strong correlation with financial asset development. This also means that the "prosperity ranking" of the individual countries remains largely unchanged even if we take values of residential buildings into account.

Interesting conclusions can, however, be drawn - particularly regarding the situation in Japan, where personal real estate assets only account for a fraction of the gross financial assets of private households. In many cases, property located in areas outside of the country's major cities, and particularly outside of Tokyo, is of little more than sentimental value to its owners. This development is not merely the direct consequence of the property bubble that burst in the early 1990s. It also reflects another phenomenon: that of an ageing and shrinking society. After all, no matter where you go - with only a handful of exceptions, such as major international cities like London, Paris or New York - private residential property is almost always a local asset; when the local population shrinks, the demand falls as well. Japan is only the earliest example of this protracted negative momentum – given demographic trends, many other countries and regions look at risk of following in its footsteps. The implications are clear: real estate is not "demographically-sound", because - unlike financial assets - it cannot be internationalized. It does not provide any reliable protection against demographic change.

So the central idea that drives the accumulation of personal wealth, namely the wish to independently set funds aside for the future - which usually means for old age - is one that can only be achieved to a limited degree using property. This plan is thwarted not only by falling prices in many places, but also by the fact that hopes of saving money that would otherwise be spent on rent often prove to be an illusion, especially in old age, as maintenance and modernization costs rise. To put it more precisely: houses are not piggy banks. Personal financial assets are a better indicator when it comes to measuring a society's prosperity. In this respect, the Japanese can still count themselves lucky that they have substantial financial assets giving them "saved-up" consumption opportunities in the future - this, and not the dwindling value of their real estate - is their insurance against the advancement of demographic change.

Regional differences

Financial assets in individual regions



New York
Boston
Grand Bahama
Hispaniola
H.-I. Paraguaná
H.-I. Guajira
Barquisimeto
Barcelona
Cumaná
Port of Spain
Ciudad Guayana
Ciudad Bolívar
San Fernando
Puerto Ayacucho
Georgetown
New Amsterdam
Paramaribo
Cayenne
Santa Ana
Trinidad
Santa Cruz
Roboré
Potosí
Sucre
Villarrica
Paysandú
Fray Bentos
Rocha
Montevideo
Rawson

Latin America

Population

In the analyzed countries	460 m
Analyzed countries' share of the region as a whole	76.5%
Analyzed countries' share of the global population	6.5%

GDP

In the analyzed countries	EUR 3,260bn
Analyzed countries' share of the region as a whole	84.1%
Analyzed countries' share of global GDP	6.6%

Gross financial assets of private households

Total	EUR 2,561bn
Average	EUR 5,560 per capita
Share of global financial assets	2.2%

Debt of private households

Total	EUR 1,020bn
Average	EUR 2,215 per capita
As % of GDP	31.3%

In the six Latin American countries included in our analysis, Argentina, Brazil, Chile, Colombia, Mexico and Peru, gross financial assets rose by 6.4% last year to total just under EUR 2.6 trillion. This means that asset growth in this region bucked the global trend by slowing considerably compared with the previous year, when the rate of growth was still sitting at 13.5%. Latin American asset development in 2013 was weak in a long-term comparison, too, with the average rate of growth since the end of 2000 coming in at 12.7% p.a.

Signals sent out by the Federal Reserve System in May 2013 regarding a possible reduction in the bond-purchasing program triggered a veritable sell-off of assets from up-and-coming economies across the globe. The increased uncertainty on the international financial markets translated into substantial corrections on the capital markets and sliding currencies in the emerging markets. Financing conditions deteriorated considerably, putting added strain on the already sluggish Latin American economic recovery. A second wave of selling came towards the end of the year, although unlike with the first wave, investors were paying more heed to fundamental data when making investment decisions. In particular, those countries faced with an increasingly gloomy economic outlook and substantial macroeconomic imbalances were hit by further capital outflows. The economies in question saw prices slide repeatedly on the stock, bond and currency markets.

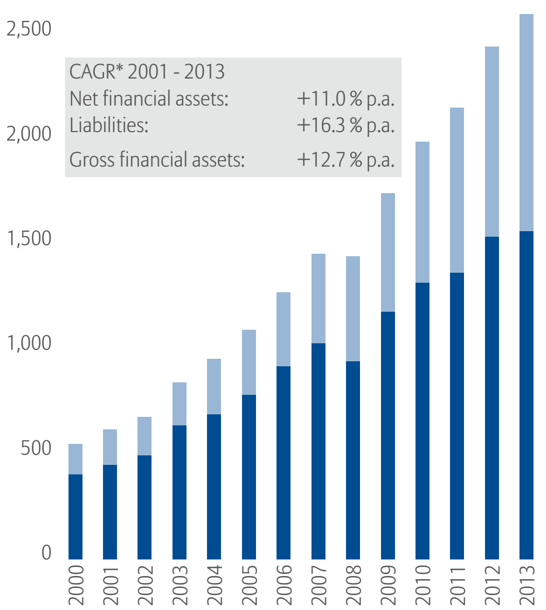
In addition to India, Indonesia, South Africa and Turkey, Brazil is another one of the countries in which financing conditions deteriorated markedly. In the largest country in South America in terms of area, population and economic output, the economic recovery once again made only slow progress in the course of last year. In 2013, nominal economic growth came in at around 10%, lower than the long-term average (+11.5% p.a. since the end of 2000) for what is now the third year running. At the same time, May saw the rate of inflation overshoot the 6.5% target defined by the country's central bank. Against this backdrop, the consumer spending of private households also remained subdued, falling by a further 0.1% in the course of 2013 after contracting by 5.8% a year earlier. Although gross financial assets rose by what would appear, at first glance, to be a robust 7% last year, this growth rate was less than half the 2012 figure (+14.9%) and was only just under one percentage point higher than the average annual rate of inflation. The growth slowdown was a trend that affected all asset classes.

More than three-quarters of regional gross financial assets were concentrated in Latin America's two largest economies: around 44% of regional financial assets were in the hands of Brazilian households, with a good 34% attributable to the Mexicans. The private savings of the region's second-largest economy showed weak growth in a historical comparison, expanding by only 3.2%, mainly due to disappointing stock market performance. The Mexican leading index lost a good 2% in the course of 2013 and the total assets held by private households in securities only expanded by a meager 0.9% year-on-year. Since, like their US neighbors, Mexicans have traditionally held the lion's share of their financial assets (around 66%) in shares and fixed-income securities, the poor performance of this asset class is pushing the growth rate for the total asset base down considerably.

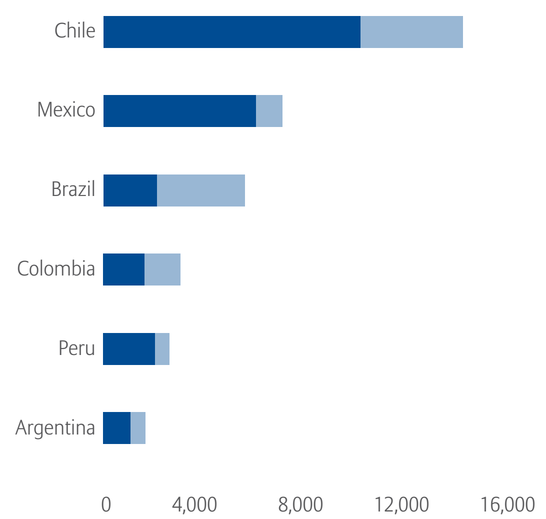
One aspect that is somewhat surprising for an emerging region is the relatively large proportion of assets invested in life insurance and pensions in Latin America, namely 29%, streets ahead of the average level for the world's emerging markets, which comes in at 15%. Within the region, however, the 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.

Asset growth slowed down in 2013

Net financial assets and liabilities
in EUR bn



Net financial assets and liabilities per capita 2013
in EUR



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

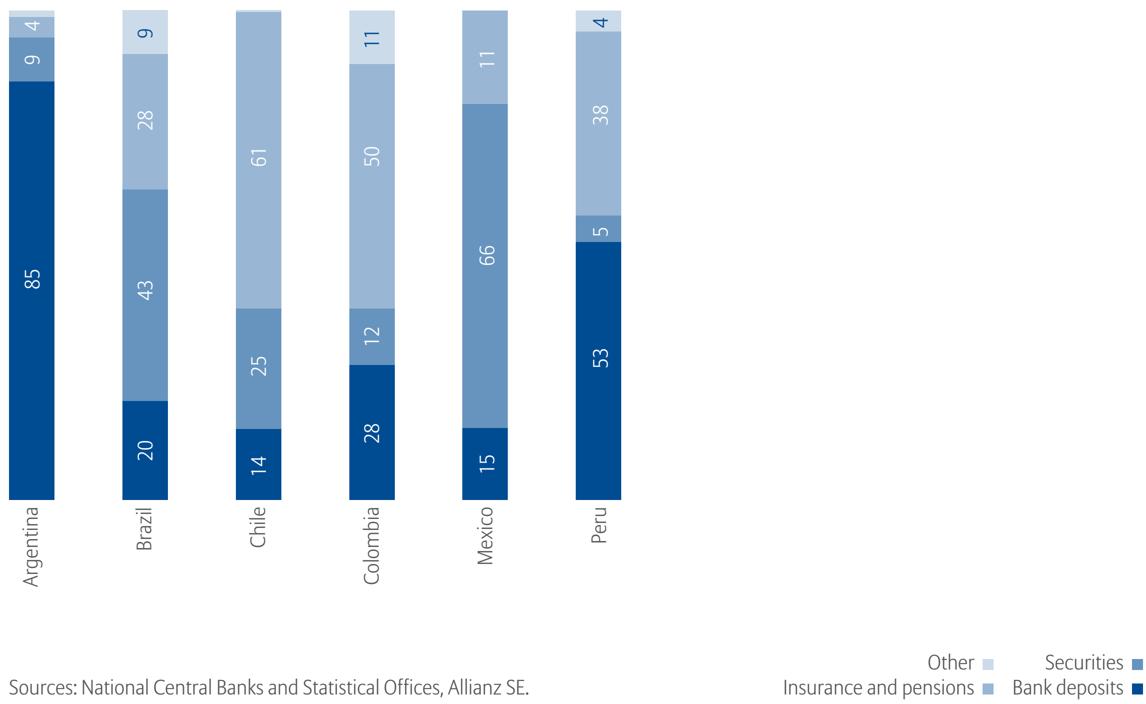
Net financial assets
Liabilities

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: almost 82% of liabilities are attributable to Brazilian and Mexican households alone. Net financial assets, i.e. gross financial assets less liabilities, climbed to more than EUR 1.5 trillion in the region as a whole. The region's share of global net financial assets has doubled from 0.9% at the end of 2000 to the current level of 1.8%. Since debt growth outpaced the accumulation of gross financial assets, net financial assets have reported slightly slower growth than their gross counterparts (average growth of 12.7% p.a.), increasing at a rate of 11% p.a. on average since the end of 2000.

The region's growth champion is Argentina, where net financial assets grew by an average of 25.7% p.a. in the period between 2001 and 2013. This rapid asset development, however, did nothing to change the fact that the country has the lowest per capita assets (average of EUR 1,080) within the region. Argentina's households are also grappling with surging inflation: while official statistics – which the government embellished for years – put the rate of inflation at 10.6% at the end of 2013, independent observers suspect that the real figure is well in excess of 20%. At the beginning of this year, however, the "updated" consumer price index unveiled by the National Statistics Office all of a sudden put the rate of inflation at 15% in the first half of 2014. Since the last sovereign default of 2002, many of Argentina's citizens have lost faith in their peso and their government: the drastic devaluation of the national currency and the freezing of bank deposits have prompted Argentinians to seek refuge in secure foreign currencies. Anyone who

Significance of private pension provision characteristic of the region

Asset classes as % of gross financial assets



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

has the choice opts to invest abroad or stash his dollars or euros under his mattress. In circumstances like these, it is, of course, extremely difficult to put a figure on the financial assets of private households.

In the summer of 2012, the government took action to combat the chronic flight of capital by imposing strict limits on foreign currency purchases. In addition, the tax levied on credit card payments abroad was ramped up from 15% to 20%. The restrictions nudged many Argentinians in the direction of the black market, where they could change their pesos into dollars in illegal currency exchange offices. Farmers are hoarding their wheat or soybean harvests for fear of further devaluation. They worry that the high inflation will eat away any profits they make if they have to convert their dollar income into pesos after sale. This, in turn, means that the government is missing out on sizeable tax revenues from export earnings denominated in dollars. Faced with this scenario, the government decided to make an about-turn and decided to ease the restrictions and taxes on currency purchases to combat the downward spiral in state currency reserves. In doing so, it presumably also hopes to dry out the illegal currency exchange business, which charges massive mark-ups on the official exchange rate. The peso depreciated considerably, losing 23% against the dollar in January 2014 alone, although it stabilized again in the months that followed. The markets, however, breathed a sigh of relief when the measures were taken and the Argentinian leading index gained around 46% in the first six months of 2014. Nevertheless, the country is still some way away from chasing the inflation demon away for good.

When it comes to Latin America's richest households, Chile continues to rank top. Chileans had average assets of EUR 10,270 per capita, compared with a Latin American average of only EUR 3,350. The only country other than Chile to have attained the status of an MWC (Middle Wealth Country)[3] is Mexico, where per capita net financial assets tallied up to EUR 6,090. Despite what were, in some cases, double-digit average growth rates in the past, 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 4,120 is also the highest in the region, followed by Brazil with EUR 3,520 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 1.60 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, 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 personal debt ratio of Latin American households on the whole, i.e. liabilities measured as a percentage of nominal economic output, climbed from around 29.6% to 31.3% in the course of 2013. This put Latin America roughly on a par with the Asian emerging markets and slightly below the average for the eastern European EU member states.

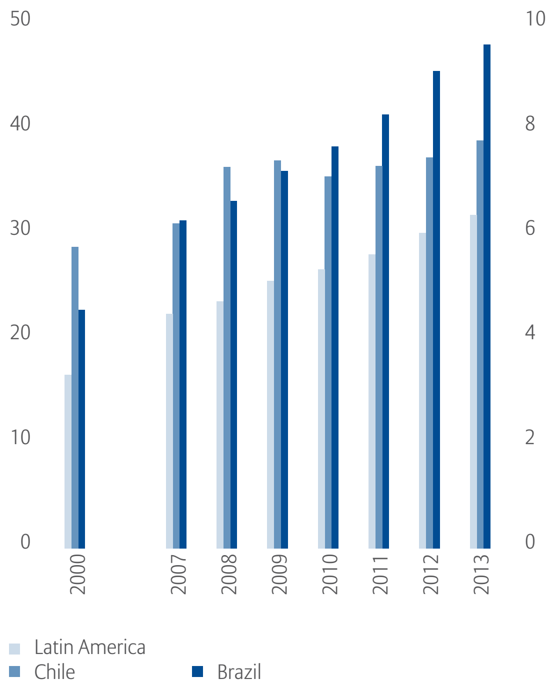
3 For information on the classification of countries into "Middle Wealth Countries", "Low Wealth Countries" and "High Wealth Countries", please consult the Appendix A.

Growing wealth middle class – inequality remains a problem

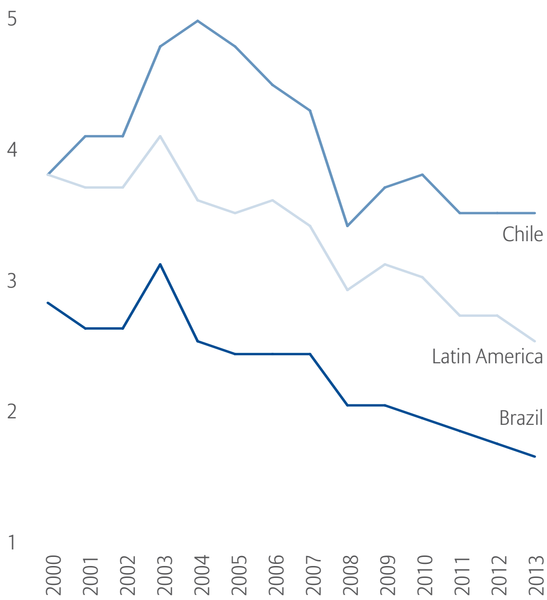
The proportion of the region's population that belongs to the "middle wealth category" in a global comparison (net financial assets of between EUR 5,300 and EUR 31,800 per capita) has almost doubled since the end of 2000, climbing to 13% at the end of last year. This means that around 60 million Latin Americans can count themselves as members of the wealth middle class. The group of people with high net financial assets (more than EUR 31,800 per capita) grew at an even faster rate, although these individuals only account for a fraction of the population as a whole, or 3.0% in 2013. 13 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 5,300 in net financial assets. Although more than 8 percentage points have been shaved off this group's share of the overall population since the end of 2000, almost 84% of Latin Americans (almost 386 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 mop up around 55% of the total income and hold a good 77% of the total assets, compared with ratios of around 46% and a good 70% respectively in the emerging markets as a whole, and averaging 43% and 68% respectively

Relative debt burden highest in Brazil

Liabilities as % of nominal GDP



Gross financial assets as multiple of liabilities



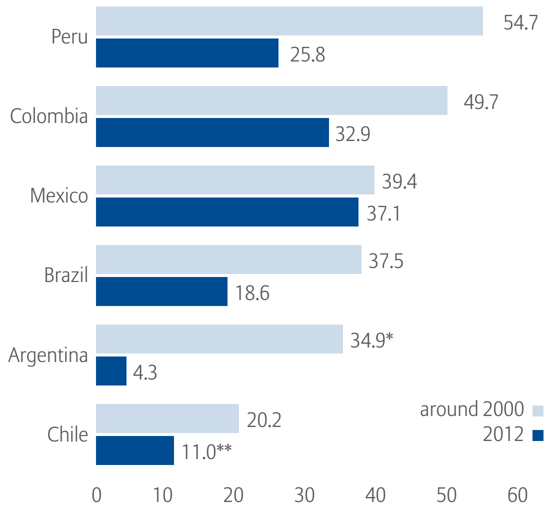
Sources: EcoWin, National Central Banks and Statistical Offices, Allianz SE.

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, for example, the poverty rate at the end of 2011 had been almost halved compared to the level seen in the early 2000s. President Michelle Bachelet, who was elected for the second time in December 2013, has also taken up the cause of equitable distribution. She wants to use a tax reform to make the corporate sector and higher earners cough up more so that the additional revenue can be used to restructure the country's education system. The aim is to introduce a free and high-quality education system to foster more equal opportunities for the generations to come and narrow the social divide.

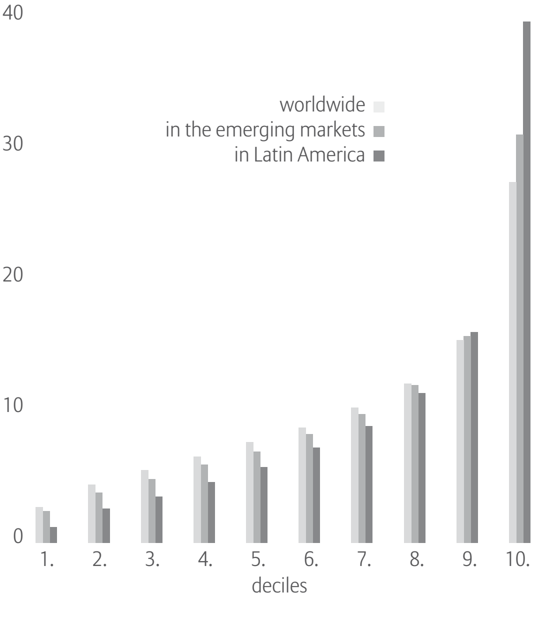
In Brazil and Colombia, too, countries with income concentration levels that are similarly high to those in Chile, the poverty rate has been slashed by almost 17 percentage points and nearly 16 percentage points respectively. Nevertheless, almost one in five Brazilians and one third of the Colombian population were still living in poverty in 2012.

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

Poverty rate around 2000 and 2012
in %



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



*2004 **2011

Sources: Economic Commission for Latin America and the Caribbean (ECLAC), Social Panorama of Latin America 2013, National Central Banks and Statistical Offices, UN Population Division, UNU WIDER, World Bank, Allianz SE.

Eskimo Point
Port Nelson
New York
Providence
Wilmington
Charleston
Halifax
Monterrey
Merida
Hermosillo
Chihuahua
Grand Bahama

North America

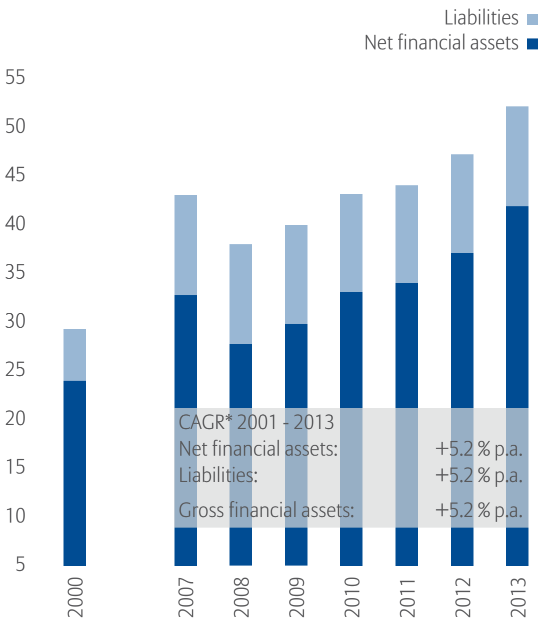
Population	
Total	355 m
Share of the global population	5.0%
GDP	
Total	EUR 13,474bn
Share of global GDP	25.2%
Gross financial assets of private households	
Total	EUR 51,828bn
Average	EUR 145,900 per capita
Share of global financial assets	43.8%
Debt of private households	
Total	EUR 11,243bn
Average	EUR 31,650 per capita
As % of GDP	83.4%

At the end of 2013 North America accounted for almost 44% of the world's gross financial assets, meaning that it remains the richest region in the world. Taken together, Canadian and US households had assets worth EUR 51.8 trillion, with the US alone home to a good 93% of them. With an increase of 11.7% over 2012, financial assets on the North American continent actually grew faster than the global average (+9.9%). Although the positive asset development was driven by all three major asset classes, securities emerged as the biggest winner. The upbeat sentiment on the stock markets meant that investors enjoyed substantial gains, with assets held in securities swelling by 12.6% in Canada and by as much as 16.7% in the US in the course of 2013. The S&P 500 closed the year almost 30% higher than it had started it and in Canada, too, the stock market was up by almost 10% on 2012. This means that the 2013 stock market year not only continued where the successful 2012 had left off, but actually went one better again.

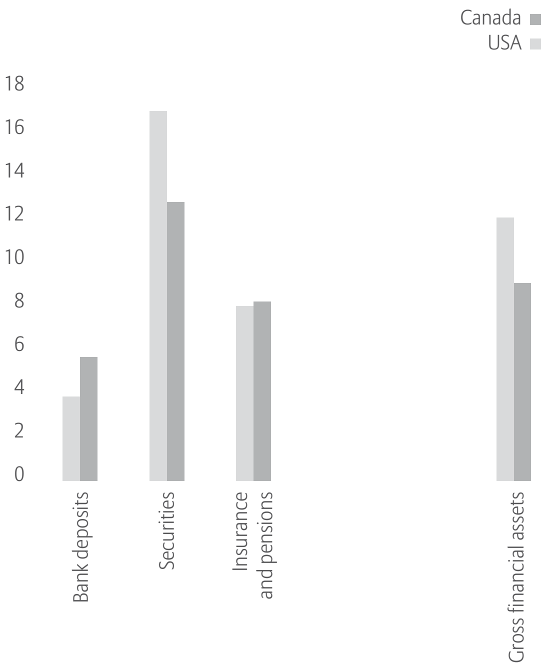
The "insurance and pensions" asset class, which makes up around one third of the asset portfolio in both countries, also experienced strong growth to the tune of 8.1% in Canada and 7.9% in the US in the course of year. This puts last year's development well ahead of the long-term average growth, which has come in at 4.8% and 5.3% p.a. respectively since the end of 2000. US households actually chose this asset class as the destination of the lion's share (43%) of their savings in 2013. The growth in bank deposits was somewhat slower, coming in at 4% across the region as a whole. As a result, the proportion

North America: Asset development remains on growth course

Net financial assets and liabilities
in EUR bn



Asset classes
percentage change 2013 over 2012



*CAGR =Compound Annual Growth Rate.
Sources: Board of Governors of the Federal Reserve System, Statistics Canada, Allianz SE.

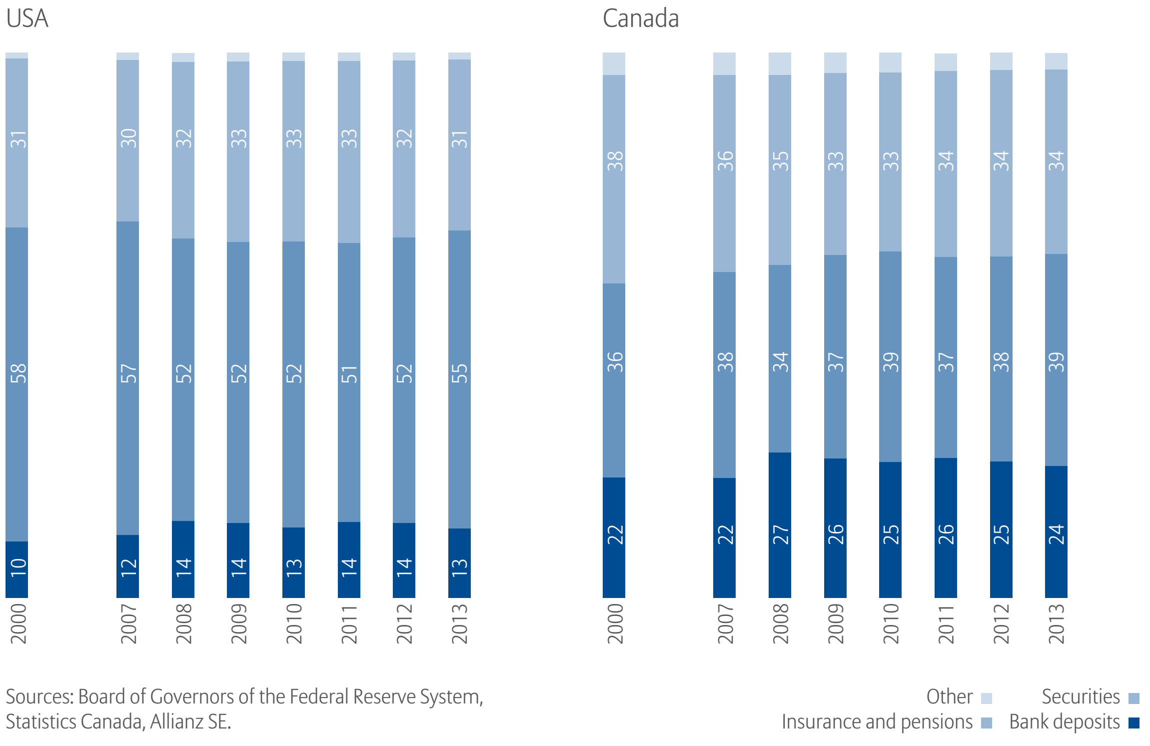
of financial assets attributable to bank deposits dipped slightly in both countries to a good 24% in Canada and just under 13% in the US. All in all, the gross financial assets of US households were a good 23% up on their pre-crisis level, more than making up for the asset slump of 2008 – the most dramatic in post-war history. Canada's private households are in an even better position: their gross asset base has expanded by around 34% since the end of 2007.

Debt development in North America - two unevenly matched neighbors

Up until the outbreak of the financial crisis, private households in the US were really ramping up their debt. In the period between 2002 and 2007, their debt burden was growing at an average rate of a good 10% p.a., pushing the ratio of liabilities to disposable income up from 108% to 137%. Then, however, households embarked on a "deleveraging process": over the past six years, the debt burden has been shrinking by an average of 0.7% p.a., despite a slight increase of 1% last year. The debt ratio has been pruned down by almost 27 percentage points since the end of 2007 and now stands at 110% of disposable income, while per capita debt is gradually moving back into line with the level seen in 2005 at EUR

Securities dominate the assets portfolio

Asset classes as % of gross financial assets



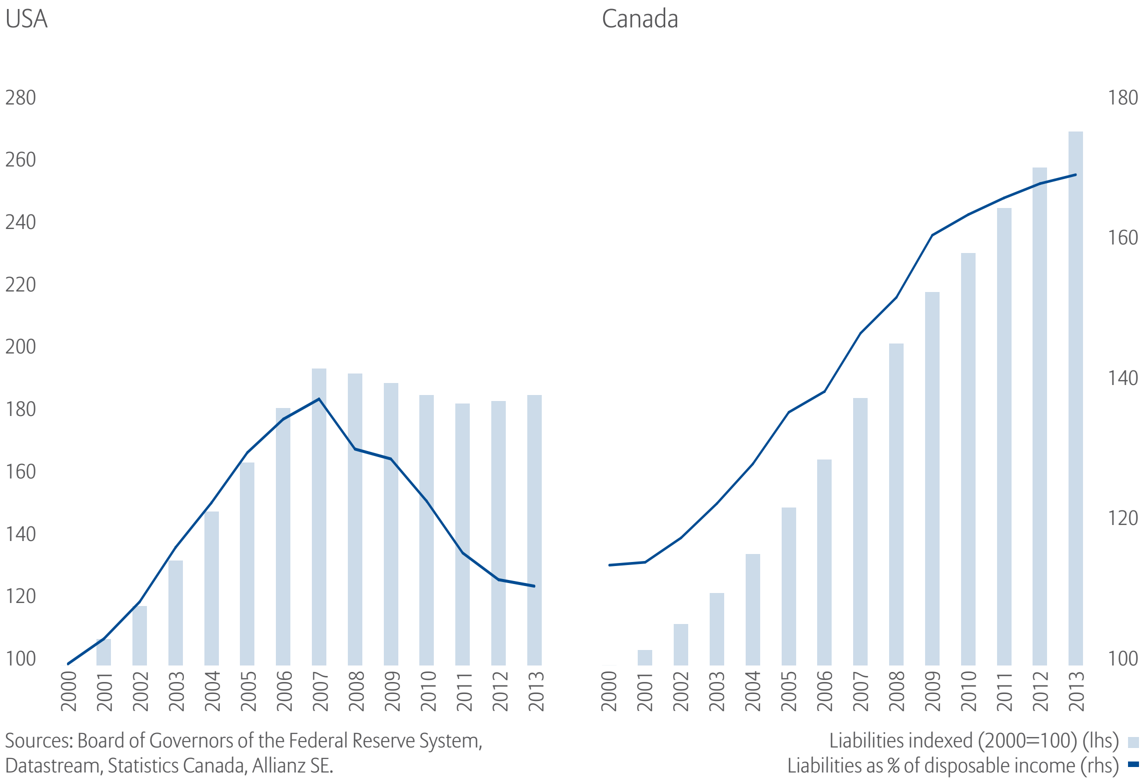
Sources: Board of Governors of the Federal Reserve System, Statistics Canada, Allianz SE.

31,220. Thanks to slower debt growth, historically low interest rates and a moderate increase in employment and incomes, the ratio of debt repayments to disposable income has dropped back to a 30-year low. The delinquency rate is also on the way down. Although it has fallen from 12% to 7% since 2009, it is still well above the pre-crisis level of 4.7% (end-2006).

Canadians still do not appear to have achieved a turnaround as far as their debt situation is concerned. The total lending volume rose by a further 4.4% in the course of the year, reaching a historic per capita debt level of EUR 35,570. The debt ratio also climbed to a new all-time high – for each euro of disposable income, Canadian households had EUR 1.70 of debt. At least the annual growth rate in liabilities has remained on a steady downward trend since the financial crisis, after sitting at 11.7% in 2007. The debt ratio, too, which had soared by almost 57 percentage points since the turn of the millennium, would also appear to be stabilizing at least – albeit at a high (indeed too high) level (170% of disposable income).

Although financial assets made a relatively speedy recovery in the aftermath of the crisis, achieving annual growth averaging 8.1% per annum over the past five 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. 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.

Contrary debt developments



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

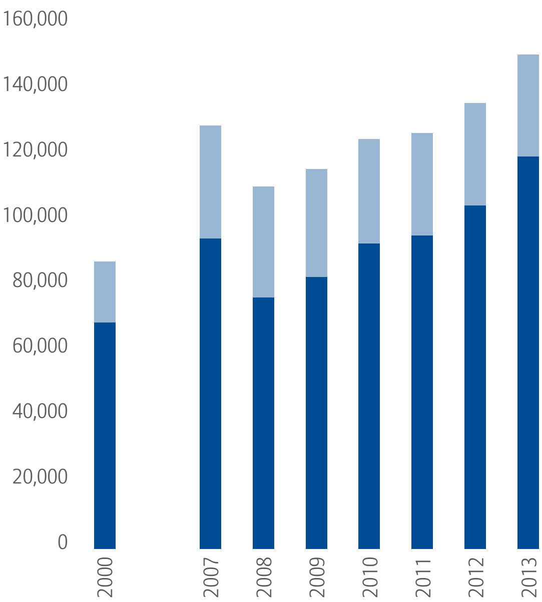
North America remains the richest region in the world

North America is not only the region with the highest proportion of the world's financial assets; it is also the region with the highest per capita assets. At the end of 2013, after subtracting the liabilities, the average North American had more than twice the assets of the average western European, namely EUR 114,250 as against EUR 48,180. 41% of the population have assets of more than EUR 31,800 per capita to fall back on, making them members of the wealth upper class in a global comparison. 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 119,570 per capita (compared with EUR 65,900 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 six places behind the US, the country was able to move up one rank against the previous year.

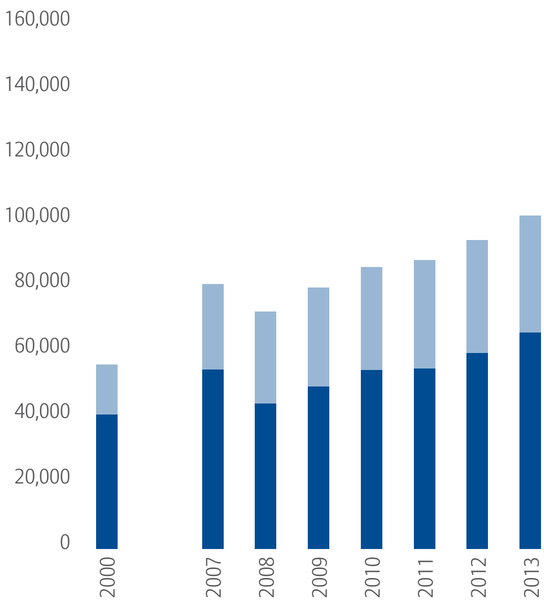
Large wealth differences between the two neighbors

Net financial assets and liabilities per capita, in EUR

USA



Canada



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

Liabilities per capita
Net financial assets per capita

Oulu
Tampere
Helsinki
Turku
Härnösand
Bottnischer Meerbusen
Trondheim
Stockholm
Göteborg
Skagerrak
Kattegat
Gotld.
459
Orkney-In.
Edinburgh
Glasgow
London
Southampton
Land's End
Amsterdam
Hann.
Berlin
Hambg.
Stettin
Malmö
Kopenhagen
Tallinn
Riga
Pskow
Vilnius
Königsbg.
Minsk
Gomel
Warschau
Posen
Prag
Krakau
Lemberg
Kiew
Dnjepropetr
Kachowskaer Stausee
Bratislava
Budapest
Debrecen
Chisinau
Odessa
Krim
Sewastopol
Zagreb
Klausenbg.
Braila
Bukarest
Belgrad
Sarajevo
Bologna
Venedig
Marseille
Barcelona
Balearen
Mallorca
Podgorica
Sofia
Varna
Tirana
Skopje
Saloniki
Istanbul
Bosporus
Bursa
Ankara
Izmir
Konya
Antalya
Athen
Patras
Kreta
Nikosia
Neapel
Tyrrhen. M.
Palermo
Rom
Bari
Cagliari
Tunis
Kap Bon
Algier
K. Blanc
Constantine
Hochland der Schotts
Saharaatlas
Sfax
Djerba
Tripolis
Ouargla
Ostl. Gr. Erg
Westl. Gr. Erg
Ägäisches Meer
Donau
Balkan
Karpaten
Tatra
Dnjestr
Dnjepr
Düna
Pripjet
Weichsel
Oder
Elbe
Theiß
Finn. Meerb.
Ladoga-see
Peipus-see
St. Petersburg
Petrosawodsk
Kandalakscha
Murmansk
Gällivare
Tuz Gölü
2211
3089
4486
2456
1953
60
50
70

Western Europe

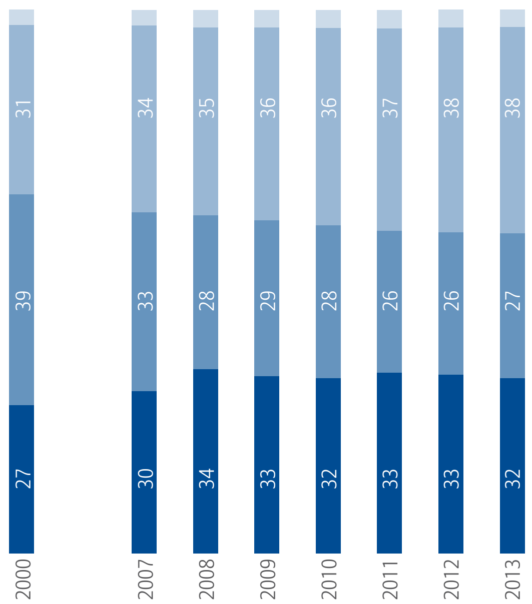
Population	
Total	413 m
Share of the global population	5.8%
GDP	
Total	EUR 12,841bn
Share of global GDP	23.0%
Gross financial assets of private households	
Total	EUR 30,073bn
Average	EUR 72,900 per capita
Share of global financial assets	25.4%
Debt of private households	
Total	EUR 10,199bn
Average	EUR 24,730 per capita
As % of GDP	79.4%

Western European households will have been happy to see their gross financial assets swell by around 5% last year. This trend signals a continuation of the marked recovery seen in 2012, when savings had already grown by 5%. The increase was, however, much less pronounced than in the other "rich" regions of North America and Oceania, where assets grew by 11.7% and 10% respectively.

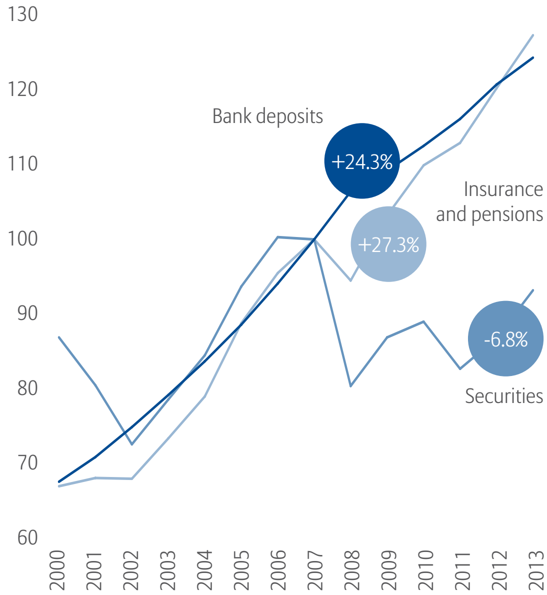
Savers reaped particular benefits from the spectacular performance on the stock markets, which received a real shot in the arm, especially in the second half of the year. Spurred on by nascent hopes of an end to the recession in the euro area, the loose monetary policy pursued by all major central banks continued to fuel the search for attractive returns and set the stage for an exceptional year on the stock markets. In the course of the year, the DAX repeatedly surged to new record highs, closing 2013 at 9,552 points, up by a good 25% on a year earlier. The Eurostoxx also showed convincing performance, rising by almost 18%, although, unlike the DAX, that still left it 29% lower than the pre-crisis level. The positive performance on the stock markets is reflected, not least, in the assets held by private households in securities. Nevertheless, it was only these value gains that allowed this asset class to swell by 7.3% year-on-year - all in all, investors were pulling money out of these investments. In the eurozone alone, assets held in securities fell victim to fund outflows totaling EUR 37 billion, or an average of EUR 110 per capita.

Insurance and pensions supersede securities as most popular asset class

Asset classes as % of gross financial assets



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



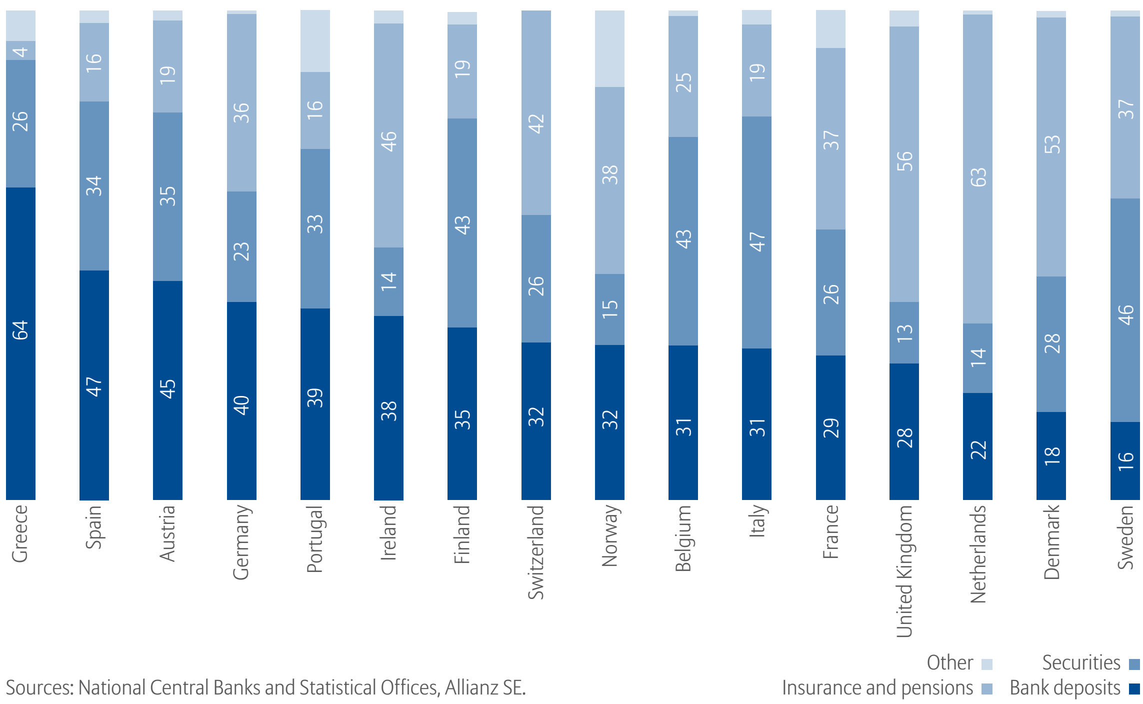
Other ■ Securities ■
Insurance and pensions ■ Bank deposits ■

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

Insurance policies and pensions remain the favorite asset class of western Europe's households. At 5.9%, the growth rate in this asset class was actually slightly ahead of the long-term average growth rate (+5.1% p.a. since the end of 2000), with the share of the overall asset cake attributable to this particular asset class touching on a new high of 38%. Bank deposits, however, are also held in high esteem by savers – at the end of 2013, they held no less than almost one-third of their financial assets in overnight money, term deposits and savings deposits. Fund inflows, however, were down considerably on the previous year. Securities, on the other hand, are no longer as high up on the popularity scale. Their share of total assets has dwindled by 12 percentage points since 2000, to almost 27%. If we compare the individual countries to 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 12.6% in the UK to 47.5% in Italy. Bank deposits dominate the asset portfolios of households in Greece (63.8%) and Spain (46.9%), a feature that is not only due to a conscious investment decision: at the start of the last decade, these figures were much lower (43.8% and 39.8% respectively) - securities losses, in particular, have prompted a shift in the asset structure in this respect.

Differing preferences in country comparison

Asset classes as % of gross financial assets

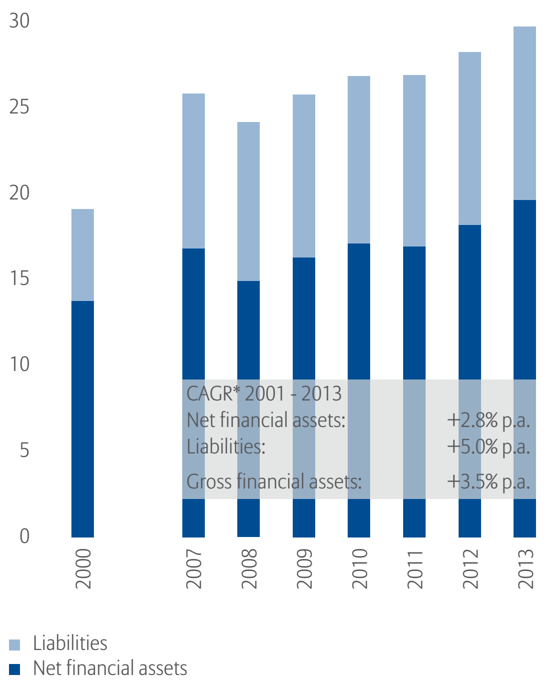


Sources: National Central Banks and Statistical Offices, Allianz SE.

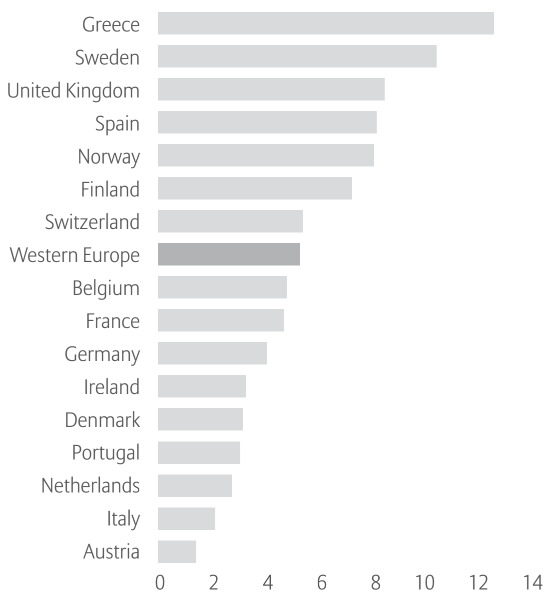
Surprisingly, Greek private households lead the field in terms of total asset growth, with their gross financial assets expanding by around 12% in the course of last year. The exceptionally strong recovery on the stock market - the Greek leading index gained a good 24% compared with 2012 - allowed investors to reap the benefits of high value gains, doubling the assets held in securities in the space of a year. Greek households do, however, have quite a bit of catch-up work to do: in 2008, they suffered by far the heftiest asset slump (-17.5%) of all western European households, with savings contracting for three years on the trot between 2010 and 2012. As a result, Greece is still down by 13.4% on the pre-crisis level. In per capita terms, this translates into a loss of EUR 4,200. In addition to Greece, Spain - another country hit hard by the sovereign debt crisis - has also caught up considerably. While nominal economic output fell by 0.6% last year, the gross financial assets held by private households actually expanded by 8%. Nevertheless, savings in Spain, too, were still down by 2.5% on the level seen in 2007. Asset development in the other two southern European countries, Italy and Portugal, were unable to keep pace with the others and actually fell behind the regional average. Italy's households saw their assets grow by 2.1%, with an increase, nonetheless, of 3.0% in Portugal. Unlike in Greece and Spain, however, these countries have managed to make up for the losses sustained during the crisis (+3.6% compared with 2007 in Italy and +4.9% in Portugal). All in all, the gross financial assets of southern European private households, around 60% of which are attributable to Italy alone, only managed to surpass the 2007 record high last year, namely by 1%.

First positive growth in all countries since 2006

Net financial assets and liabilities
in EUR bn



Change in gross financial assets
2013/2012 in %



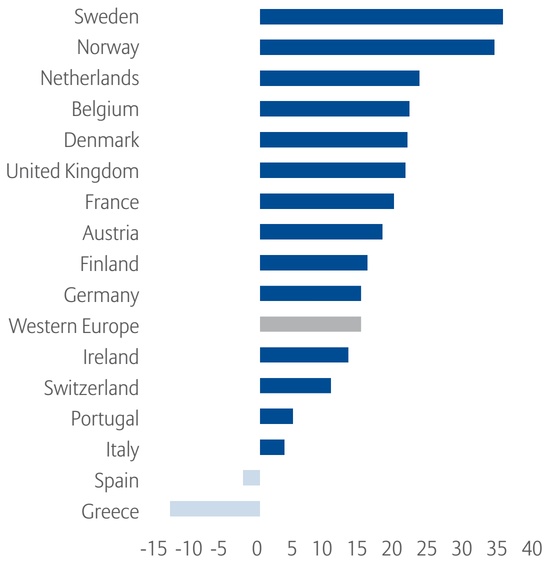
*CAGR = Compound Annual Growth Rate
Sources: National Central Banks and Statistical Offices, Allianz SE.

The growth in savings in the north of the continent outpaced the western European average in 2013. Swedish households led the field with asset growth of almost 10.2%, followed by the UK (+8.3%), Norway (+7.9%) and Finland (+7.1%). Switzerland was in line with the regional average with growth of 5.3%, virtually exactly on a par with the prior year. By contrast, the pace of growth tailed off slightly as against 2012 in the two most populous countries in the region, France (from +5.1% to +4.6%) and Germany(from +5.1% to +4.0%); this is likely attributable to the (slight) drop in the savings rate. The rates of growth were also fairly subdued in the Netherlands (+2.7%) and in Austria (+1.4%), where asset growth actually lagged behind the rate of inflation (+2.0%). This means, however, that 2013 was a year of positive growth rates in all western European countries, something that last happened back in 2006.

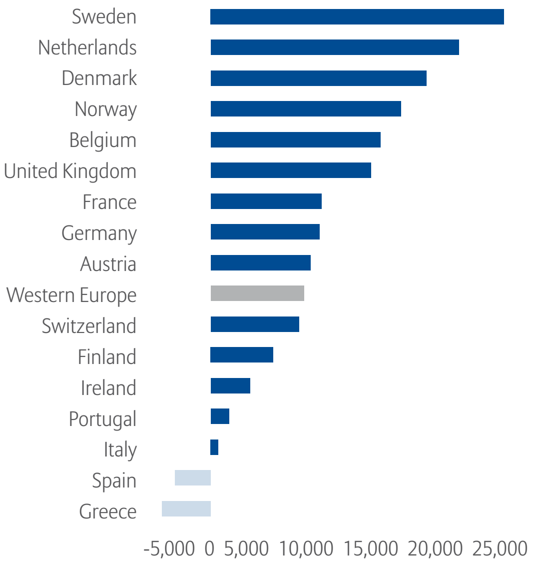
In regional terms, gross financial assets were a good 15% ahead of the pre-crisis level by the end of 2013. Particularly positive developments were witnessed in Sweden (+36.3%) and Norway (+35.0%). Out of all of the western Europeans, Spanish and Greek households were the only ones that have not yet been able to make a return to the pre-crisis level.

Crisis scars visible only in Spain and Greece

Change in gross financial assets compared to 2007
in %



per capita, in EUR



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

Personal debt stabilizes at a high level

The outbreak of the global financial crisis marked a turnaround as far as the debt momentum of private households is concerned. The pace of credit growth started to slow drastically at the end of 2007, with credit growth virtually stagnating (+0.1%) last year. Since nominal economic output grew faster than debt, at 1.5%, the personal debt ratio slid back by 1.1 percentage points in the course of year to 79.4%. For the advanced economies as a whole, the rate is slightly higher, at 82.1%. In western Europe, however, the gap separating the current personal debt ratio from its peak in 2009 has only narrowed by 2.2 percentage points, with the industrialized nations as a whole actually achieving a drop of 5.9 percentage points.

A glance at the developments in the individual countries, however, shows that increased debt discipline is not a trend that can be identified across the board. The largest relative increase in the liabilities side of the wealth balance sheet was achieved by Norwegian households, which upped their liabilities by 6.6% last year. More than four-fifths of the total debt burden was attributable to mortgage loans.

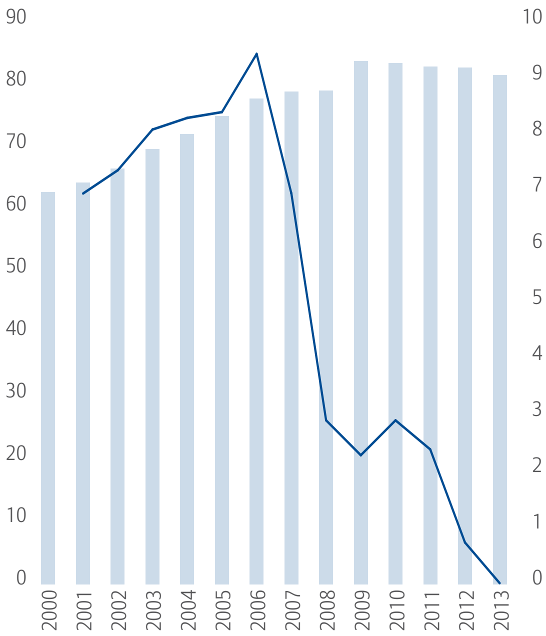
In a regional comparison, the Norwegians ranked among the households with the highest levels of per capita debt, with this figure averaging EUR 66,990 in Norway at the end of 2013, just behind Switzerland (EUR 75,490) and ahead of the Danes (around EUR 64,910). With economic output of more than EUR 71,000 per capita, however, Norway is streets ahead of all other countries in the region, meaning that its debt ratio is “only” in the upper mid segment of the rankings.

As in previous years, any moves to push debt levels down tended to be seen mainly in the countries on Europe’s periphery. Irish households have been working harder than households in any other western European country to reduce their debt since 2009, meaning that, by the end of 2013, the debt level was around 12% lower than in 2007. Central banks in Portugal (-4.4%), Spain (-6.1%) and Greece (-6.5%) also reported declining debt levels compared with 2012. Although the latter are bottom of the regional league in per capita terms with average debt of EUR 11,480, no other western European country has seen debt levels rise quite as quickly as they have here in a long-term comparison. Whereas in the region as a whole, debt was rising at an average rate of 7.9% p.a. in the period between 2002 and 2007, the rate in Greece came in at 22%, even higher than the average rate for the emerging markets (around 18%). Since 2008, however, the annual average growth rate in Greece has slipped back to only 1.1%, a trend that can be explained by more than just weaker demand and more stringent lending guidelines; some households are simply no longer in a position to repay their loans and creditors are being forced to write off their receivables.

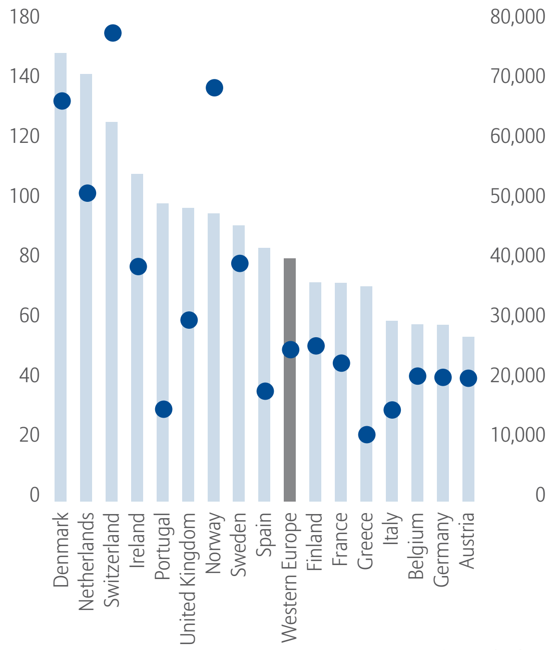
But the discrepancies in western Europe are not just limited to the absolute debt level. If we compare the liabilities of private households with nominal economic output, marked national differences emerge in terms of the relative debt burden, too. Not surprisingly, the level of debt was highest in those countries with the highest per capita debt, too. Danish households came top of the table here, with a clear lead over the Netherlands (139.6%), although the Danish debt ratio has already fallen by 10 percentage points since the end of 2009, falling to around 146%. The ratio in Switzerland (123.9%) and in Ireland (107%) was also 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. Austria boasted the lowest ratio at the end of 2013: at "only" 53.7%, the debt level in Austria was more than 90 percentage points lower than in Denmark. In per capita terms, too, the country was below the western European average (EUR 24,730) with EUR 19,770.

Significantly slower credit growth since the crisis

Debt ratio and growth over time in Western Europe



Debt ratio and liabilities per capita by country, 2013



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

Liabilities per capita, in EUR (rhs)
Liabilities as % of GDP (lhs)
Debt growth y/y, in % (rhs)

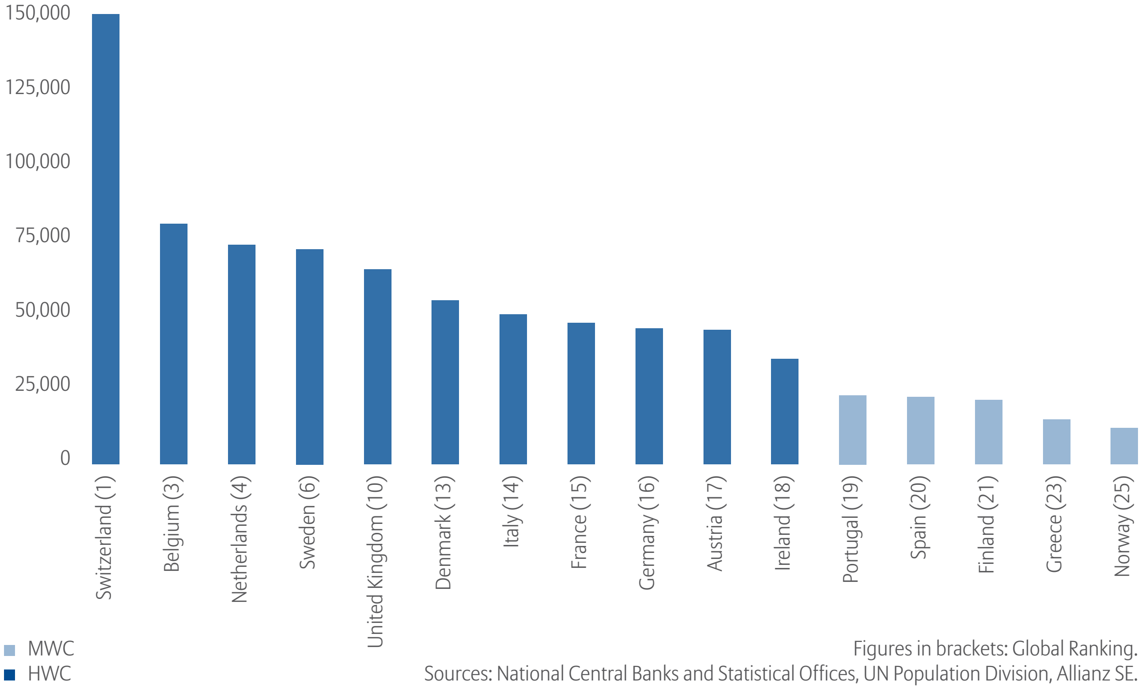
Switzerland continues to top the global rankings

At the end of 2013, an estimated 153 million people with high net financial assets in a global context, i.e. more than EUR 31,800 per capita on average, were living in western Europe. This corresponds to around 37% of all western European households. Three-quarters of these people live in the five largest economies in the region: Germany, France, the UK, Italy and Spain. The lower wealth class included 120 million western Europeans last year; after subtracting their liabilities, they were left with less than EUR 5,300 per capita; their share of the total population has actually grown - albeit marginally, but nonetheless - by 0.2 percentage points since the end of 2000, while the proportion of the population that ranks among the wealth upper class has shrunk by around 7 percentage points - the financial and euro crises have left their mark.

After deducting any debt, regional per capita assets averaged EUR 48,180 at the end of 2013, with a range stretching from EUR 11,850 in Norway to EUR 146,540 in Switzerland. This means that Swiss private households are the richest not only in western Europe, but in the world - with a clear lead over US households, which are sitting in second place (EUR 119,570). In Norway's case, on the other hand, the country's high debt levels, as mentioned above, relegate the country to the very bottom of the re-

Ranking: Western Europe

by net financial assets per capita
in EUR, 2013



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

gional league table. In addition to Switzerland, the world's top ten rich list includes four other western European countries, Belgium (EUR 78,300), the Netherlands (EUR 71,430), Sweden (EUR 70,080) and the UK (EUR 63,490).

Out of the 16 countries in the region as a whole, five belong to the MWCs. In addition to the euro crisis countries of Greece, Portugal and Spain, Finland and Norway are also classed as MWCs.


Spitzbergen
Minsk
Mesopotamien

Eastern Europe

Population

In the analyzed countries	395 m
Analyzed countries' share of the region as a whole	84.6%
Analyzed countries' share of the global population	5.6%

GDP

In the analyzed countries	EUR 3,361bn
Analyzed countries' share of the region as a whole	95.1%
Analyzed countries' share of global GDP	6.5%

Gross financial assets of private households

Total	EUR 1,838bn
Average	EUR 4,650 per capita
Share of global financial assets	1.6%

Debt of private households

Total	EUR 760bn
Average	EUR 1,930 per capita
As % of GDP	22.6%

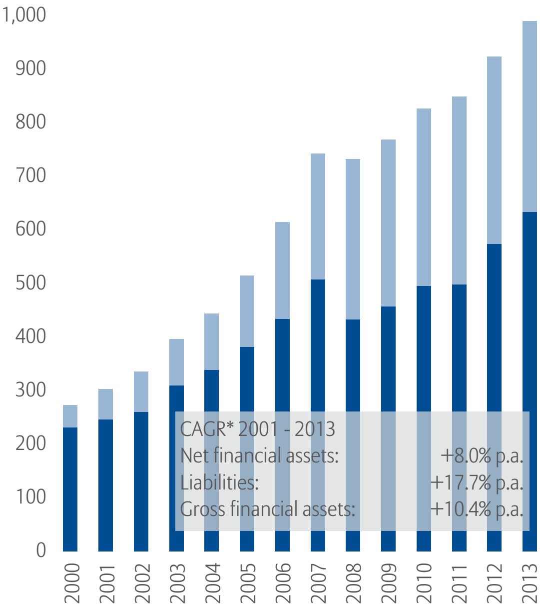
Eastern European EU members

Although the asset growth rate of private households from the eastern European EU member states tapered off from 8.7% in 2012 to 7.1% last year, it was more than double the rate of nominal economic growth. Despite the extremely robust development in gross financial assets last year, the continuing effects of the crisis are still clearly making themselves felt. Whereas the region was still reporting growth of a good 16% a year on average between 2002 and 2007, the average growth rate has been on a downward trajectory over the last six years, sliding to as low as just under 5%.

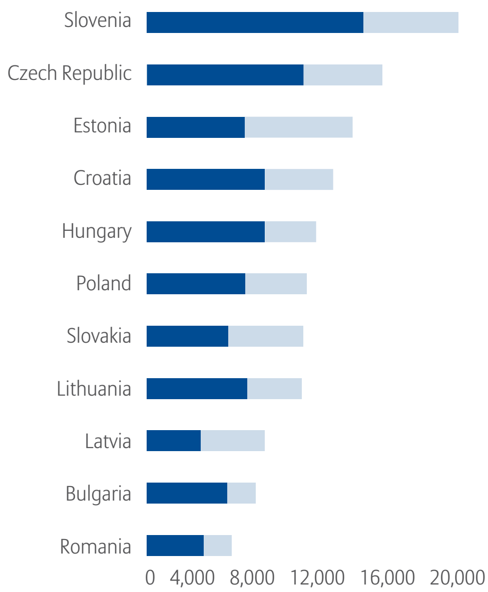
Last year's field was led by Lithuania (+12.4%) and Romania (+13.4%), which also reported the highest growth in economic output in a regional comparison, boosted by a good harvest. Private households in the region as a whole benefited, in particular, from the positive development on the stock markets. The leading indices in Bulgaria and Romania were the biggest winners here, climbing by 42% and 26% respectively in the course of the year. The stock markets in the Baltic states were also headed north: Estonia's OMX Tallinn gained around 11%, with Latvia's OMX Riga increasing by a good 16% and Lithuania's OMX Vilnius clocking up gains

Eastern Europe EU member states: Robust growth of financial assets

Net financial assets and liabilities
in EUR bn



Net financial assets and liabilities per capita 2013
in EUR



■ Liabilities
■ Net financial assets

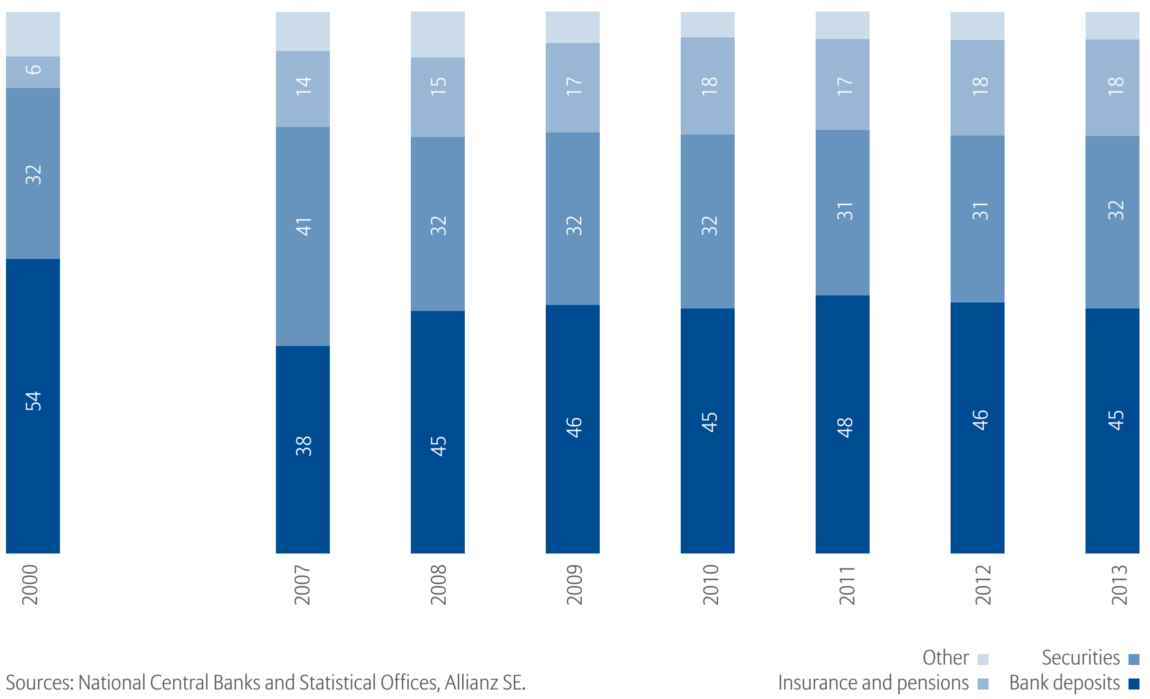
*CAGR = Compound Annual Growth Rate.
Sources: National Central Banks and Statistical Offices, UN Population Division, Allianz SE.

of 19%. With the exception of the OMX Tallinn, however, none of these indices are even close to rivaling the highs they reached in 2007. All in all, assets held as securities gained just under 11% in the course of 2013, finally signaling a return to the pre-crisis level in the fifth year after the Lehman crash. This brought the proportion of gross financial assets held in securities to almost 32% by the end of 2013 - just under 9 percentage points less than when this asset class was at its peak.

Private households still held the lion's share of their savings (around 45%) in bank deposits, which grew by 4.7% in 2013. Assets held in insurance policies and pensions grew almost twice as fast (+8.5%), with their share of total financial assets climbing from 6% to almost 18% since the start of the millennium thanks to the development of private retirement provision structures.

Asset structure in the eastern European EU member states: Trend back towards more bank deposits

Asset classes as % of gross financial assets



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

Significant slowdown in debt growth

The eastern European countries' entry to the EU has also given the financial sector a real boost in terms of development. Austrian and Scandinavian banks, in particular, have been on a major expansion course in the region, propelling lending to the private sector as a whole from just under 32% of nominal economic output in 2000 to around 56% eight years later. Among private households alone, annual debt growth rates in excess of 30% were not uncommon prior to the outbreak of the financial crisis. Up until then, the household debt level almost trebled from 9.7% of gross domestic product to around 28%. 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 3.5% on average, with most countries actually reporting negative growth in liabilities overall last year. All in all, household liabilities grew by only EUR 7bn in 2013 – only one tenth of the peak value seen in 2008. Average per capita debt came in at EUR 3,340 at the end of 2013. Within the context of the emerging markets – average per capita debt of EUR 1,240 – this is still fairly high. The same applies to the debt ratio, which has stabilized around the 34% mark in recent years.

After deductions for liabilities, average per capita financial assets were just off the EUR 5,920 mark in the EU member states of eastern Europe at the end of 2013. The leader of the regional pack is and remains Slovenia, where each citizen has average assets of EUR 13,130. In Latvia, a country that joined the euro area on January 1 of this year, net per capita financial assets have almost tripled since 2000. Nevertheless, households there are still bottom of the league due to their high debt level, with only EUR 2,160 per capita. In gross terms, on the other hand, Romanian households bring up the rear.

In addition to Latvia and Romania, the only other two LWC (Low Wealth Country) are Bulgaria and Slovakia. The latter fell back into the group of LWC due to its relatively high debt growth. To date, not a single eastern European EU member has managed to propel itself into the ranks of the HWCs (High Wealth Country), which requires a country to surpass a threshold of EUR 31,800 in terms of net per capita financial assets. Although per capita assets have almost trebled in the region since the end of 2000, around 68% of the population still has less than EUR 5,300 per capita. Admittedly, however, this proportion has fallen by a good 12 percentage points during this period. On the other side of the equation, the number of members of the wealth middle class has increased to around 30 million, up by more than 50% since the turn of the millennium. And almost three million eastern Europeans – a far from insignificant group – can count themselves as members of the wealth upper class.

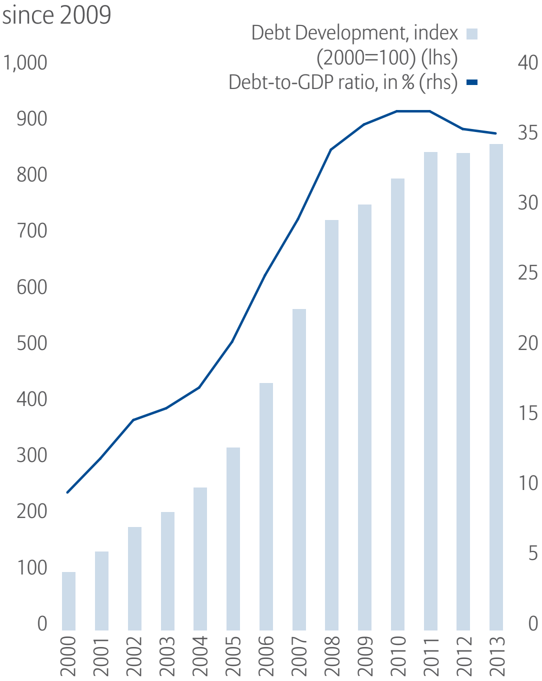
Eastern European countries outside of the EU

At just under EUR 860bn, only 0.7% of the world's gross financial assets are located in Kazakhstan, Russia, Serbia, Turkey and Ukraine, although no less than 5.9% of the population included in our analysis live in these countries. The region with the smallest slice of the global asset cake is, however, the unchallenged growth leader. Since the end of 2000, financial assets have been growing at a good 25% p.a. on average. This growth came, however, against the backdrop of a very low starting point: ten years ago, gross per capita financial assets still totaled EUR 400 or so on average. Although the outbreak of the financial crisis took some wind out of the sails of growth, the annual growth rates have still been averaging 18% in the period since then. Last year, savings in this group of countries swelled by a good 16%, faster than in any other region in the world.

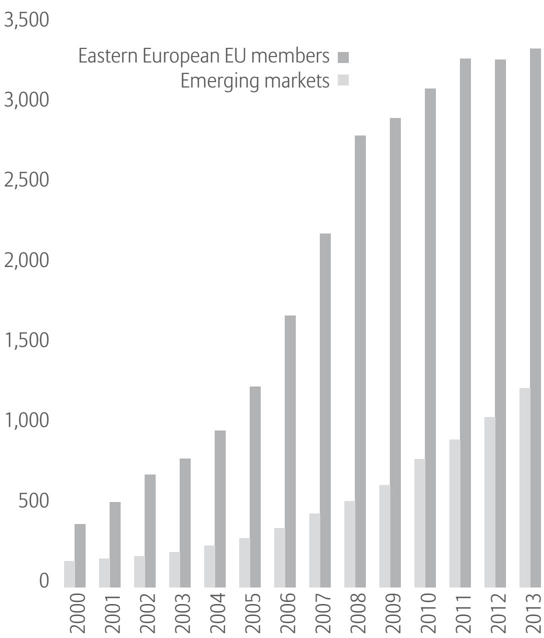
But it is not only as far as asset bases are concerned that the region takes the title of growth champion; it also leads the rankings when it comes to accumulating liabilities. And yet, despite average growth rates of around 43% since the end of 2000, the region's debt level was the lowest in the world last year, corresponding to 17.5% of nominal economic output or the equivalent of EUR 1,410 per capita.

Private households in the eastern European EU member states work on balance sheet restructuring

Stabilization of debt since 2009



Liabilities per capita higher than emerging-market level, in EUR



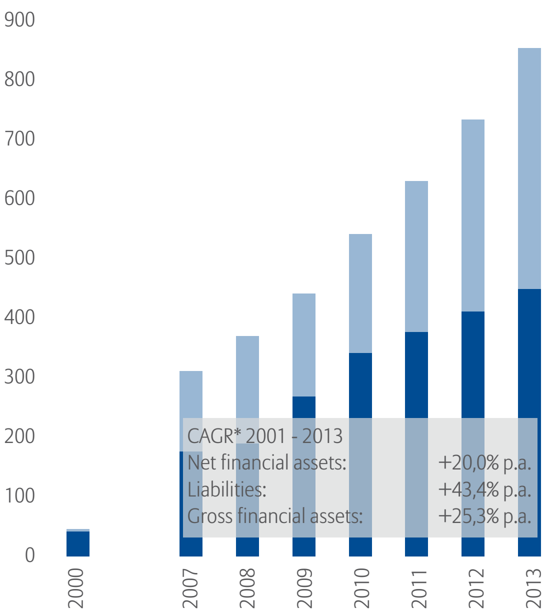
Sources: EcoWin, National Central Banks and Statistical Offices, UN Population Division, Allianz SE.

Net financial assets, which came in at an average of EUR 1,560 per capita at the end of 2013, were just ahead of pro capita debt. Since three-quarters of the region's population lives in Russia and Turkey, it comes as no surprise that the financial assets are also concentrated in these two countries: around 82% of regional net financial assets are in the hands of Russian and Turkish private households. Less debt, Russian households have per capita assets averaging EUR 1,810. The EU accession candidate, Turkey, has serious catch-up work to do when it comes to wealth development. At an average of EUR 1,490, per capita net financial assets are considerably lower than for Romanian households, which already had per capita wealth averaging EUR 3,170 when the country joined the EU in 2007. In the past the Turkish population has been afflicted by currency crises and hyperinflation. So it comes as no surprise that rebuilding confidence in the Turkish economy and the country's own currency has been a long, hard-fought battle. As a result, Turkish households also tend to be very conservative when it comes to investing their savings: more than 80% of savings were held in bank deposits, with more than 30% of these deposits still denominated in foreign currencies. The average per capita assets of households in Ukraine were almost on a par with those in Turkey (EUR 1,440). Due to the political unrest, Ukraine only managed to achieve average growth of around 4% last year, a fraction of the average rate for the last ten years (+35% p.a.).

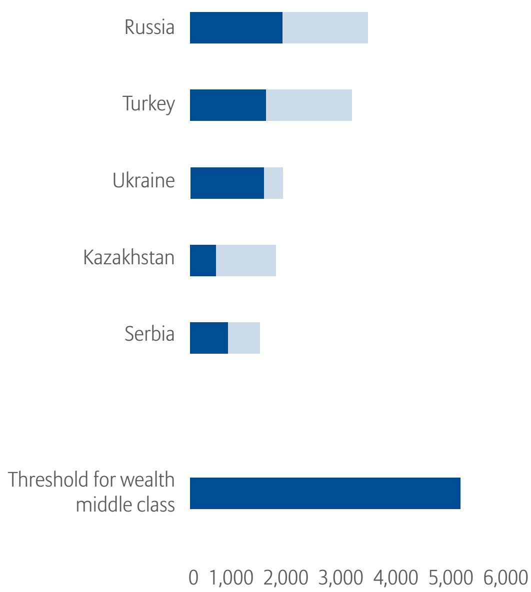
Serbia's and Kazakhstan's households lag far behind with average assets of only EUR 740 and EUR 510 per capita respectively. Bank deposits also account for the lion's share of financial assets in these countries, with households

Wealth per capita still low in the eastern European countries outside of the EU ...

Net financial assets and liabilities
in EUR bn



Net financial assets and liabilities per capita 2013
in EUR



Liabilities
Net financial assets

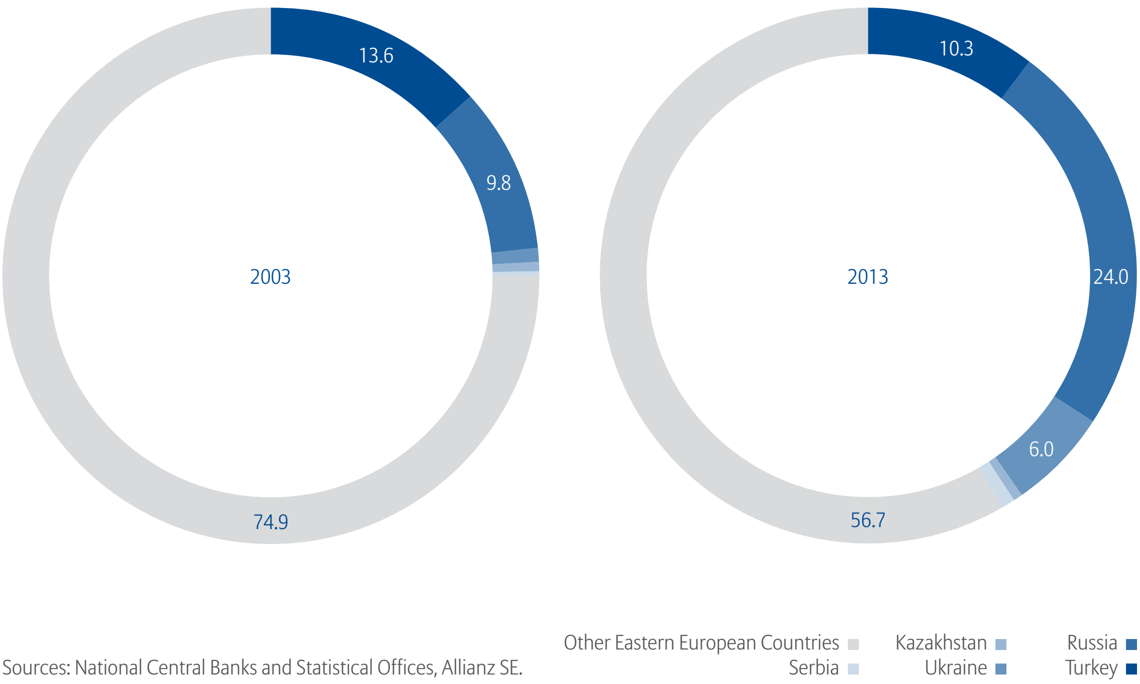
*CAGR = Compound Annual Growth Rate.
Sources: National Central Banks and Statistical Offices, UN Population Division, Allianz SE.

favoring safe foreign currencies. In Kazakhstan, more than two-fifths of bank deposits were denominated in a foreign currency and in Serbia, which launched its EU accession negotiations at the start of this year, private households held almost all of their savings (97%) in foreign currencies, primarily in euros. This extremely high figure not only reflects a lack of confidence in the country's own currency, but is also likely to be an indicator of high levels of (illegal) monetary circulation in foreign currencies in the economy as a whole, creating a breeding ground for the black market. In circumstances like these, getting to the bottom of the actual asset situation is obviously very difficult – something that doubtless applies to countries other than Serbia, too.

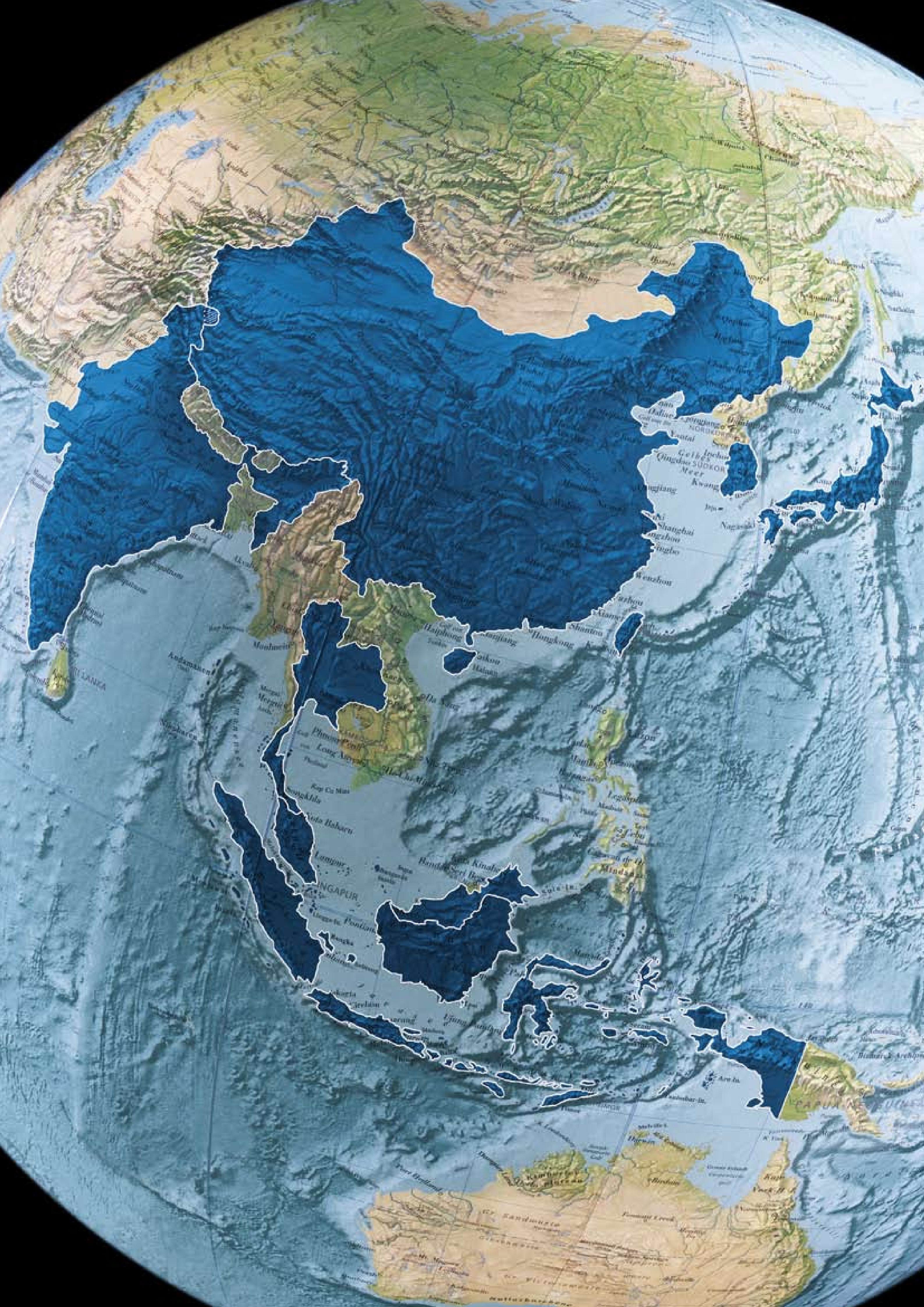
All five countries are LWCs and have some way to go before they can expect to make the leap into the MWC group. Even in Russia, households only have one third of the assets they need at the very least to earn the title of MWCs, with Turkish households only reaching 28% of the threshold value. It is still the case that more than 90% of the population belongs to the lower wealth class. The region has, however, made clear progress over the past few years: around 26 million people have been promoted to the global wealth middle class since 2000. Looking at eastern Europe as a whole, too, i.e. including the EU member states, households in Kazakhstan, Russia, Serbia, Turkey and Ukraine have certainly made progress. They have upped their share of regional net financial assets from 25% to just under 42% over the past ten years.

...but they are catching up

Eastern Europe outside the EU: Share of regional net financial assets 2003 and 2013
in %



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



Shanghai
Ningbo
Wenzhou
Hongkong
Haiphong
Qingdao
Gelbes Meer
Nagasaki
SINGAPUR
Moulmein
SRI LANKA
Long Xuyen
Kota Bharu
Pontianak

Asia

Population

In the analyzed countries	3,197 m
Analyzed countries' share of the region as a whole	86.3%
Analyzed countries' share of the global population	45.0%

GDP

In the analyzed countries	EUR 14,326bn
Analyzed countries' share of the region as a whole	94.8%
Analyzed countries' share of global GDP	26.8%

Gross financial assets of private households

Total	EUR 28,915bn
Average	EUR 9,040 per capita
Share of global financial assets	24.4%

Debt of private households

Total	EUR 6,989bn
Average	EUR 2,190 per capita
As % of GDP	48.8%

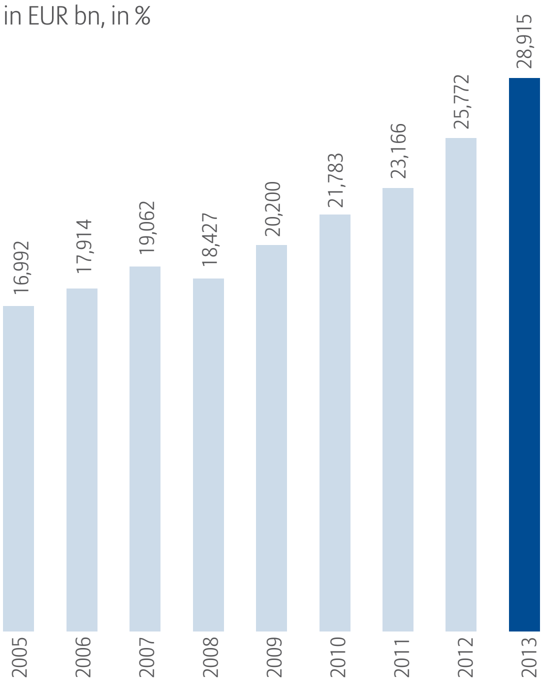
Last year, the financial assets of private households in the Asian countries covered by our analysis, China, India, Indonesia, Israel, Japan, Malaysia, Singapore, South Korea, Taiwan and Thailand, climbed by more than 12% to the equivalent of around EUR 28.9 trillion. The 3.9 billion or so people living in these ten countries, i.e. 45% of the world's population, held around one quarter of global financial assets at the end of 2013.

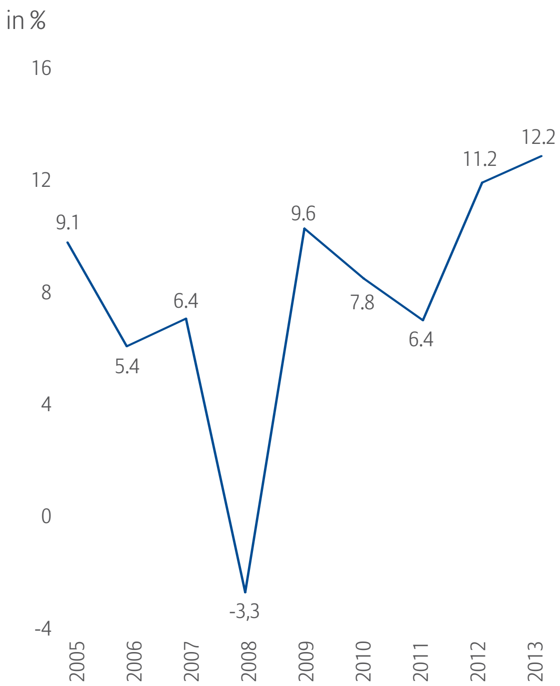
China the main engine driving dynamic development

The dynamic development in Asia was driven primarily by the sustained strong growth in personal financial assets in China to the tune of almost 23%. The rate of growth in Japan was much lower: at 6.1%, Japan nevertheless reported the highest rate of growth since 2005. But if we compare the development of financial assets in the individual countries in the region since the financial crisis erupted in 2008, there is no way of ignoring the well below-average trend in Japan, where growth has been sitting at only 2.5%

Development of financial assets in Asia

Financial assets of private households in Asia
in EUR bn, in %





Sources: Datastream, National Central Banks, Allianz SE.

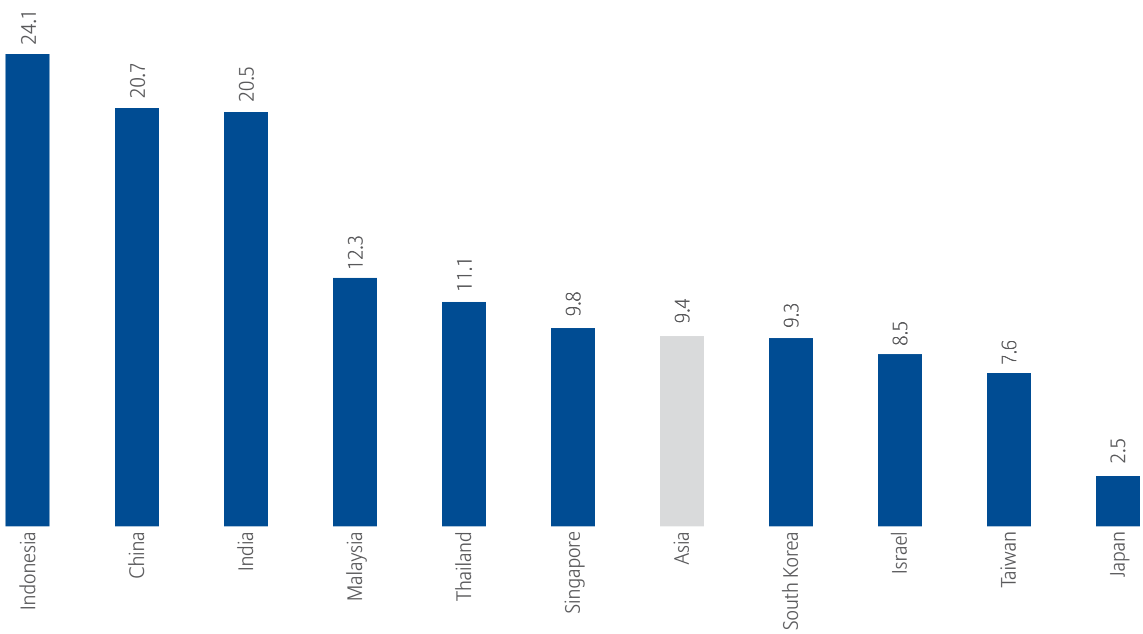
a year. After all, the financial assets of private households in the region as a whole have been expanding at an annual rate of 9.4%. The trio of China, India and Indonesia has been leading the field, with personal financial assets growing by more than 20% a year on average since 2008. Malaysia and Thailand have seen their assets grow by 12.3% and 11.1% respectively, with private households in the first-generation tiger states of Singapore, South Korea and Taiwan still reporting annual growth of 9.8%, 9.3% and 7.6%. If we were only to look at the emerging markets and the tiger states, growth in the region would tally up to 16.3%.

Japan remains the richest nation in Asia

Nevertheless, Japan remained the Asian nation with the highest personal financial assets last year, even though its share of the regional total has contracted further due to the differences in growth momentum: prior to the outbreak of the financial crisis in 2007, Japan's share stood at 57%. By the end of 2013, it had dropped to only just under 41%. The region's winner has been China, in particular, with Chinese households now in possession of more than 36% of the region's total personal financial assets. The financial assets held by South Korean and Taiwanese

Highest growth dynamics in Indonesia, India and China

Average annual change of total financial assets, 2009-2013
in %



Sources: National Central Banks, Allianz SE.

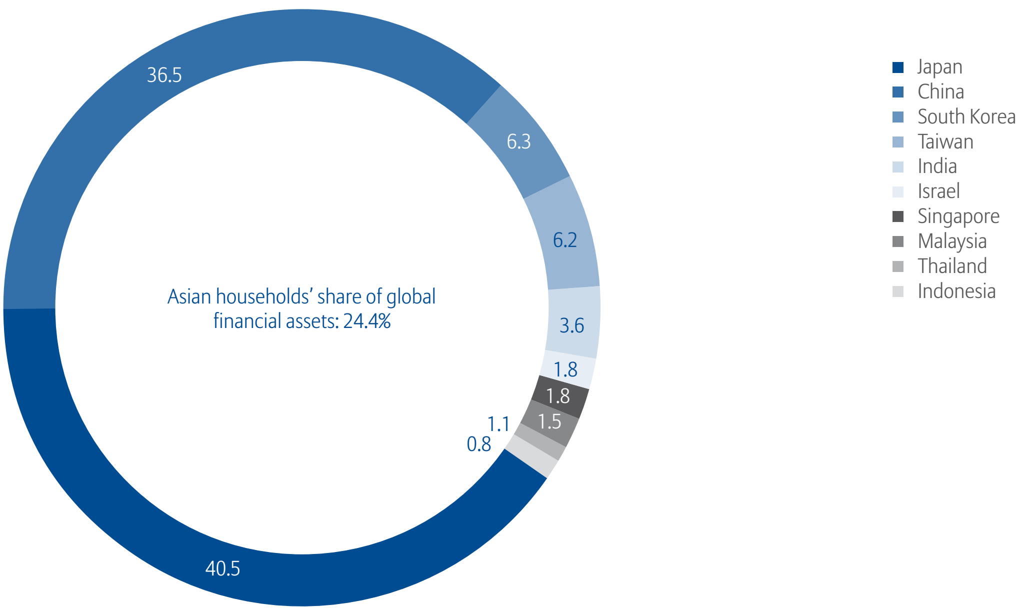
households each corresponded to around 6% of total personal financial assets, as was the case even before the crisis hit. Indian and Indonesian households, on the other hand, have seen their share of total financial assets double to almost 4% and around 1% respectively thanks to rapid growth from a very low starting point. If this growth momentum continues, China could already have replaced Japan as the country with the highest financial assets in the region by next year.

Need to catch up as the main factor determining growth momentum

The different growth paths are due, not least, to the need to catch up in the individual countries. A glance at the asset ratios, i.e. financial assets in relation to GDP, and the incorporation of population size into the analysis paints a more differentiated picture. Including these factors, last year's asset ratio was still well ahead of China (151%) not only in Japan, at 355%, but also in the first-generation tiger states of Singapore, South Korea and Taiwan, at 240%, 201% and 503% respectively, as well as in Malaysia, at 193%, for example. This alone shows how much private

Distribution of financial assets

Gross financial assets, by country, 2013
in %



Sources: Datastream, National Central Banks, Allianz SE.

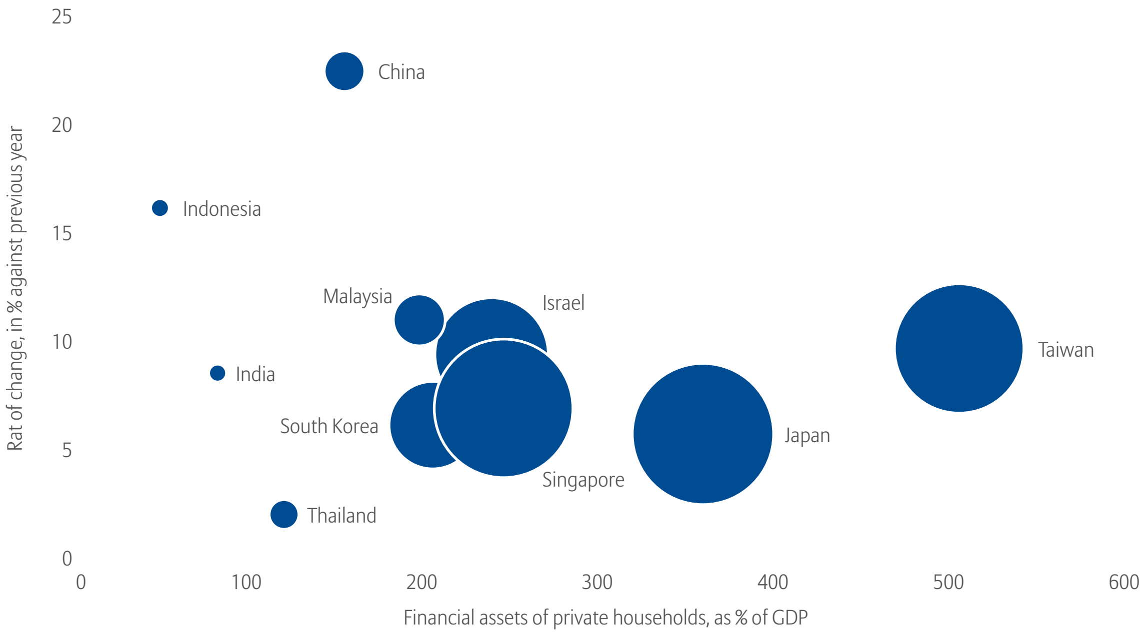
households in the emerging countries need to catch up in terms of asset accumulation. In addition, a look at the per capita figures highlights what remain stark differences in prosperity within the region: after all, although the total financial assets of Chinese households have more than doubled over the past five years, average per capita financial assets in Japan were worth the equivalent of around EUR 92,150 at the end of 2013, no less than 12 times the average amount in China, which has now risen to around EUR 7,600 per capita.

Singapore boasts the highest gross per capita financial assets

Although Japanese households still have the highest financial assets in the region overall, Japan has now been nudged out of the pole position in Asia in per capita terms due to exchange rate differences: at around EUR 94,200, the average Singaporean was a good EUR 2,000 richer than his or her counterpart in Japan. Places three and four go to Taiwan and Israel, with average per capita financial assets of around EUR 76,350 and around EUR 67,000 respectively. South Korea's

Catching-up process continues

Rate of change and financial assets-to-GDP ratios in %



Sources: Datastream, National Central Banks, UN Population Division, Allianz SE.

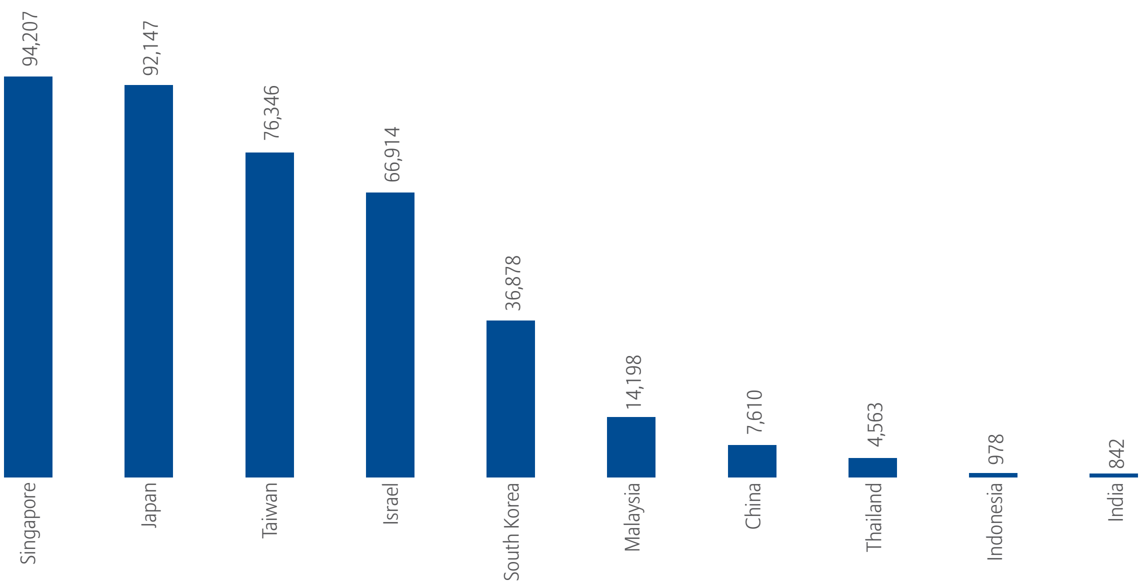
The size of the bubble represents financial assets per capita, in EUR per capita assets were much lower, at just under EUR 36,900. In Malaysia, gross per capita financial assets were still almost twice as high as in China, at EUR 14,200. In India and Indonesia, on the other hand, where households currently only hold a small proportion of their total assets in cash and cash equivalents, the per capita figure still fell short of the EUR 1,000 mark.

Bank deposits remain the most popular form of investment for private households in Asia

Since some countries in the region are still in the process of setting up their financial systems, meaning that the alternatives for investment are limited, private households continued to hold more than 50% of their financial assets in bank deposits in 2013. This proportion is, however, on the decline in general; immediately after the outbreak of the financial crisis, the proportion of bank deposits in the portfolios of Asian households raced up to 58%. One surprising aspect, however, is that even Japanese households

Most financial assets per capita in Singapore

Financial assets of private households, per capita 2013 (gross) in EUR



Sources: Datastream, National Central Banks, Allianz SE.

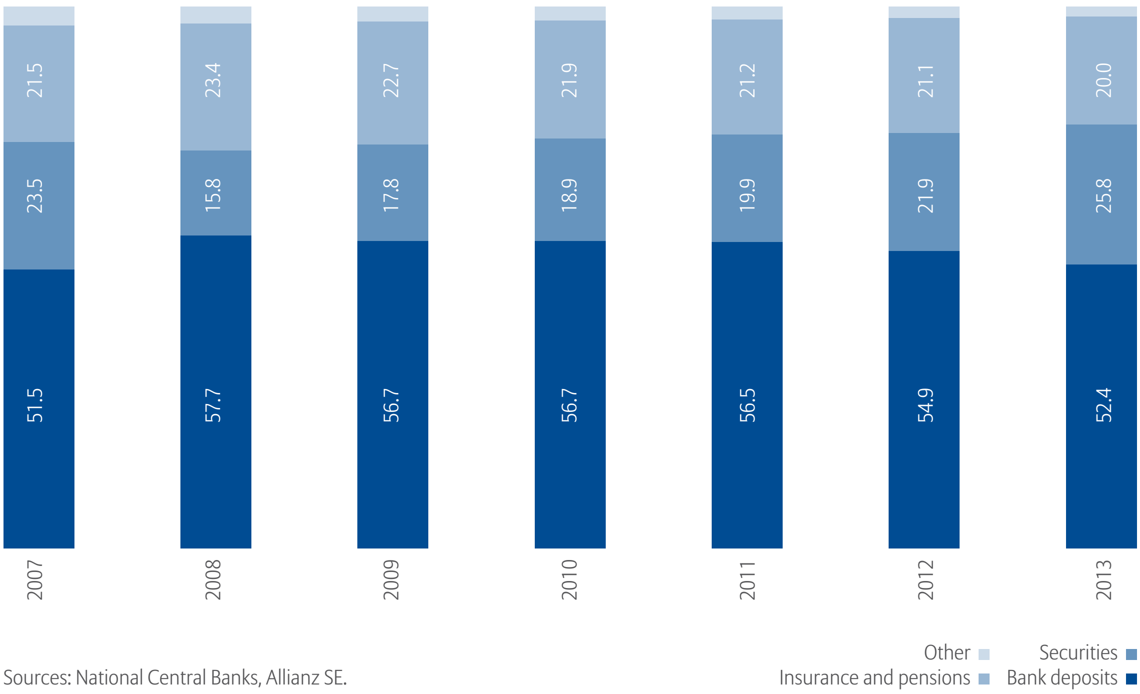
continue to favor bank deposits as a form of investment; in 2013, these deposits accounted for 54% of their financial assets. Despite - or perhaps actually because of - the marked recovery in the Nikkei (with profit-taking being the key word to bear in mind here), Japanese households continued to pull their cash out of equities and securities accounts last year on the whole, opting to invest their savings in life insurance and bank deposits instead: almost 70% of all fund inflows remained destined for bank accounts in 2013.

Chinese savers developing more of a taste for investment forms offering higher returns

In China, on the other hand, the central bank has noticed that an increasing number of savers are withdrawing money from their savings deposits with banks to invest in wealth management accounts offering higher returns, in funds, with investment firms, asset managers or directly on the stock market. The trend brought the proportion of bank savings deposits, in relation to the total financial assets of Chinese private households, down to below the 60% mark for the first time last year.

Main asset class in Asia: Bank deposits

Financial assets of private households, by asset class
in %



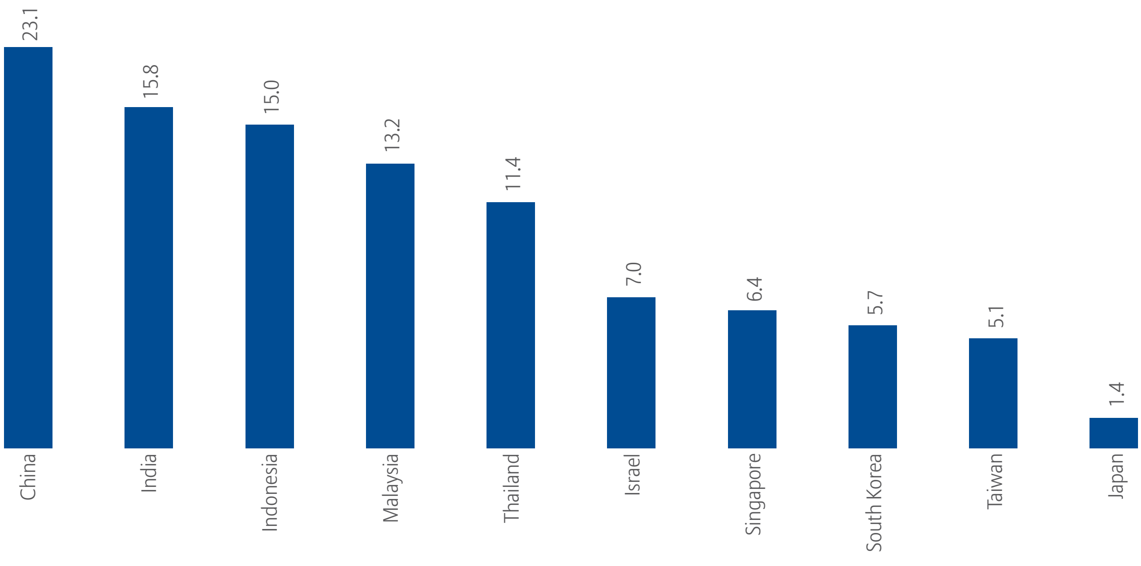
Sources: National Central Banks, Allianz SE.

China also has the highest rate of credit growth

But Chinese households not only reported the highest rate of growth in gross financial assets last year; they were also responsible for the fastest rate of increase in the lending volume. Japanese households were the most reserved when it came to borrowing. Whereas in China the lending volume rose by 23%, the liabilities of private households in Japan rose by only 1.4% year-on-year; in 2012, however, Japanese households had actually reduced their debt burden by 0.8%. Double-digit lending growth was also observed in India (just under 16%), Indonesia (15%), Malaysia (13%) and Thailand (11%). In both Singapore and South Korea, credit increased by around 6%, with Taiwan reporting lending growth of a good 5%. While the high lending demand in China, India and Indonesia can largely be ascribed to a need to catch-up in terms of access to the formal financial sector, meaning that it reflects the process of development that the financial system is in, concerns are gradually starting to mount in South Korea, Malaysia and Thailand as personal debt levels continue to rise.

Debt developments

Change of private household liabilities, 2013-2012
in %



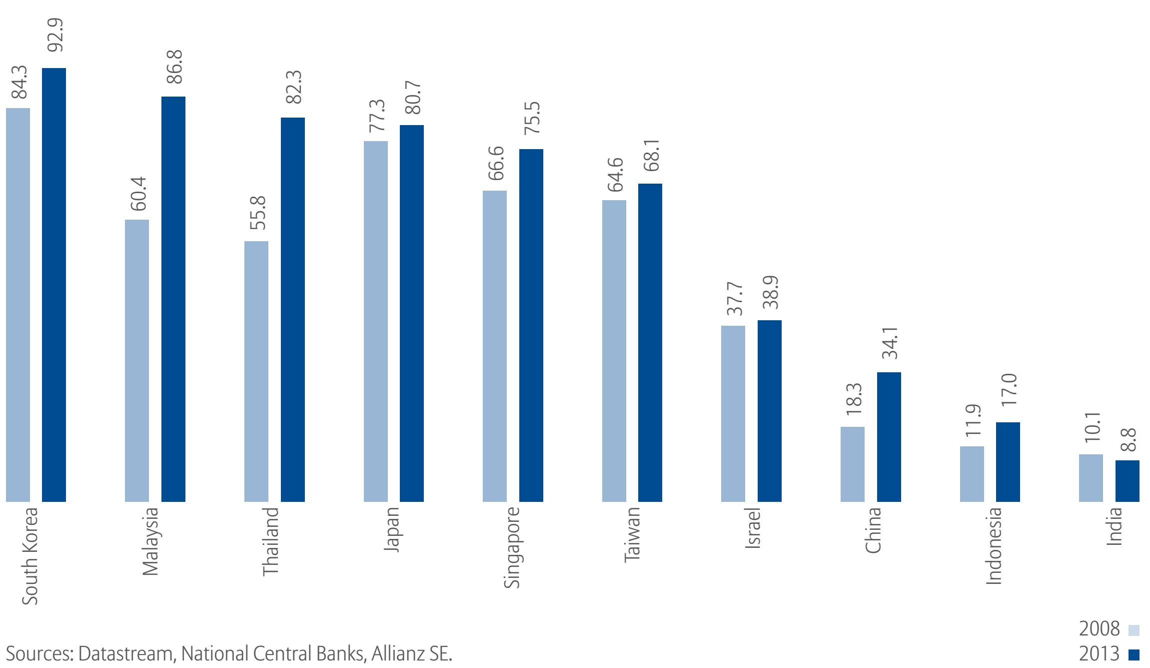
Sources: Datastream, National Central Banks, Allianz SE.

Rising debt levels as cause for concern

If we use the debt ratio of private households, i.e. the total liabilities of private households with banks and non-bank financial institutions (NBFIs) expressed as a percentage of GDP, as a benchmark, it becomes clear that, despite the high lending demand, China still has a fairly low debt ratio: at the end of 2013, it came in at 34%. The same ratio totaled around 17% in Indonesia and was still lingering below the 10% mark in India. In South Korea, on the other hand, the debt ratio of private households totaled 93% at the end of 2013, with the figure in Malaysia just shy of 87% and liabilities in Thailand accounting for 82% of GDP. This means that the debt ratio of private households in these three countries was even higher than in Japan, where it came in at almost 81%. Whereas in Japan, however, the gross financial assets of private households were more than four times as high as their outstanding liabilities at the end of 2013, this factor stood at only 2.2 in both Malaysia and South Korea, and at only 1.4 in Thailand.

Liabilities increased significantly in many countries

Liabilities of private households as % of GDP

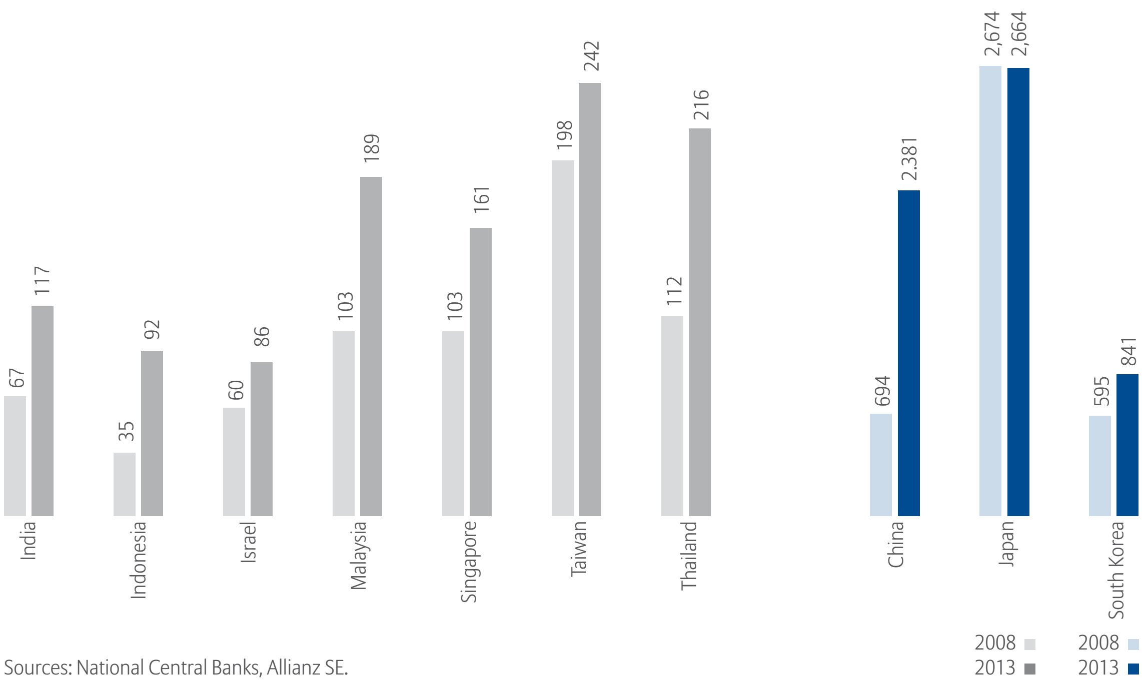


Sources: Datastream, National Central Banks, Allianz SE.

But the debt level that has now been reached is not the only worrying aspect of this development: the speed of the increase is also striking. In 2008, the debt level in South Korea stood at 84.3% of GDP, with loans to the tune of just under EUR 595 billion. Since then, the total credit volume has risen to EUR 841 billion, 93% of GDP. In Malaysia and Thailand, the loan volume has almost doubled over the same period of time: in Malaysia, private households had taken up loans worth the equivalent of around EUR 103 billion with banks and NBFIs in 2008, which corresponded to 60.4% of the country's GDP at the time. By the end of 2013, loans had risen to more than EUR 189 billion, or around 87% of GDP. In Thailand, things have been moving at an even faster pace: at the end of 2008, liabilities came in at just under EUR 112 billion or around 56% of GDP; by the end of 2013, Thai private households had debt to the tune of EUR 216 billion in total. Japan, on the other hand, is a special case: due to declining GDP, the debt ratio at the end of 2013 was higher than in 2008, although Japanese households have reduced their debt burden from EUR 2674 billion to EUR 2664 billion during the same period.

Significant increase in credit volume

Liabilities of private households
in EUR bn

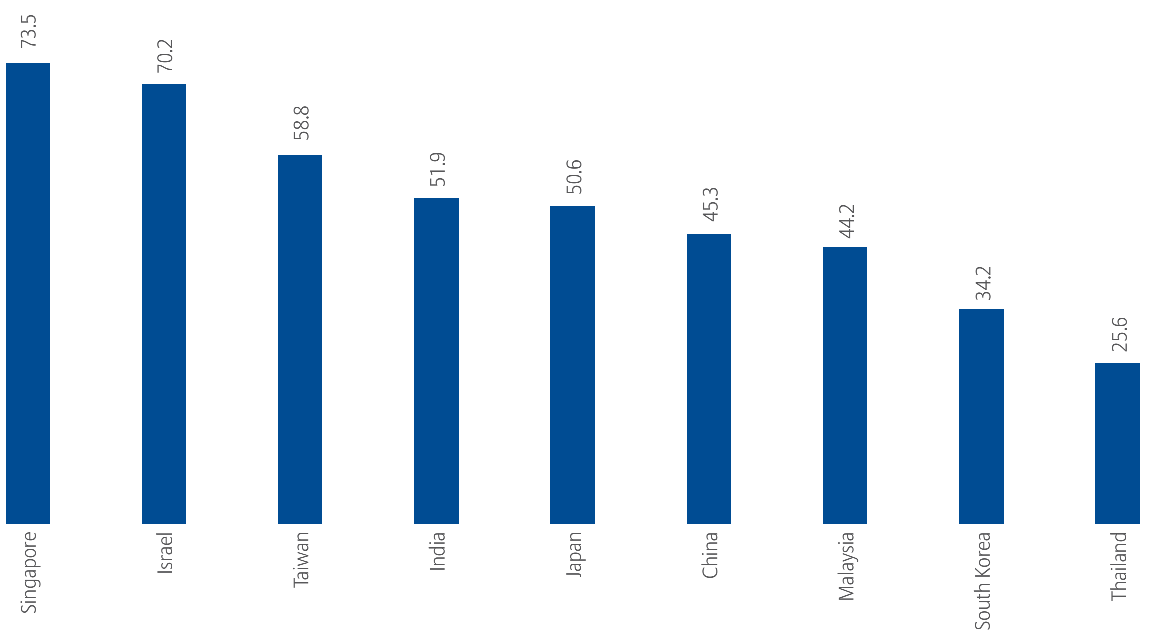


Sources: National Central Banks, Allianz SE.

On the whole, around half of the loans taken out are being used to finance the purchase or renovation of property. There are, however, marked differences between the countries regarding how the loans are used: whereas in Singapore, almost three-quarters of all loans are used to buy property - Singapore also has the highest home ownership rate in the world - around 75% of loans in Thailand were consumer loans. In South Korea, 34% of loans - a good chunk nonetheless - were used to buy property. 44% of loans were used for property purchases in Malaysia, although recent years have seen property loans account for more than 50% of new borrowing in Malaysia on more than one occasion. As a result, there are mounting concerns in these countries that rising interest rates or an economic slowdown could drive the number of overindebted households and loan defaults up considerably, particularly in the sections of society with lower incomes. After all, the proportion of assets to liabilities tends to be much less favorable in these income groups than among the population as a whole, because they hardly have any savings to fall back on.

Majority of liabilities serve real estate acquisition

Share of real estate loans in total liabilities
in %



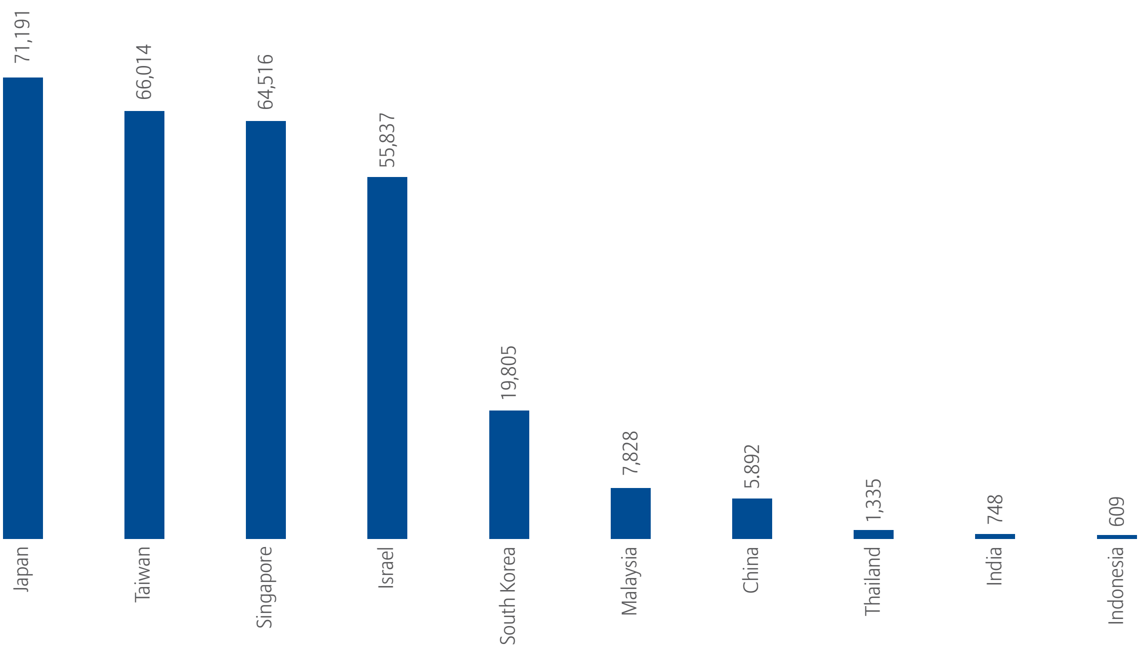
Sources: Datastream, National Central Banks, Allianz SE.

The Japanese have the highest net financial assets

If we deduct the liabilities from the gross financial assets, a good few countries switch places in the ranking list: in net terms, Japanese households come top of the table again in 2013, ahead of Taiwan and Singapore. Net per capita financial assets in Japan totaled just under EUR 71,200, whereas Taiwan and Singapore reported figures of around EUR 66,000 and a good EUR 64,500 respectively. In South Korea, the net figure is only half of its gross counterpart due to the high debt levels of private households, totaling only EUR 19,800 per capita on average. The gap separating Malaysia from China also looks much narrower when we apply the net figures: whereas the average gross per capita financial assets in Malaysia were almost twice as high as in China last year, net per capita financial assets were only almost one third higher than in China (EUR 5,890 on average), at a good EUR 7,800.

Japan's households still region's wealthiest

Net financial assets of private households, per capita in 2013
in EUR



Sources: Datastream, National Central Banks, UN Population Division, Allianz SE.

At the end of 2013, around 500 million Asians rank among the global wealth middle class

Thanks to the positive development in recent years, more than 500 million people in Asia could count themselves as members of the global wealth middle class club at the end of 2013, meaning that they had net financial assets of between EUR 5,300 and EUR 31,800. Around 3% of the population in the countries we have analyzed, or 107 million people, have actually made it into the global wealth upper class owing to the fact that they have assets of more than EUR 31,800. This also means, however, that around 2.6 billion people in the ten countries, or around 81% of the total population, still have very low financial assets totaling EUR 5,300 (net) at the most. Given the rising level of debt in the region, it is feared that fewer people will be able to make the leap from the wealth lower class to the wealth middle class in the future and that the risk of being “demoted” is mounting instead.


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

Australia and New Zealand

Population

Total	27.8 m
Share of the global population	0.4%

GDP

Total	EUR 1,141bn
Share of global GDP	2.3%

Gross financial assets of private households

Total	EUR 2,616bn
Average	EUR 93,950 per capita
Share of global financial assets	2.2%

Debt of private households

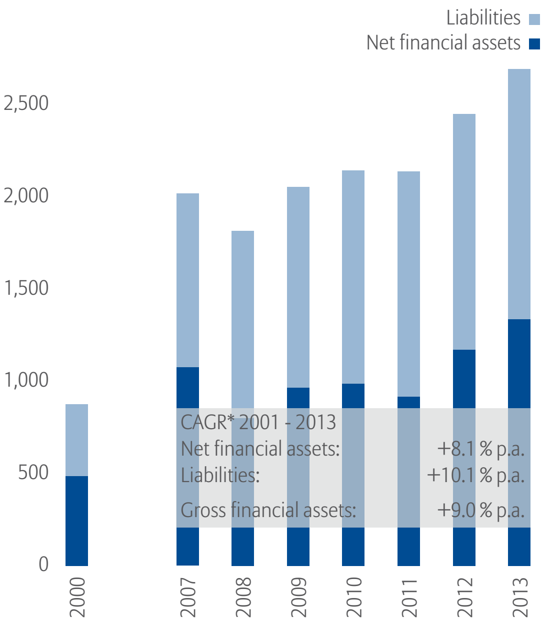
Total	EUR 1,319bn
Average	EUR 47,370 per capita
As % of GDP	115.6%

For private households in Australia and New Zealand, 2013 drew to a close with their gross financial assets up considerably, namely by 10% in total, on a year earlier. This puts asset growth even around 1.2 percentage points ahead of the average for the industrialized nations. All in all, savings down under came in at the equivalent of EUR 2.6 trillion at the end of last year, with 94% of these assets being found in Australia. All three major asset classes contributed to the positive asset development. Financial assets held in insurance policies and pensions achieved the highest growth (+11.6% as against 2012). In Australia, there is no other asset class that is as popular as this one: Australian households invest a good 59% of their financial assets in insurance policies, particularly in the sought-after superannuations, a combination of state and private, voluntary and tax-incentivized pension provision. Since the turn of the millennium, more than three-quarters of annual savings have been pumped into this form of investment on average.

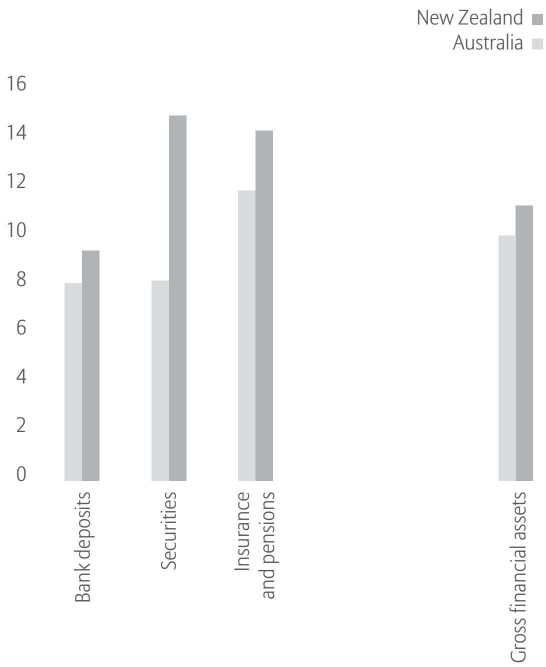
Unlike its larger neighbor, households in New Zealand still prefer to accumulate savings using bank deposits, which have grown by around 43% since the end of 2007. Last year alone, the increase came in at 9.2%. This was fueled by a higher savings rate, as well as by insurance payouts due to the earthquake in Canterbury. 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 14.6% in 2013, with New Zealand's leading index, the NZX 50, closing the stock market year with gains of 11.5%.

Oceania: Strong developments across all asset classes

Net financial assets and liabilities in EUR bn



Rate of change of asset classes 2013/2012 in %



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

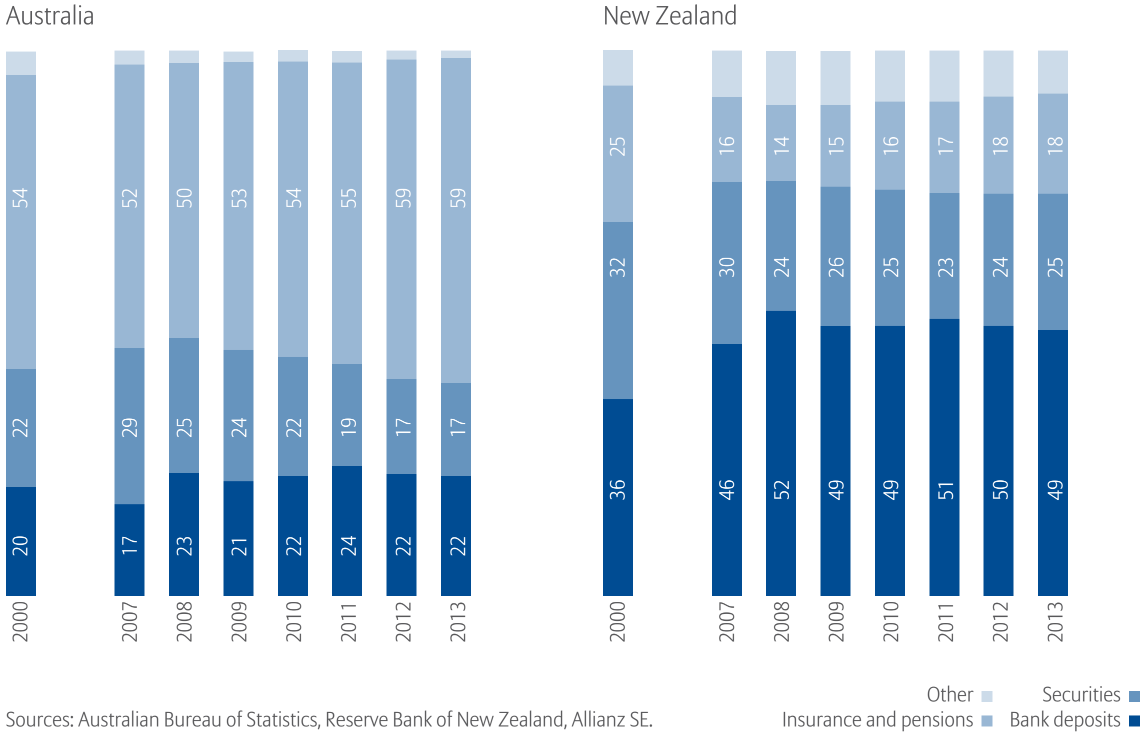
Savings behavior and debt

When it comes to handling their finances, Australia's private households would still appear to be more cautious than they were prior to the outbreak of the financial crisis. The savings rate down under has settled at around 10% in recent years and is now back around the level seen in the mid-1980s. The savings rate started to drop steadily in the mid-1970s before actually plunging into negative territory in the early 2000s. This downward trend was fueled by several factors, including easier access to loans, stable economic development, rising incomes and income expectations and a high propensity to consume. A turnaround only emerged with the outbreak of the financial crisis.

Australians have also been adopting a more restrained approach to further borrowing ever since. Whereas households were still upping their debt burden by an average of 14% a year in the period between 2002 and 2007, this rate of growth was slashed to an average of 6.6% p.a. in the years between 2008 and 2013. 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 around the same rate as liabilities at the same time, the ratio of debt to disposable income stabilized at 149% at the end of 2013 (all-time high: 153% in August 2006). Compared with North America, the personal debt ratio was

Unequal neighbors: Australia and New Zealand

Asset classes as % of gross financial assets



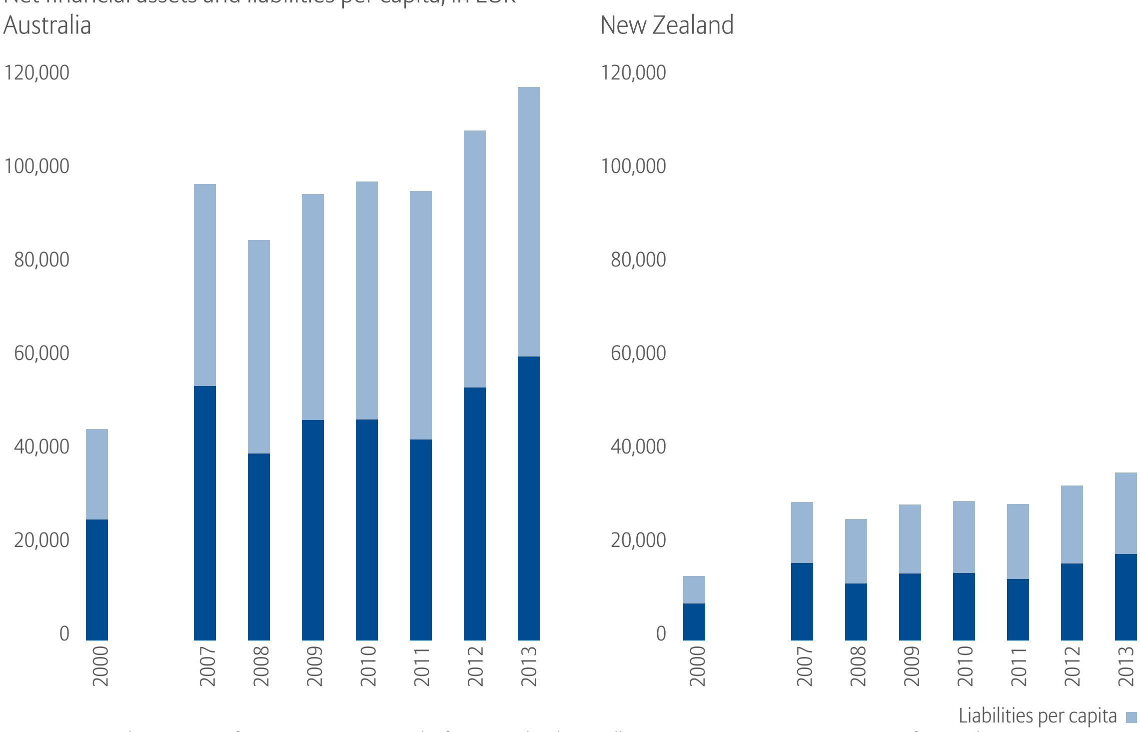
Sources: Australian Bureau of Statistics, Reserve Bank of New Zealand, Allianz SE.

lower than that of the highly-indebted Canadians (around 170%) but still much higher than in the US (around 110%). Per capita debt is at an all-time high at the equivalent of just under EUR 51,320. If we look at things this way, it becomes obvious that Australian households still have a long way to go before they are out of the debt trap completely and that they must remain disciplined when it comes to borrowing.

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 26,890 to bear. Expressed as a percentage of disposable income, however, this comes in at a rate of 146%, only a touch lower than the level for Australian households. The ratio of liabilities to gross financial assets shows that relative debt in New Zealand is actually much higher than in Australia. Whereas the private debt burden in Australia "only" corresponded to 49% of gross financial assets at the end of 2013, the rate in New Zealand tallied up to a good 76% - albeit a good 17 percentage points down on the peak reached in 2009. In the period between 2002 and 2007, the percentage increase in liabilities was still in the double digits. Since 2008, on the other hand, the debt burden has been growing at an average rate of "only" 3% per annum. In 2013, however, debt growth was up slightly again on the average for the past six years, at 5.6%. House prices have been on a steep upward slope, especially over the past two years. A historically low interest rate level, less stringent lending conditions between 2012 and 2013 and an increase in net immigration fueled the demand for housing. With the debt level already at a high level to begin with and house prices overvalued, the risk of a correction on the residential property market started to rise and, along with it, the risk of numerous households being plunged into financial diffi-

Australia's households are significantly richer

Net financial assets and liabilities per capita, in EUR



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

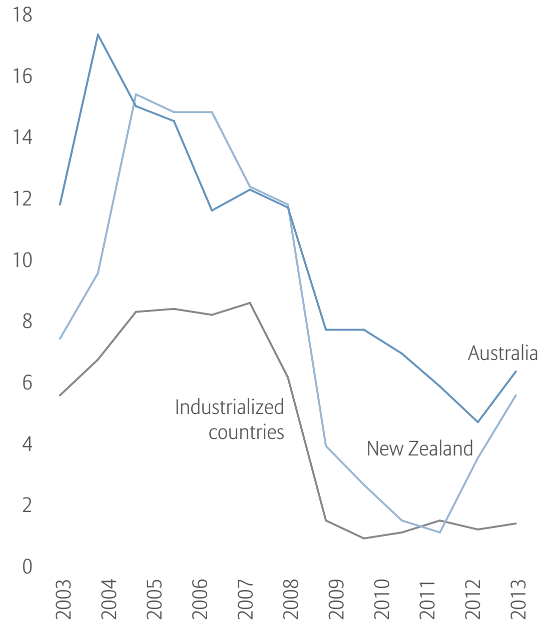
culty. New Zealand's central bank reacted by imposing restrictions on the volume of mortgage loans that could be granted with high loan-to-value ratios. Since these guidelines were introduced in 2013, the residential property market has cooled down slightly.

Considerable differences in per capita financial assets

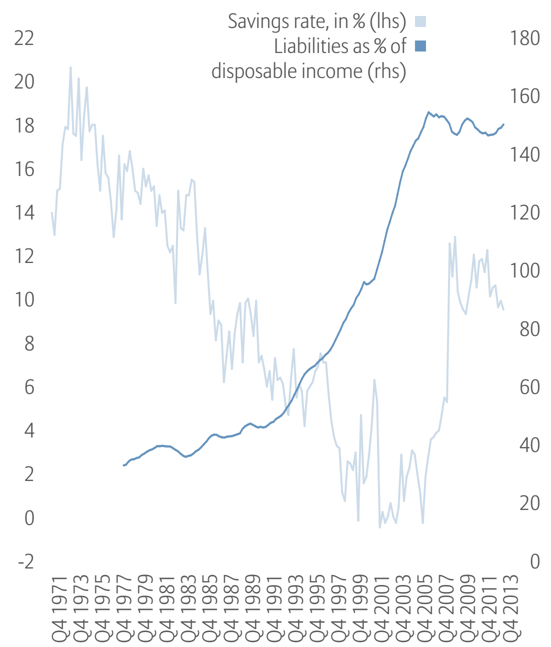
Looking at the region as a whole, around 43% of the population had high net financial assets in a global comparison, i.e. more than EUR 31,800 per capita, at the end of 2013. In North America, this proportion came in at 41%, whereas "only" 37% of the population of western Europe falls into this category. 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 53,960, while New Zealanders only have just under 16% of this amount – with net per capita financial assets of around EUR 8,340, the country ranks among the MWCs. In the global league of the highest per capita financial assets, last year Australia moved up one place and ranked in twelfth place. New Zealand has managed to climb up three places since 2012, but still only comes in 28th.

U-turn in savings behavior since financial crisis

Debt growth slows down, y/y
in %



Savings rate and liability ratio in Australia



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

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APPENDIX A: METHODOLOGICAL COMMENTS

General assumptions

The Allianz Global Wealth Report is based on data from 53 countries. This group of countries covers almost 91% of global GDP and 69% of the global population. In 38 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 Chile, Colombia has fairly good data that can be used to analyze the financial structure of private household assets. 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 2013.

Determination of wealth bands for 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. (2009), 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 analysis. Countries in the upper-middle income bracket (based on the World Bank's country classification system) therefore form the group in which the average assets of private households has reached a relevant volume for the first time. This value marks the lower threshold for the global wealth middle 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 5,300 and EUR 31,800 for the global wealth middle class in 2013. The gross thresholds lie at EUR 7,200 and EUR 43,400.

Individuals with higher per capita financial assets then belong to the global high wealth group, whereas those with lower per capita financial assets belong to the "low wealth" class.

These asset bands can, of course, also be used for the purposes of country classification. Countries in which the average net per capita financial assets are less than EUR 5,300 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 5,300 and EUR 31,800; finally, all countries with even higher average net per capita financial assets are described as "high wealth countries" (HWCs).

Country classification based on net per capita financial assets:

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

*2013 asset balance sheet **Extrapolation based on 2012 asset balance sheet
*Approximated based on other statistics

Analysis of the real estate assets of private households

In addition to financial assets, this year's analysis also puts the real estate assets of private households under the microscope. For the majority of countries, however, there is no data available in the macroeconomic wealth accounts. In order to enable comparability, we have therefore restricted the group of countries in our ranking to the EU member states covered by Eurostat and have set out the situation in other selected countries merely as anecdotal examples. The EU member states included in the analysis are Austria, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Italy, Lithuania, the Netherlands, Poland, Slovakia, Slovenia and the United Kingdom. For other countries such as Japan, the US and Switzerland, we used data from the OECD statistics on the assets held by private households. When it comes to Greece, we are relying on the databases of the national central bank. The real estate assets recorded for the US, Switzerland and Greece, however, include land values in addition to building values, which poses a real obstacle to comparability with the other countries included in our analysis.

Our analysis is limited to the period between 2000 and 2012, as only very few countries have data available for 2013 at this point in time. In cases where the available time series ended as early as in 2011, we extrapolated the figures for the missing year based on the development in mortgage loans. This applies to Estonia, Hungary, Poland, Slovenia and Denmark.

Countries analyzed and real estate assets per capita in euros, 2012:

United Kingdom	82,030
Denmark	63,140
France	58,890
Germany	53,440
Austria	53,310
Netherlands	46,570
Finland	42,880
Italy	40,370
Slovenia	24,540
Slovakia	16,800
Czech Republic	13,450
Estonia	13,210
Hungary	12,110
Lithuania	6,870
Poland	2,580

Appendix B: Financial assets by country	Gross financial assets				Net financial assets	GDP
	in EUR bn	Global share, in %	2013, yoy in %	EUR per capita	EUR per capita	EUR per capita
Argentina	70	0.06	27.8	1,684	1,083	6,861
Australia	2,458	2.08	9.9	105,284	53,960	43,234
Austria	540	0.46	1.4	63,510	43,739	36,806
Belgium	1,090	0.92	4.7	98,152	78,302	34,347
Brazil	1,133	0.96	7.0	5,655	2,138	7,427
Bulgaria	48	0.04	7.9	6,605	4,876	5,559
Canada	3,570	3.02	8.9	101,465	65,897	36,489
Chile	253	0.21	8.9	14,386	10,272	10,755
China	10,544	8.91	22.7	7,610	5,892	5,037
Colombia	148	0.13	7.5	3,068	1,644	5,434
Croatia	48	0.04	5.4	11,285	7,150	10,048
Czech Republic	153	0.13	4.1	14,272	9,487	13,248
Denmark	665	0.56	3.1	118,291	53,379	44,340
Estonia	16	0.01	9.3	12,464	5,920	14,321
Finland	252	0.21	7.1	46,471	20,935	35,649
France	4,429	3.74	4.6	68,890	46,016	32,030
Germany	5,153	4.36	4.0	63,851	44,283	33,923
Greece	290	0.25	12.3	26,084	14,603	16,360
Hungary	102	0.09	5.7	10,254	7,152	9,845
India	1,054	0.89	8.9	842	748	1,061
Indonesia	244	0.21	16.3	978	609	2,168
Ireland	335	0.28	3.2	72,334	34,303	35,536
Israel	517	0.44	9.6	66,914	55,837	28,474
Italy	3,897	3.29	2.1	63,899	48,797	25,578
Japan	11,716	9.91	6.1	92,147	71,191	25,978
Kazakhstan	28	0.02	11.9	1,676	508	9,587
Latvia	15	0.01	7.4	7,137	3,267	11,341
Lithuania	28	0.02	12.4	9,385	6,081	11,469
Malaysia	422	0.36	11.2	14,198	7,828	7,340
Mexico	876	0.74	3.2	7,164	6,089	7,282
Netherlands	2,038	1.72	2.7	121,615	71,434	35,941
New Zealand	159	0.13	11.0	35,225	8,338	29,352
Norway	398	0.34	7.9	78,839	11,851	71,250
Peru	80	0.07	8.3	2,648	2,061	4,775
Poland	370	0.31	7.6	9,678	5,954	10,269
Portugal	400	0.34	3.0	37,668	22,484	15,611
Romania	111	0.09	13.4	5,121	3,443	6,516
Russia	497	0.42	18.5	3,477	1,808	10,322
Serbia	13	0.01	6.8	1,360	742	3,417
Singapore	510	0.43	7.2	94,207	64,516	39,304
Slovakia	52	0.04	4.2	9,456	4,930	13,235
Slovenia	39	0.03	3.0	18,870	13,128	17,025
South Africa	446	0.38	14.3	8,450	6,379	4,445
South Korea	1,817	1.54	6.5	36,878	19,805	18,384
Spain	1,879	1.59	8.0	40,040	21,989	21,800
Sweden	1,041	0.88	10.2	108,775	70,079	42,907
Switzerland	1,794	1.52	5.3	222,027	146,540	60,937
Taiwan	1,785	1.51	10.1	76,346	66,014	15,168
Thailand	306	0.26	2.4	4,563	1,335	3,921
Turkey	237	0.20	18.0	3,164	1,487	7,039
Ukraine	82	0.07	3.5	1,818	1,441	2,833
United Kingdom	5,874	4.97	8.3	93,039	63,488	30,856
USA	48,259	40.80	11.9	150,784	119,565	38,088
World	118,278		9.9	24,134	17,678	9,924

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