

The Impact of Inheritances on Financial Markets

Date: September 27/28, 2007

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Demography

- Growing number of older people

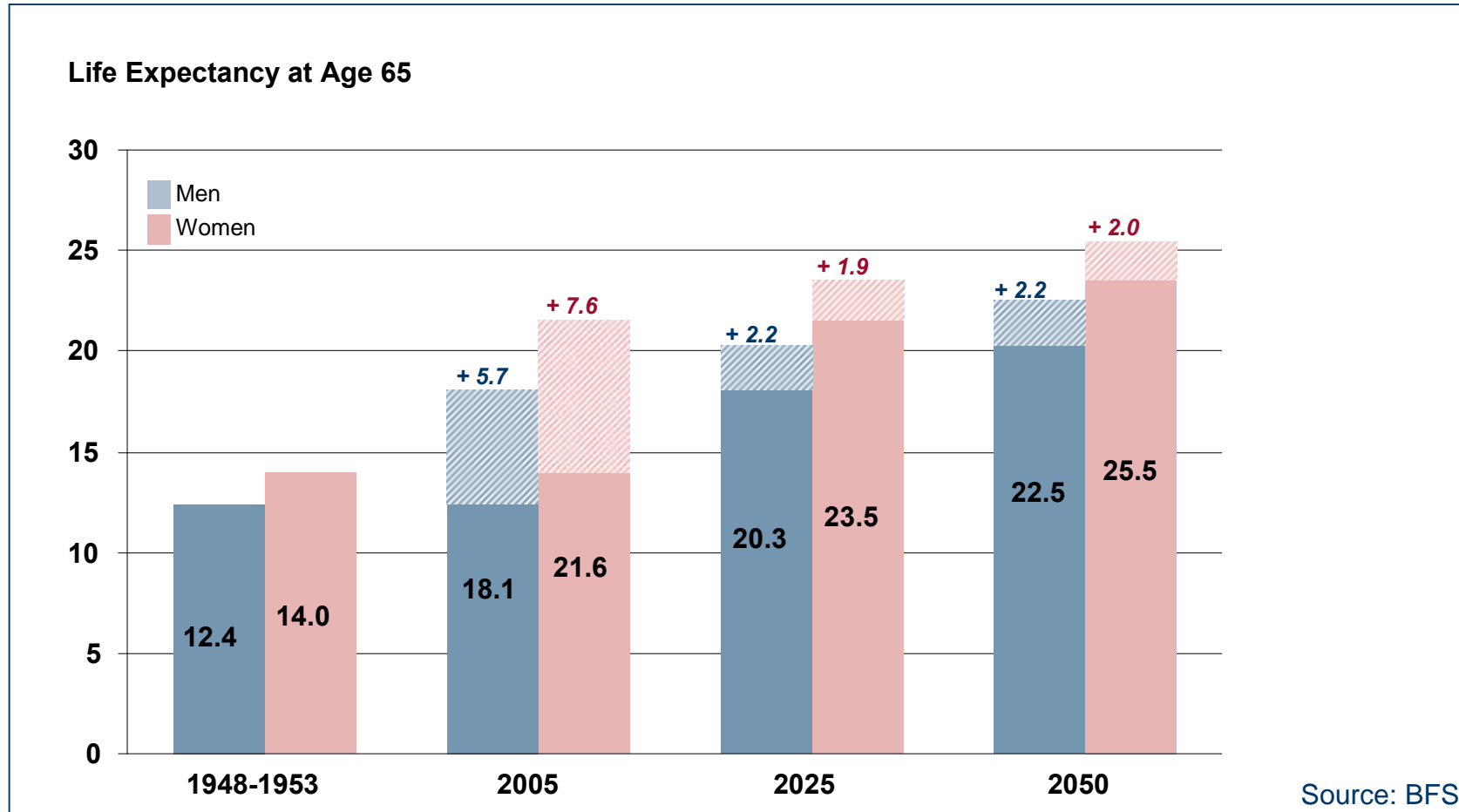
- Impact on a variety of areas
 - Labor market, retirement provision, health-care system, consumer behavior, economic growth, financial markets, etc.

- Signs of demography
 - More and more parents get to see their children retire
 - There is hardly any poverty in old age any more

Market Potential As a Result of Demography

- Income development and age: greatest available income in the age 50-59 category
- Asset development and age: greatest available net assets in the age 60-69 category
- Bequests only once very old

Demography: Increasing Life Expectancy



Factors Influencing Inheritances

- + More old people
- + Higher assets due to better retirement provision
- + Bequests only in old age
 - saving rather than spending in old age!

- Assets must last longer
- Fear of high medical costs
- Increasing number of divorces resulting in asset splitting
- Fewer redistributions due to pension system reforms

Facts/Figures on Inheritances in Germany

- By 2015, inherited assets will rise from EUR 1 trillion to EUR 2.3 – 2.8 trillion p.a.
- The number of inheritances will rise from 880,000 to 1.1 million p.a.

Facts/Figures on Inheritances in Switzerland (1/2)

- Switzerland: CHF 28.5 billion was inherited in 2000
 - Household savings only CHF 22 billion
- CHF 456,000 inheritance per testator, CHF 178,700 per heir
- In 2000 51% of all inheritances went to persons > 55
- In 2020 67% of all inheritances will go to persons > 55
- In 2000 the inheritance volume of persons > 80 was 65%
- In 2020 the inheritance volume of persons > 80 will be 75%

Facts/Figures on Inheritances in Switzerland (2/2)

- 75% of all inheritances go to heirs within the immediate family
- 10% to unrelated persons
- 4% to charitable organizations (CHF 1.1 billion)
- No redistribution of assets due to inheritances
 - 35% of the population inherit nothing
 - 10% of heirs receive 75% of all inheritances

Heirs and the Financial Markets – Two Questions

- How do older investors invest?
- How is inheritance behavior changing?

Investment Behavior of Older Investors / Heirs

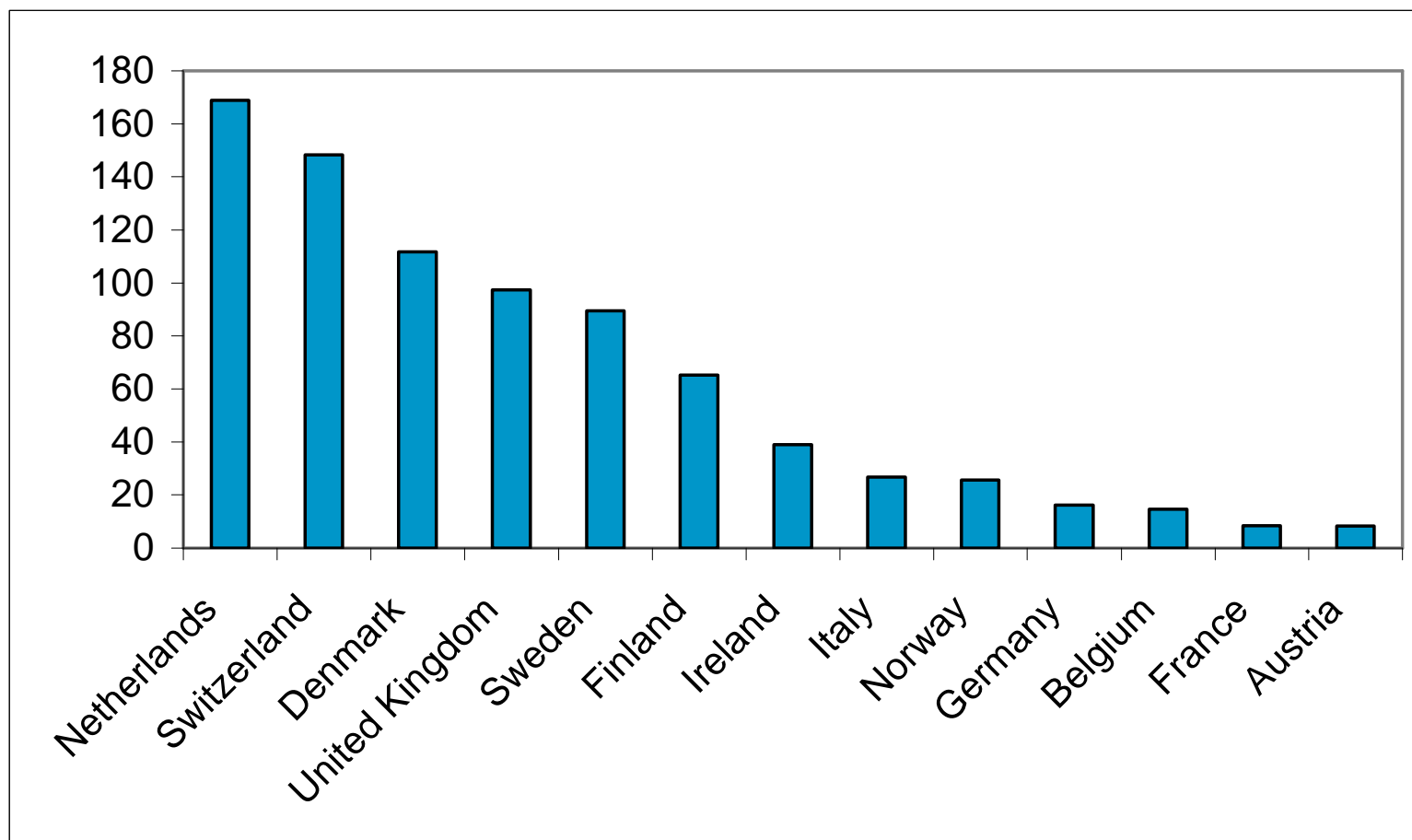
- **Older investors will not invest more conservatively in future**
 - They have secure pension provision (Pillar 2)
 - They have experience with equities
 - They use modern investment instruments

- **Heirs want to preserve inherited assets**
 - Major reservations about spending inherited assets

- **Old heirs no longer need to invest / consume**
 - Already have their own home
 - Very little additional consumption due to inheritance

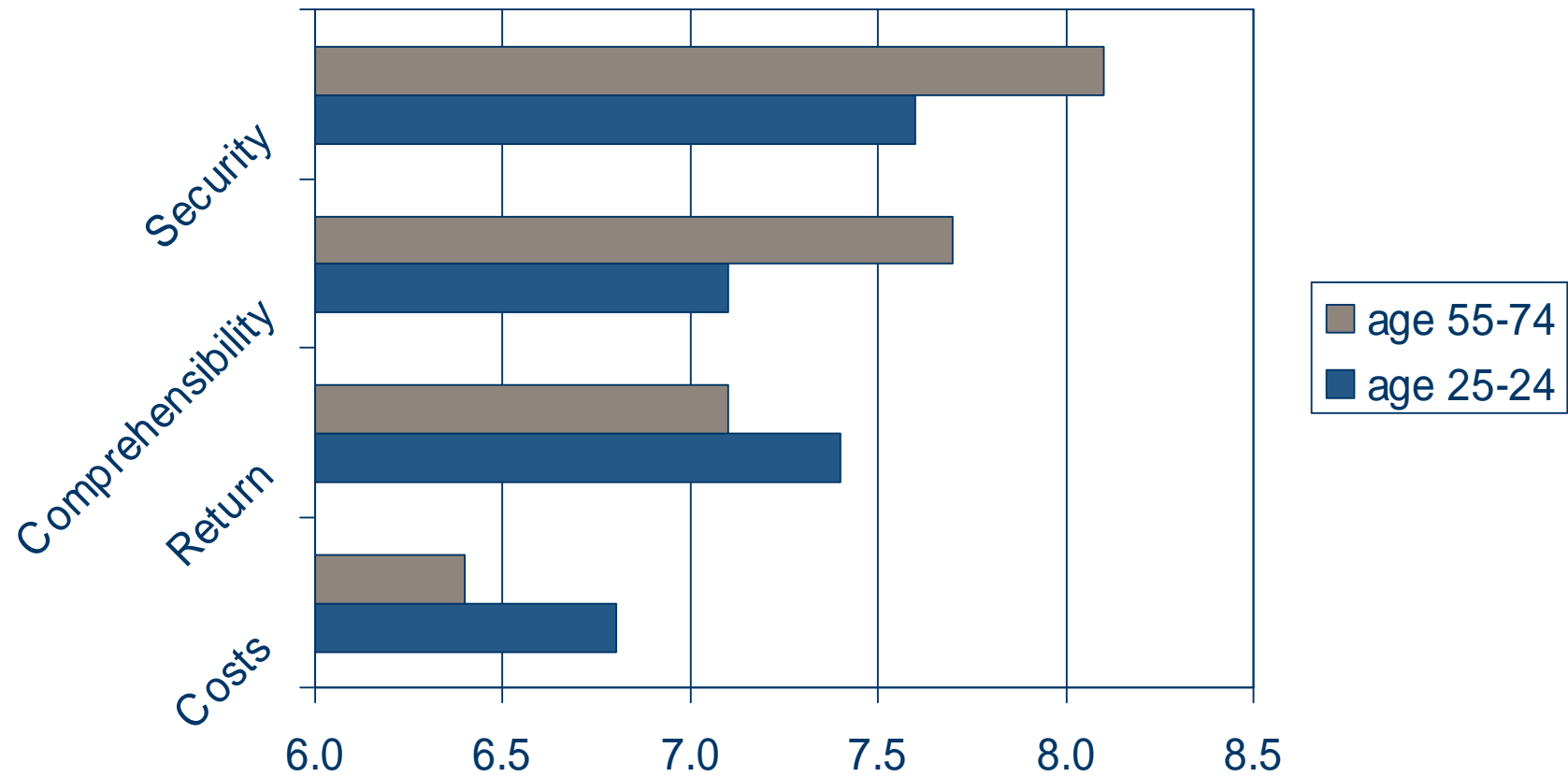
- **General trends**
 - Increasing importance of performance
 - Comprehensive services expected
 - Cost consciousness

Pension Assets in Europe (% of GDP, 2002)



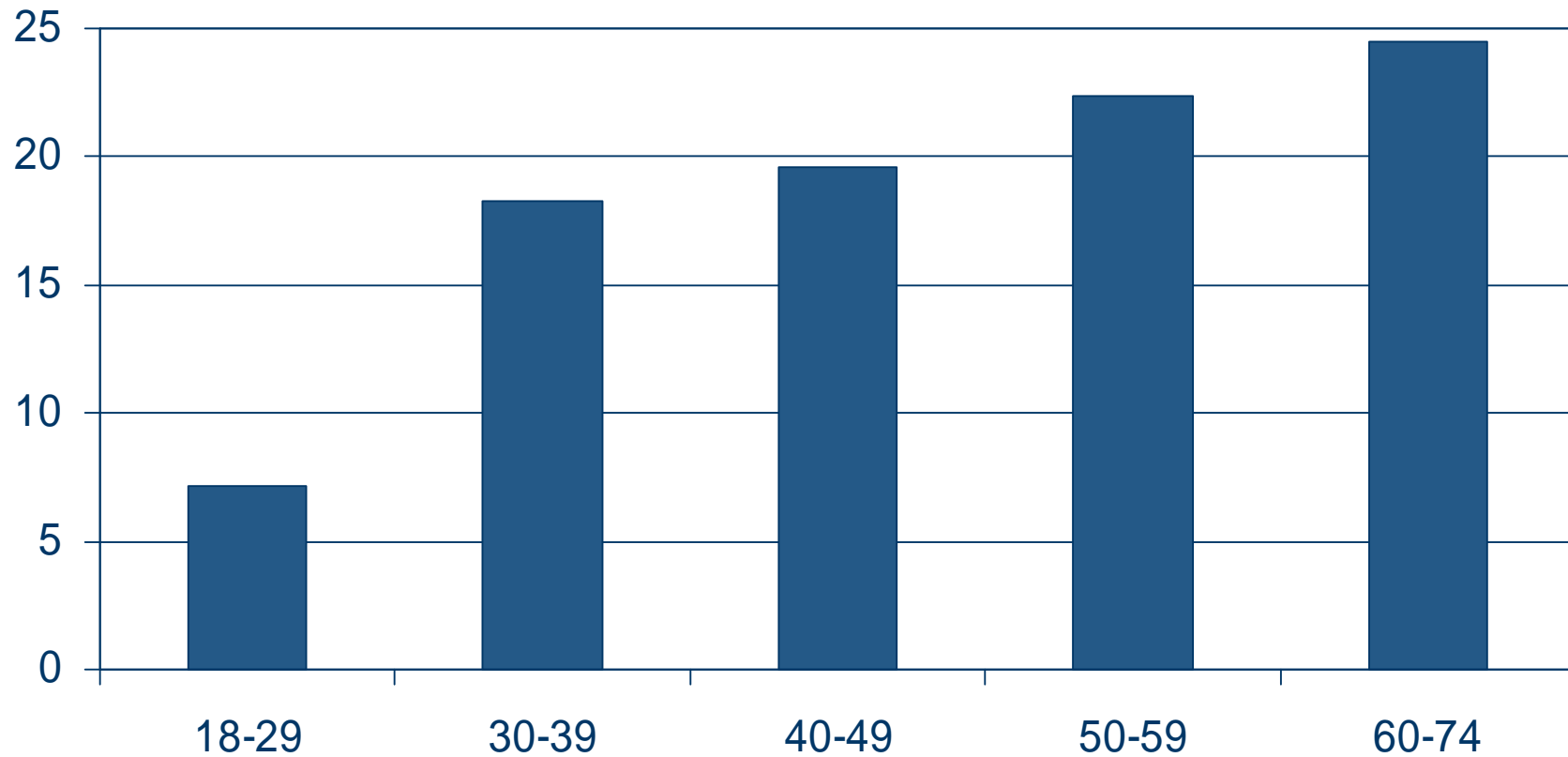
Source: Mercer, Oliver Wyman

Aspects of Investment Decisions



Source: Credit Suisse Asset Management

Survey Respondents with Equity Holdings (by Age, in %)



Source: Equity Ownership in Switzerland in 2006

How Would Heirs Spend CHF 250,000?

	Under 60	60 and over
Invest capital	42 %	60 %
Real estate	21 – 27 %	16 %
Business	5.2 – 6.8 %	2.4 %
Education	1.6 – 5.2 %	1.2 %
Vacation, car, etc.	17 – 22 %	14 %

Source: Reinhart/Vitarelli 2002 & other survey documents

Inheritance Behavior

- Increase in gifts with increasing life expectancy
- Gifts particularly in connection with company succession
- Donations to charitable organizations

Inheritances in Private Banking

- Two challenges
 - Keep testators' assets (no outflow of funds)
 - Acquisition of estate assets from competitors
 - Heirs as new clients

Challenges in Private Banking

- In the next 15 years, 50% of assets under management will be inherited
- How can outflows be prevented?
- Globalization: more and more heirs are scattered across the globe

Opportunities in Private Banking

- Flow of funds from inheritances, gifts and succession planning

- Company succession
 - Flow of funds from company sales, private equity, etc.
 - Financing of companies

- Funds from sales of real estate

Inheritance Advice as Core Competence in On-Shore Business

- Inheritance advice to find out who the heirs are
- Acquisition of mandates to execute wills
- Tax advice and inheritance advice increasingly in the area of company succession
- Real estate advice / referrals
- Charitable foundations
 - "ACCENTUS," "EMPIRIS," "SYMPHASIS"

Risks of Inheritance Advice

- Inheritance advisors contribute less to profit than relationship managers and therefore have a negative impact on the cost/income ratio
- Acquisition of mandates to execute wills today leads to greater volume of work in the future
- Competition from NGOs
- Introduction of inheritance tax at federal level?

Summary

- “The risks of demographic development are far off, yet the opportunities are right in front of us.”