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No interest for savers

Saving money for a rainy day is a very Swiss virtue. However, savers have little to cheer about at present. The interest on their savings accounts has never been so low. Their assets are simply stagnating.

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In May of this year, the big Swiss bank UBS spooked savers by announcing that account holders would no longer receive any interest on their savings. This was unprecedented, as the public had always been rewarded with interest for entrusting their money to banks. Benjamin Manz, managing director of the Swiss banking and insurance comparison website moneyland.ch, believes that UBS has turned the accepted wisdom of savings returns upside down. "Zero per cent interest basically means that it no longer pays to save."

But UBS is not alone. Interest rates are at record lows at all Swiss banks, where the average rate of interest on savings accounts is 0.05 per cent. According to moneyland.ch, the average interest rate on personal accounts is 0.00 per cent (September 2019). Interest rates in Switzerland have never been this low. "The current low level of nominal and real interest rates is unprecedented," writes Peter Kugler, Professor of Economics at the University of Basel, in an essay for the economic magazine "Die Volkswirtschaft".

Generations of Swiss learned how to save money from an early age. Record-low interest rates have now made saving almost irrelevant.

Extremely low interest, coupled with inflation and the various fees that many banks have introduced, have resulted in savings effectively losing value. "It is no longer worth having your money tucked away in a conventional savings account," says Karl Flubacher of VZ Vermögens-Zentrum in Basel, adding that many Swiss are concerned by this. "Saving is a big issue in our consultations." So what will happen to saving – this quintessentially Swiss attribute – if the incentive to save has gone?

Job security is vital

Theory number one: When personal assets lose value, people just start spending more. Wrong, says André Bähler, head of politics and economics at the Swiss Consumer Protection Foundation, who believes that the nation's economic health is the main factor influencing consumer behaviour among savers. In his view, job security has a much more direct effect on consumer habits than low interest rates. "If I know that I will still be in a job tomorrow, my behaviour as a consumer will be different to what it would be if my work situation was unclear – not that the current interest rate climate isn't having any effect at all, I hasten to add."

Desire for alternatives remains limited

Theory number two: Faced with record-low interest rates, the Swiss are looking to other forms of saving and investing. Benjamin Manz of moneyland.ch explains that the average Swiss saver is reluctant to experiment. "We are still waiting for alternative investments to catch on properly in this country. The Swiss are risk-averse. Only rarely will they try a different approach." However, he does not rule out the possibility of a behavioural change in the future.

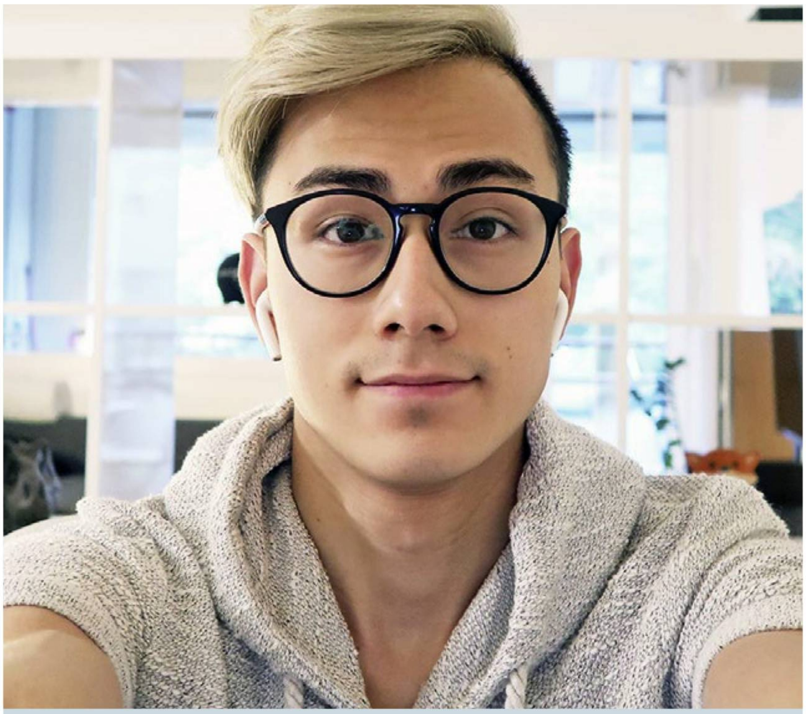
Are we hiding more money under the mattress?

Theory number three: Instead of looking to alternative forms of investment, more Swiss savers are withdrawing their money – and stashing it under the proverbial mattress. There are no fresh figures to support this hypothesis, but a survey carried out by the Swiss National Bank in 2017 provides some clues. Back then, the SNB wanted to know why people chose to hide their monetary assets in this way. Seven per cent of those questioned – anything but a sizeable contingent – said they had resorted to this tactic in order to save money and/or because they were scared of negative interest rates. The authors of the survey therefore concluded, “The low interest rate environment does not appear to be a major motivation for people to keep money at home or in safe-deposit boxes.” Admittedly, interest rates have fallen further and bank charges have continued to rise since the survey was published.

“Many don’t and can’t save at all”

Based on the above, we can assume that the Swiss have not (yet) changed their savings behaviour despite the low interest rates. Academic findings underpin this view. For example, a study on German savers by the Leibniz Centre for European Economic Research (ZEW) revealed that the average citizen had until now barely changed his or her savings behaviour as a result of low interest rates. However, Flubacher of VZ VermögensZentrum believes that the actual reason for this may be quite simple: “Many don’t and can’t save at all,” he says. Indeed, the ZEW study points to a specific group of people who are in fact changing their approach and investing in securities: young, wealthy, risk-tolerant men (see feature on page 17).

Finally, another finding indicates how concerned many savers are despite the fact that little in their behaviour has changed to date: more than a third of those surveyed said that they would withdraw their money from the bank if negative interest on savings was introduced across the board. But what they would do with all the cash remains to be seen.



A thrifty lifestyle

The 23-year-old Zurich-based financial blogger Thomas Kovacs lives a minimalist, economical lifestyle aimed at achieving maximum financial freedom.

Thomas Kovacs is 23 and, notwithstanding this tender age, has already thought long and hard about money and how to economise. He has even produced a public chronicle of his journey so far – on a financial blog and YouTube channel called “Der Sparkojote” (“The Thrifty Coyote”). Kovacs was only 17 when he opened his own online game shop. Since then, he has amassed assets worth 182,000 francs. The 23-year-old invests in the stock market and lives off the money from his online shop, his blog and his YouTube channel. His outgoings are no more than 2,000 francs a month. This hard-working, disciplined minimalist chooses not to spend money on expensive fashion, luxurious holidays, restaurant meals, or nights out. “Because none of this enhances my quality of life.”

He openly shares details of all his investments and finances in his blog and videos. Ultimately, his aim is to gain financial freedom and live the way he wants. “I like to focus on what really matters in life. Saving money is a by-product of this approach.” He learned a lot at school, Kovacs explains, but nothing about what he calls “the most important life skill”: managing money – a quality that is actually becoming essential, he believes, not least with advancing age and in the current interest rate climate. Each of Kovacs’s uploaded videos attract several thousand clicks, especially from 18- to 30-year-old men – an indication of how much his message is also engaging young people.

(GUM)