WHITE PAPER

Czech Wealth Report

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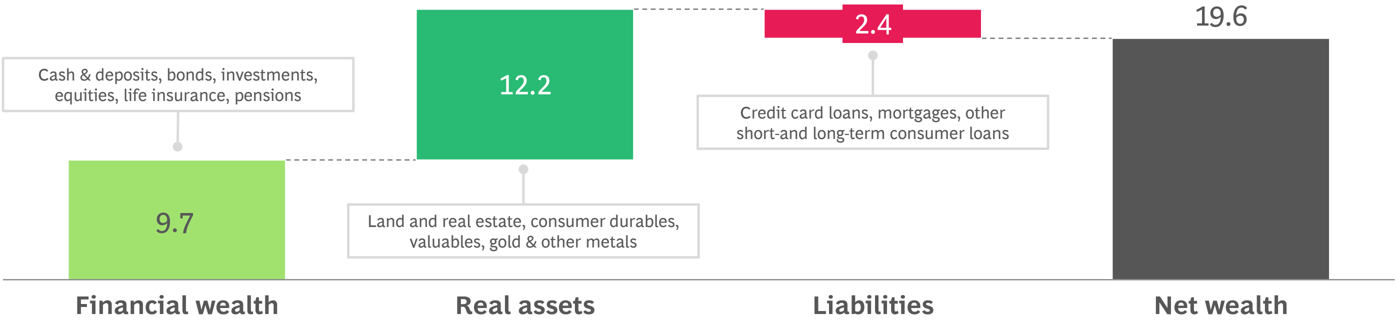
Summary

- Net wealth measures the sum total of an individual or economy's wealth, defined as financial wealth and real assets minus liabilities. Its size and structure can tell us about the health of an economy and macroeconomic trends
- The Czech Republic has seen high growth in net wealth since 2017, but saw a slowdown starting in 2021, mirroring a global slowdown over the same period, especially in developed markets
- The structure of wealth in the Czech Republic differs from the structure of wealth elsewhere in three important ways
  - The country has more real assets than financial assets, in a proportion more similar to Western Europe than Eastern Europe
  - Its share of life insurance and pensions in financial wealth is comparatively low, reflecting lower penetration in the Czech economy
  - There is not a sufficiently-developed middle class: The share of wealth owned by both the richest segments and the poorest segments of the economy is higher than global average. Though the structure has changed slightly in the last 5 years and is forecasted to continue shifting, it will likely take generations to reach Western norms
- Looking to the year 2030, we expect that wealth-holders will be on average more digital, younger and a higher share of women than today; wealth managers must adapt to serve these segments in order to benefit, rather than suffer, from changing trends

1. What is total net wealth?

Exhibit 1 – Net wealth is composed of financial wealth and real assets, minus liabilities

Breakdown of Czech net wealth structure (2022, CZK T)



Financial wealth: This is the wealth in its most liquid form; all wealth is typically converted to financial wealth in order to be traded or exchanged

Real assets: Real assets are a less liquid form of wealth that is stored in real physical assets, primarily land and real estate

Liabilities: Liabilities are important to offset especially real assets while being financed; liabilities are one way wealth-holders can build more wealth in the future

Net wealth: Total net wealth measures the total amount of wealth, in all its forms, held by an individual or an economy

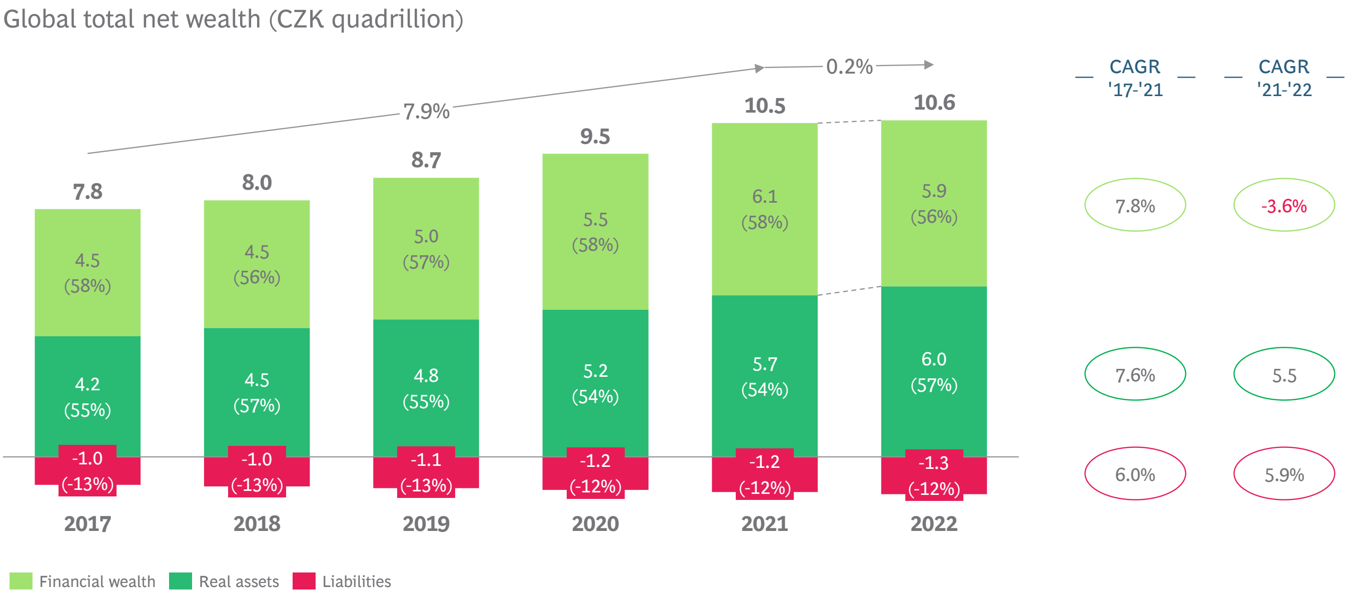
2. Recent development of net wealth in the Czech Republic

Between 2017 and 2021, the Czech Republic saw net wealth growth of just under 9% CAGR. This puts its growth midway between the global average of 7.6% and the region of Central and Eastern Europe, which saw 11.6% growth in that time.

Net wealth growth in the Czech Republic is driven by both financial wealth and real assets, which both grew equally around 9% in the same time frame. In absolute terms, most growth has come from real assets, due to the Czech Republic's relatively higher share of this wealth component.

Between 2021 and 2022, net wealth growth in the Czech Republic flattened, growing overall at only 1%. The main culprit for this change is financial wealth, which contracted by 1%, while real assets grew only moderately. This mirrors a broader global slowdown in wealth growth in 2021-2022, marked by a steep contraction in financial wealth growth, especially in developed Western markets, and a shift from more liquid wealth into real assets amid recessionary fears. In North America alone, financial wealth fell by CZK 240 T going into 2022, made up less than half by transference into real assets.

Exhibit 2 – Financial wealth and real assets typically grow at similar rates; in 2022, net wealth overall plateaued while financial wealth declined



Source: BCG Global Wealth Report 2023—BCG Global Wealth Market Sizing

3. Structure of net wealth in the Czech Republic

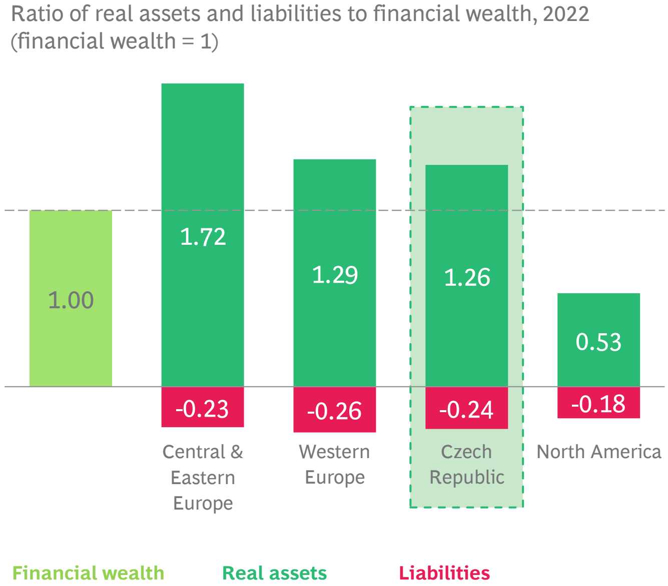
As of 2022, net wealth of the Czech Republic was CZK 19.6 trillion, composed of CZK 9.7 trillion in financial wealth, CZK 12.2 trillion in real assets and CZK 2.4 trillion in liabilities. This makes the Czech Republic the 17th wealthiest nation in Europe and 45th wealthiest globally.

There are 3 features of the structure of wealth in the Czech Republic that make it unique compared to other regions, related to the composition of net wealth, the composition of financial wealth and the distribution of wealth across the economy.

1: Net assets to financial wealth

The Czech Republic's net assets to financial ratio is ~1.26:1, almost identical to that of Western Europe (~1.29:1) and quite far from the structure of Central and Eastern Europe (~1.72:1), all of which are much higher compared to North America (~0.53:1). The Czech republic has generally high levels of real estate ownership thanks to the legacy of restitution and favorable sales of state-owned apartments to the tenants, which allowed citizens to own apartments for low prices and established home ownership as the norm, while rental remains more common further west; at the same time, property values have risen quickly since the 1990s, making real assets a more attractive investment than in some markets.

Exhibit 3 – The Czech Republic's real assets to financial wealth ratio differs from elsewhere

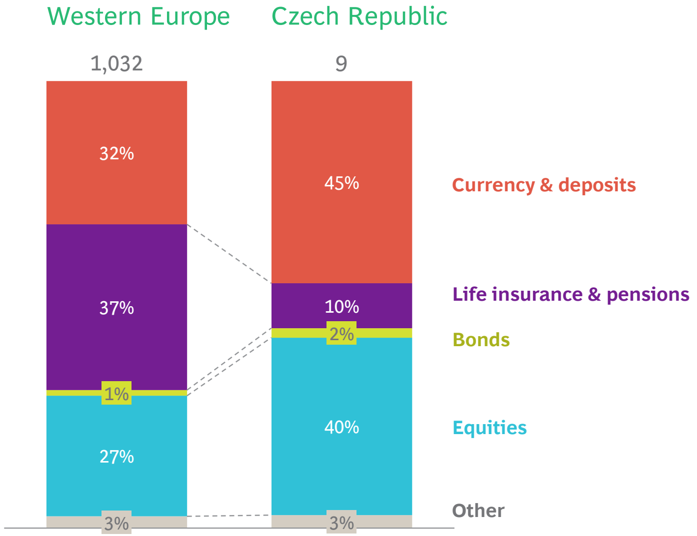


Source: BCG Global Wealth 2023 Market Sizing

Not including cross-border wealth

Exhibit 4 – The Czech Republic‘s financial wealth structure differs from global

Onshore asset allocation (financial wealth), CZK trillion, 2022



Note: Onshore wealth not including cross-border wealth
Source: BCG Global Wealth 2023 Market Sizing

2: Share of life insurance & pensions, equities, currency & deposits in financial wealth
The second notable feature of Czech wealth structure zooms in on the structure of financial wealth. In Western Europe, currency & deposits, life insurance & pensions and equities have roughly similar shares (32%, 37% and 27%). In the Czech Republic, life insurance & pensions has a far lower share, at only 10% of financial wealth. This reflects the fact that the Czech Republic has the 7th lowest life insurance penetration in Europe, with under a 1% premium over GDP in 2020 compared to the European average of 3.9%. It also reflects a general trend that currency & deposits is higher in Central / Eastern Europe than in Western European neighbors.

3: Share of wealth in the economy owned by the wealthiest segment
The most prominent difference between the Czech Republic and other wealth structures has to do with how wealth is distributed across the population. Our methodology assigns 6 demographic segments, defined based on levels of financial wealth, measured in USD to compare across geographies:

- Mass: Below CZK 5.5 M ($250k)
- Affluent: CZK 5.5–22.5 M ($250k–1 M)
- Lower HNW: CZK 22.5–450 M ($1–20 M)
- Upper HNW: CZK 450 M–2.25 B ($20–100 M)
- Ultra HNW: Above CZK 2.25 B ($100 M)

Exhibit 5 – Czech wealth is concentrated at the high and low ends of the spectrum

Segments Comparison (2022, share of segment on total financial wealth)

Segment	Wealth (USD)	Wealth (CZK)	Global	Western Europe	Czech Republic
Ultra HNW	*>$100 M*	*>CZK 2.25 B*	13%	16%	28%
Upper HNW	*$20 – 100 M*	*CZK 450 M – 2.25 B*	8%	6%	7%
Mid HNW	*$5 – 20 M*	*CZK 110 – 450 M*	14%	7%	7%
Lower HNW	*$1 – 5 M*	*CZK 22.5 – 110 M*	18%	12%	9%
Affluent	*$250k – 1 M)*	*CZK 5.5 – 22.5 M*	15%	14%	8%
Mass	*<$250 k)*	*<CZK 5.5 M*	32%	45%	42%
			55%	39%	30%

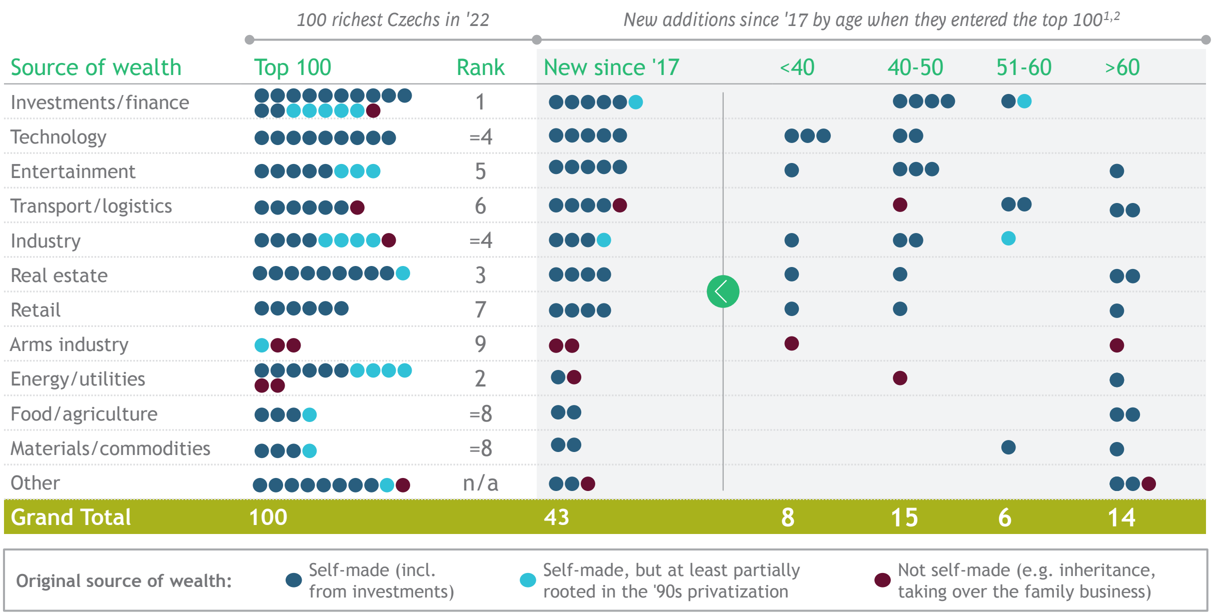
Notes: Wealth in local currency converted into USD using 2022 year-end exchange rate
Source: BCG Global Wealth 2023 Market Sizing

According to this segmentation, 13% of global wealth and 16% of Western European wealth sits in the ultra-high net worth segment (from here on UHNW). In the Czech Republic, UHNW owns 28% of financial wealth – over double the global average share. The top 100 richest Czechs alone own a quarter of the country's financial wealth. This is in part skewed by the few Czechs at the very top of the list, most notably Renata Kellnerova, who herself owns almost 4% of Czech wealth. Forbes' recent publication of the 100 richest Czechs in 2023 awards the top three spots to Kellnerova with her family (CZK 356 B), Daniel Kretinsky (CZK 199 B) and Karel Komarek (CZK 175 B); it is uncommon for a nation to have such wealth held by individuals in comparison to their countries.

Deep dive on the UHNW segment

The UHNW landscape is diverse, with several trends notable over the last 5 years. Taking the Forbes list of top 100 richest Czechs as a proxy, we see that the top 3 sources of ultra-high financial wealth are investments/finance, energy/utilities and real estate. However, of the billionaires who first entered the list in the last 5 years, the majority made their money in more digital-driven fields, including technology, industry, entertainment, transport/logistics. These more recent entrants to the list are also on average younger (more frequently 50 or younger), signaling that wealth in digital-driven fields is being created at younger ages.

The UHNW segment is accumulating wealth in more digitally-driven industries and at younger ages

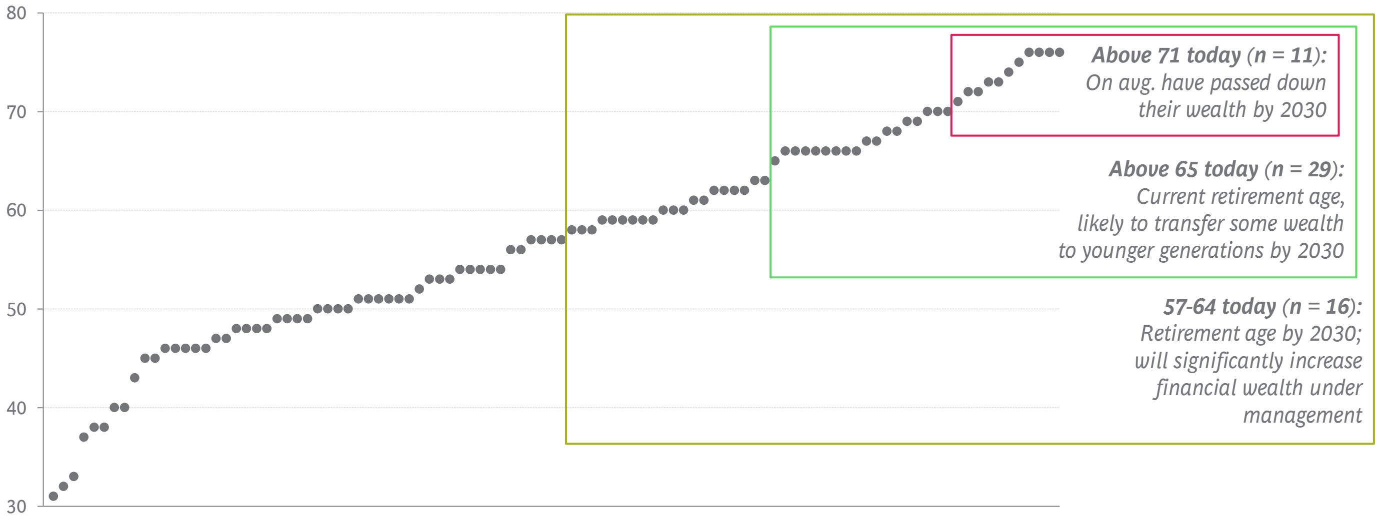


1. Only those current richest Czechs who entered the list of the richest Czechs within the last 5 years (n=43) 2. Lists prior to 2019 included only top 70-80 richest Czechs Source: Forbes; BCG analysis

The UHNW segment typically patterns differently from other segments, but trends affecting it can be useful indicators of those affecting the economy overall. For instance, the segment indicates that wealth-holders will become more digital and younger. Of 2022's 100 richest Czechs, 29 are already above retirement age in 2023; by 2030, some of these will have passed on their wealth to the next generation, at which point their children will tend to be 40 to 50 y.o. At the same time, new ultra-wealth will be built; if trends continue, the age at which individuals become ultra-wealthy should be on average between 40 and 50 (median was 48 in the last 2 years). Taken together, these suggest that the median age of a top-100 richest Czech in 2030 could move downwards from the present ~51 y.o. to the late 40s; the wealth held by other segments of the population will likely move in a similar way.

Exhibit 6 – Generational wealth transfer will also impact local UHNW individuals, with half of the current top 100 richest Czechs reaching retirement age by 2030

Top 100 richest Czechs by age in 2023



Source: The Czech Statistical Institute; Forbes; BCG analysis

The mass segment in the Czech Republic also owns a high share compared to the global average, (42% vs 32%); this share on its own is on-par with Western Europe (45%), but combined with the high share of Czech wealth owned by the UHNW segment, it means that a comparatively low share of wealth sits with the affluent and HNW segments in between these extremes (30% vs 39% in Western Europe and 55% globally).

In other words, the Czech Republic does not have a sufficiently strong middle class. A chief reason for this is that a middle class takes several generations to develop after the institution of a market economy, and not enough time has passed in the Czech Republic since the end of communism for such development to fully occur - an experience attested to by other Central and Eastern Europe countries, as well.

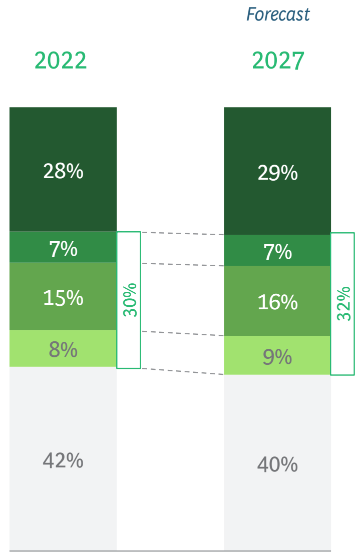
Recent Czech history also aligns with this view: Between 2017 and 2022, the segments in between mass and UHNW in the Czech Republic have indeed been growing somewhat faster than wealth overall, in terms of both financial wealth (~1% above the country average CAGR) and, importantly, membership – which grew over 5% faster than the membership in all segments.

Looking to the future of wealth concentration in the Czech Republic, the unequal distribution and small middle class is expected broadly to continue, as is the mild increase of affluence below UHNW level. By 2027, the "affluent" segment is expected to grow its membership the fastest, by over 25k people to ~98k total (CAGR 35%), and to gain slightly in the share of wealth overall. This represents a positive move towards global average; to restructure the entire concentration of wealth will likely still take generations.

Exhibit 7 – Non-mass segments' bases expected to grow by ~30-35% each, adding ~33k new members by 2027

Segment	Wealth (USD)	Wealth (CZK)	2022	'22-'27 change	2027
Ultra HNW	*>$100 M*	*>CZK 2.25 B*	~150	+33% +50	~200
Upper HNW	*$20 – 100 M*	*CZK 450 M – 2.25 B*	~0.7K	+29% +0.2K	~0.9K
Lower HNW	*$1 – 20 M*	*CZK 22.5 – 110 M*	~19.9K	+33% +7.6K	*~26.5K*
Affluent	*$250k – 1 M)*	*CZK 5.5 – 22.5 M*	~72.4K	+35% +25.2K	*~97.6K*
Mass	*<$250 k)*	*<CZK 5.5 M*	~8.4M		*~8.5M*

Individuals per segment (#)



Financial wealth per segment (%)

Source: BCG Global Wealth 2023 Market Sizing

4. Wealth-holders of the future (2030 view)

Looking to 2030, banks and wealth managers should be prepared for a new makeup of wealth-holders across segments. We see three main trends that will change the demographics of wealth-holders in 2030:

Trend 1: Wealth-holders will be younger
As seen in the example of UHNW individuals above, the balance of wealth is shifting to the next generation. BCG forecasting in the UK shows that, in 2021, generations X, Y and Z collectively held only 35% of the UK's wealth, but will over the coming 10 years increase that share to 78%. Gen Y and Z alone are expected to increase share from 11% to 26% in that same time.

Wealth is shifting to younger generations partially thanks to inheritance from the current aging population, and partially thanks to new people building new wealth at younger ages. Again taking the example of the top 100 richest Czechs as of 2022, of those individuals who entered the list in 2018-2020, the average age at the time of entry to the list was 54, while of those individuals who entered the list in 2021-2022, the average age was a full 6 years younger at 48.

Trend 2: Wealth-holders will be more digital
The transference / buildup of wealth toward the younger generations naturally means wealth will be increasingly in the hands of digital natives. At the same time, even many retirees in 2030 will be more tech-savvy; today, people up to the age of 60 are typically at least somewhat tech-savvy, so the oldest tech-savvy individuals today will have retired in 2030.

Digitally-savvy wealth-holders have higher expectations of the financial institutions handling their wealth. Wealth managers should be prepared to serve clients using integrated digital channels and specifically mobile apps.

Trend 3: Wealth-holders will be more female
The stronger educational attainment and higher workforce participation of women in the Czech Republic, as well as general trends toward gender equality, is leading women to hold more wealth than in the past. This trend is already impacting the wealth landscape, including UHNW: In 2017, only 1 of the 100 wealthiest Czechs was a woman (Jitka Cechlová Komárková, with CZK 8 B in financial wealth); in 2022, 6 of the top 100 were women (collectively owning CZK ~420 B, around 4% of the entire country's financial wealth). This is large growth already, but still below the level of developed Western markets (e.g. comparing to the US, where today over 15 of the the 100 richest people are women). The trend will continue: Globally, women are expected to have accumulated wealth to $110 trillion by 2025, over 20% of global wealth.

As women accumulate more wealth, wealth managers should ensure that they serve them appropriately – discarding assumptions about women's role in building wealth and attitudes reflecting long-stand stereotypes, and not treating women as a homogeneous group.

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Each of these trends represents both a risk and an opportunity for wealth managers. As the wealthy become younger, more digital and more diverse with changing needs, wealth managers that ignore the trends will be increasingly looked on as institutions of the past; those that proactively attend to changing needs, especially by becoming more digital themselves, will be set up to benefit well into the future.

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