

# PANORAMA SWITZERLAND

The Coface economic publications

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Investors have made it one of their favourite havens during this period of recurrent crises, from global finance to sovereign debt in the eurozone. Proverbial political stability, sound management of public finances, a complex but attractive tax system, many very innovative small businesses and a flexible labour market. Not forgetting, of course, a renowned financial market, making it a major player on the international scene in wealth management activities. These are strengths which sometimes turn into weaknesses.

A very open economy, the Confederation has been faced with a sharp rise in the Swiss franc that only a bold pegging to the euro has been able to curb. Exporters have therefore been able to limit the damage, while reducing their costs and margins. But property has entered a dangerous area and although they are not inevitable, bubble risks cannot be excluded. Even though experts consider that the Swiss franc is still overvalued.

For banks, the main cog of the Swiss economy, times are less straightforward than in the past. The planned disappearance of banking secrecy, new international regulations, lower margins and increased risks of mortgage lending are all challenges. Highly concentrated between UBS and Crédit Suisse, the sector still represents 5 times the national wealth. It was 6.6 times the GDP in 2007.

And despite a strong presence abroad, a refocusing on the domestic market has taken place: assets realized within the Confederation have increased by 20% since 2007.

Nevertheless, this small highly competitive market where the consumer is demanding, with a high purchasing power, remains a test for export candidates. If they can play the quality and precision card to gain the trust of their partners, given a strong tradition of confidentiality, their margins could be substantial. And the country should gradually return to growth after a meagre increase of some 0.7% of GDP in 2012, thanks to increased household consumption.

Christine Altuzarra

Group Economic Research Department, Coface

## The Swiss economy is bending but has not given way

The strengths of the Swiss economy are also its weaknesses. Its political stability, outstanding management of its public finances, its attractive tax regime make it a favourite haven for investors seeking security. This strengthens the Swiss currency to the detriment of exporters and international companies and pushes the property sector into a risk area. The forecasted disappearance of banking secrecy is a source of concern for the financial sector. Consumer confidence is shaken but remains robust. The eurozone crisis has not been resolved; Germany is going through a cyclical trough and activity in emerging countries, growth drivers, will only slightly start again next year. Review of major trends in the Swiss economy, on the eve of a pivotal year.

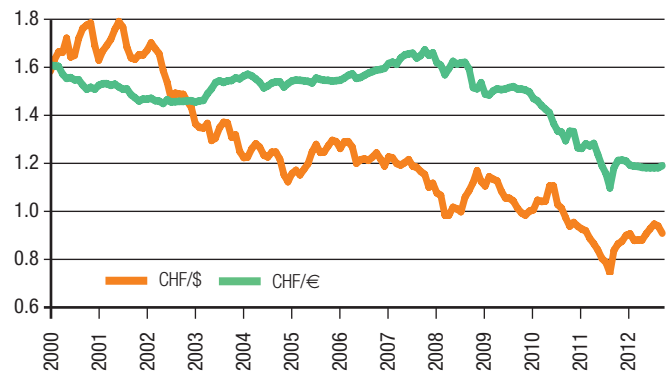
Between the beginning of July and August 2011, the Swiss franc rose sharply from 1.23 to 1.05 per euro<sup>(1)</sup>. On the 6th September, the Chairman of the Swiss National Bank (SNB), Philipp Hildebrand, who had to resign three months later, took bold decisions and announced that the «SNB will no longer tolerate prices below 1.20 Swiss francs per euro». By setting this floor price and adding that the bank was «prepared to buy foreign currency in unlimited quantities», he certainly broke from the floating exchange rate policy in place for several decades in many Western countries. But more importantly, he sent out a strong message to markets that the SNB was prepared to use all means, including pegging to the euro, to fight against the volatility of the Swiss currency, deflationary pressures which then emerged and the risk that the economy is weakening. He therefore gave companies exporting goods and services a foreseeable period in which to establish their strategy and maintain their price competitiveness on foreign markets – the eurozone in particular.

Switzerland, with its very open economy, then suffered the perverse effects of its good reputation, as a magnet attracting capital seeking safe investments, or carry trades<sup>(2)</sup>. During the summer of 2011, this phenomenon was amplified by the intensification of the eurozone crisis (including the lowering of Portugal's sovereign debt rating to junk status) and political gridlock in the United States (loss of triple A). That was a year ago. Has this policy helped boost exports? Is it effective today to cope with the slowdown in Germany? Is the abundance of liquidity likely to create, in reverse, inflationary pressures and a property bubble? Are risks in the financial sector reduced? Has Swiss consumer and companies' confidence increased?

### A successful peg to the euro

Pressure from exporters for the parity threshold to be raised to 1.30 Swiss francs per euro<sup>(3)</sup> has not changed the decision of the SNB. For the past year, the exchange rate has actually stabilised at slightly above 1.20 Swiss francs per euro.

### Change in the Swiss franc



Source: Datastream

The monetary policy stakes are high. Firstly, because the high parity of the Swiss franc resulted in a fall in import prices, which fuelled the risks of deflation and thus long-term economic slow-down. Secondly, because Swiss exports represent no less than 50% of GDP. The risk of currency volatility has certainly been reduced, but exporters still believe that the exchange rate remains unfavourable for them in international competition. Moreover, the downside of the fight against deflation is that the Swiss franc has lost its depreciatory effect on imported prices of inputs incorporated in their finished products.

(1) The real effective exchange rate was 40% above its long-term average, according to the Bank for International Settlements.

(2) A financial technique which consists in borrowing in a currency with a low interest rate (the Swiss franc in this particular case) and investing the borrowed funds in a currency with a higher interest rate to benefit from the rate differential.

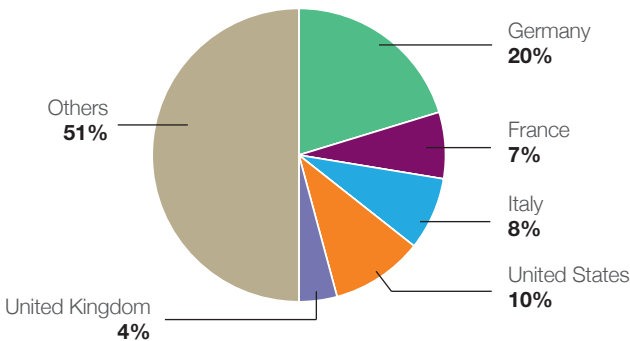
The risk for the investor is to see the borrowing currency appreciate over the period to such an extent that the gain on the rate differential turns out to be below the exchange loss.  
 (3) This rate is not far from the one indicated by Natixis as being close to its fair value between 1.35 and 1.40 Swiss francs per euro: Recession and deflation in Switzerland: what approach will the SNB adopt?, Special report, Natixis, 8 February 2012.

Therefore, the SNB observed in its third quarter survey<sup>(4)</sup> that company margins remain under pressure, especially in the textile, wood, mechanical and plastics industries. It adds that companies consider they must make further concessions on sales prices in Swiss francs in the coming months. However, this is mitigated by the continued optimisation of costs and innovation.

**Good resistance of goods exports in 2012...**

In this context, the Swiss manufacturing companies have managed to limit the contraction in exports in the first nine months of 2012. Foreign sales in some sectors even increased very significantly over this period: this is particularly true for chemicals and pharmaceuticals (36% of total goods exports<sup>(5)</sup>) and watchmaking (20% associated with precision instruments and jewellery). However, the mechanical industry (18% with electronic equipment) fell sharply, brought about by the sub-sectors of office and textile machinery and small machine tools. Germany remains the main client of Swiss companies by a long way, followed by the United States, Italy, France and the United Kingdom.

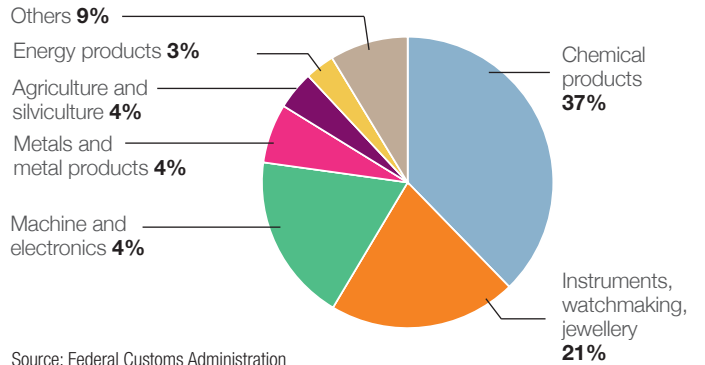
**Goods exports in 2011: main destinations**  
(excluding precious stones/works of art, millions CHF)



Source: Federal Customs Administration

Of these countries, only Italy has less imported goods. Among emerging countries, Swiss companies have been particularly successful in Hong Kong and Singapore through the watchmaking industry, but much less in China. By analysing the types of goods exported to these countries in 2011, we note that the chemical, mechanical and electronics products as well as precision instruments, watchmaking and jewellery are unsurprisingly the most significant.

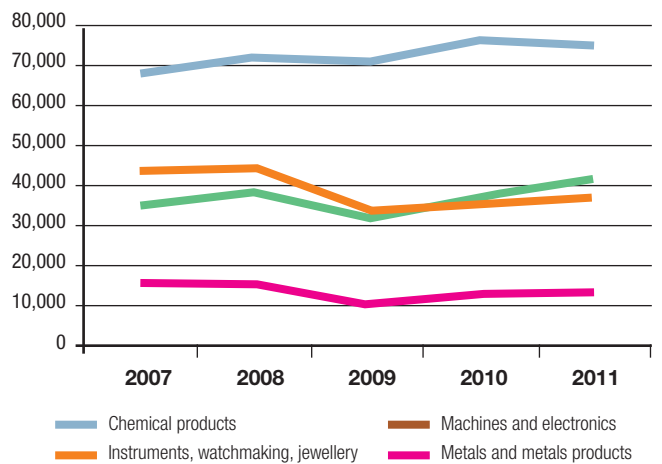
**Goods exports in 2011: main sectors**  
(excluding precious stones/art, millions of Swiss francs)



Source: Federal Customs Administration

Apart from watchmaking, exports from the other two sectors (whose progression has remained stable since 2010), largely dedicated to investment and manufacturing, had already contracted towards Italy, France and the United Kingdom.

**Change in exports of the main sectors in value**  
(In millions of Swiss francs)



Source: Federal Customs Administration

**... but the contribution from the current account balance will be negative in 2013**

Including exports of services, including tourism which is experiencing hard times, exports are expected to fall by around 1% in 2012. They should be stable in 2013, due to the resistance of the German and North American economies which offset the slump in demand from eurozone periphery nations.

(4) Swiss National Bank Quarterly Bulletin/Business Cycle Trends, 3rd quarter 2012

(5) Economic Intelligence Unit, October 2012

The contribution of the current account to GDP growth will be negative, with the actual change in imports continuing to grow in line with the soaring prices of some agricultural raw materials and the still high parity of the Swiss franc. In this context, the current account surplus will fall slightly, but at a very comfortable level, around 10% of GDP.

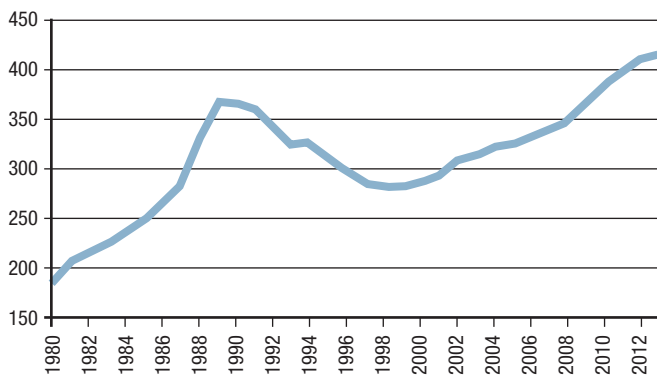
**Corporate investment will contribute to growth in 2013**

After the wait-and-see policy of SMEs regarding investment, the latter will find a little more drive in 2013 and will probably be the second largest contributor to growth after household consumption. Chemicals and pharmaceuticals should remain strong, as well as metallurgy oriented towards medical technology products. On the other hand, investment is expected to contract in the mechanical industry – particularly textile machinery – and agro-food, two sectors where production capacity were low and stocks high at the end of September. Watchmaking will also slow down.

**Has property entered into a dangerous zone?**

While commercial and industrial investment will stall, residential investment will grow sharply, at the risk of creating an excessive increase in housing prices. Could this be the start of a property bubble? Prices have been skyrocketing in the major cities and tourist sites, owing to the investment of foreign capital, historically low mortgage rates and continued high immigration. The forthcoming introduction of a new tax on second homes has also fuelled this construction boom. This trend is reflected in the growth of mortgage loans, which has for several years been much higher than GDP growth.

**Housing price index**  
(100 index = 1970)

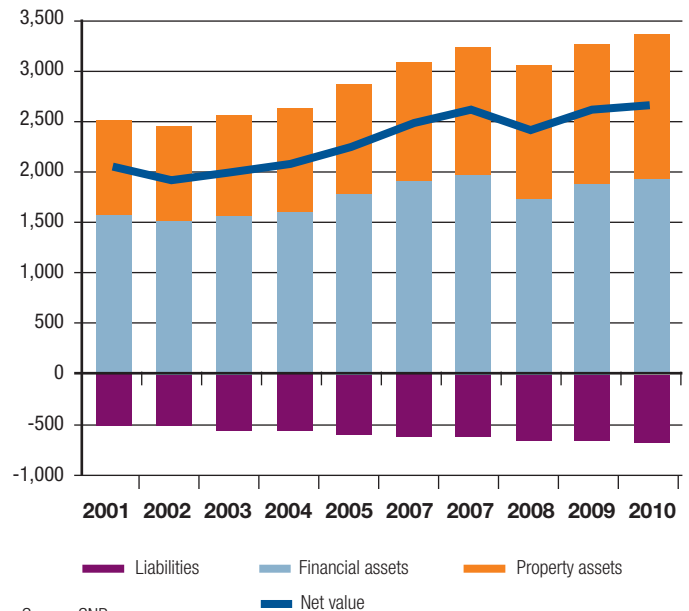


Source: Datastream

*There is a real risk, limited to the short term, of a property bubble*

There is therefore a real risk of creating a property bubble that could burst in the medium term. In the event of intensification, this could affect heavily both indebted households and banks; in particular, the cantonal and Raiffeisen banks<sup>(6)</sup>, regional establishments and savings banks, of which 90% of loans issued concern mortgages. These loans occupy a very significant place in their balance sheets (70%, i.e. 540 billion CHF<sup>(7)</sup>). The two largest banks are also exposed to mortgage-backed securities (over 240 billion Swiss francs at the end of 2011). But to us this risk seems limited in the short term, because the rise in prices is very localised and the financial assets of households are very high and greatly exceed the gross debt.

**Households balance sheets**  
(CHF bn)



Source: SNB

Furthermore, since July 2012 the Central Bank has introduced additional micro and macro-prudential measures to reduce the risks linked to the mortgage market<sup>(8)</sup>.

(6) Cooperative banks network.

(7) SNB Financial Stability Report 2012.

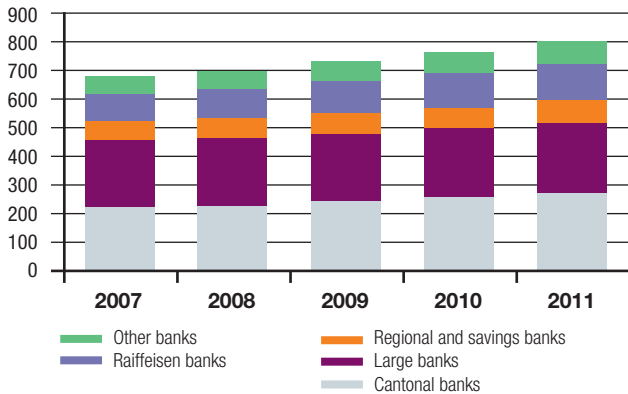
[http://www.snb.ch/en/mmr/reference/stabrep\\_2012/source/stabrep\\_2012.en.pdf](http://www.snb.ch/en/mmr/reference/stabrep_2012/source/stabrep_2012.en.pdf)

(8) It involves reducing the use of pension savings as collateral and permanently adjusting the risk weighting linked to the biggest loans. SNB Financial Stability Report 2012.

**Competition has sharpened in the banking sector**

The banks dedicated exclusively to the domestic market are therefore carrying a high mortgage risk.

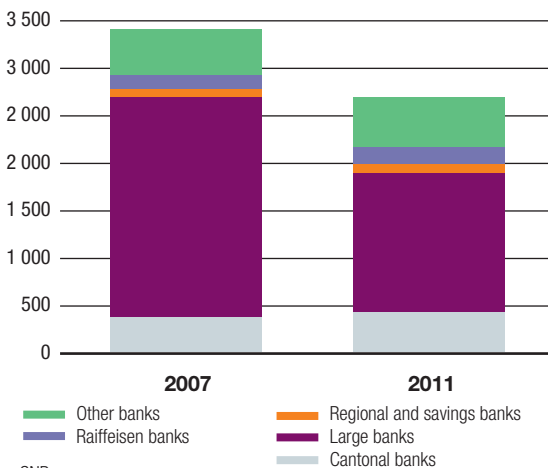
**Change in mortgage loans by bank category**  
(CHF bn)



Source: SNB

And the two largest international banks also pose a risk to financial stability due to the large size of their balance sheets, despite ongoing deleveraging. They represent 52% of total banking assets in Switzerland and more than 250% of GDP in 2011.

**Change in total banking sector assets**  
(CHF bn)



Source: SNB

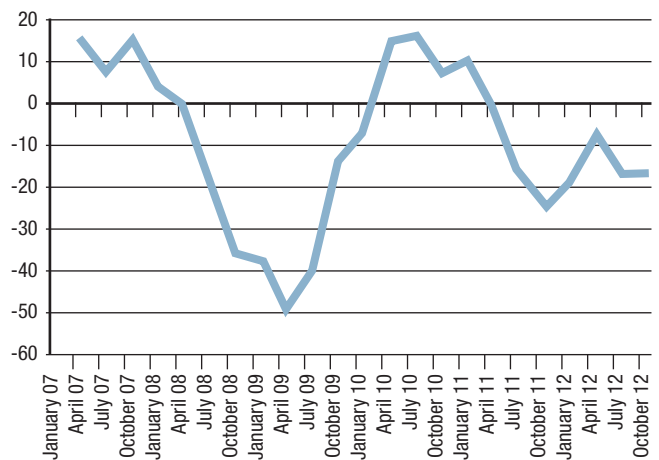
The entire banking sector is facing various challenges: in addition to compliance with the capital increase requirements in the context of Basle III, the largest banks are subject to specific constraints, including that related to repatriation to the United States and some

European countries of funds deposited in Switzerland by nationals of these countries. Figures have been published<sup>(9)</sup>: by 2016, between 160 and 215 billion dollars will be repatriated, mainly in European Union countries, i.e.; 7-8% of short-term offshore assets managed by Swiss banks (2,300 billion Swiss francs as of July 2012 for non-residents). Banks will be affected by this measure differently depending on the profile of their customers and their geographic location. But this movement should lead to increased competition between banks, in line with the contraction in their customer base. However, Swiss banks' exposure to the external debt of eurozone peripheral countries is low (51 billion pounds in June 2012<sup>(10)</sup>), but their exposure to Swiss companies is identified by the Central Bank as likely to downgrade the risk profile of credit, in line with the high parity of the Franc.

**Household consumption will remain buoyant**

For now, mortgage loans to households continue to grow buoyed by very low interest rates, abundant liquidity and immigration. The level of household debt is one of the highest in Europe (approximately 700 billion Swiss francs or 112% of GDP), but net wealth is also highly significant (2,600 billion Swiss francs, or more than 440% of GDP). The unemployment rate appears to be at a satisfactory level (2.9%). Its recent increase does not seem to have affected consumer confidence, which nevertheless remained at a low level at the end of October 2012.

**Consumer confidence index**



Source: Seco

(9) The Economist Intelligence Unit cites a study published by Zeb Consulting on 13 September 2012.

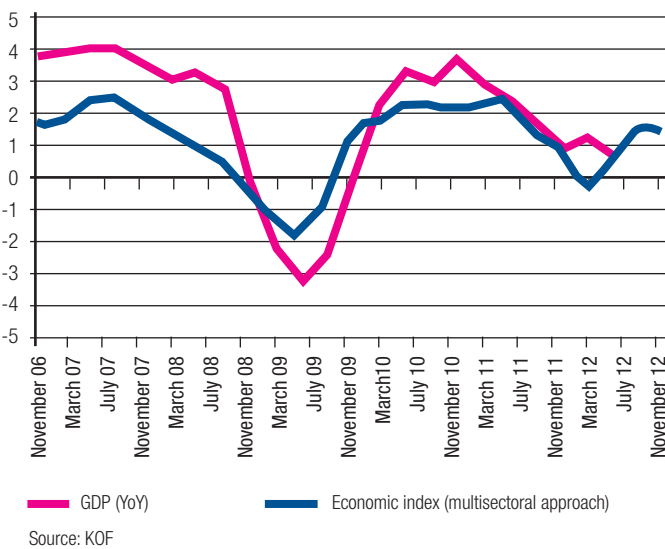
(10) Source: BIS Bank for International Settlements.

In 2013, the labour market will be flagging in sectors related to exports, financial services and tourism. In addition, in an effort to reduce costs, companies should only marginally increase wages, resulting in a deceleration of disposable income and consumption. However, the latter will be the main contributor to growth in 2013, especially with the likely return of inflation next year, household expectations should be favourable to expenditure.

**Business surveys are bleak...**

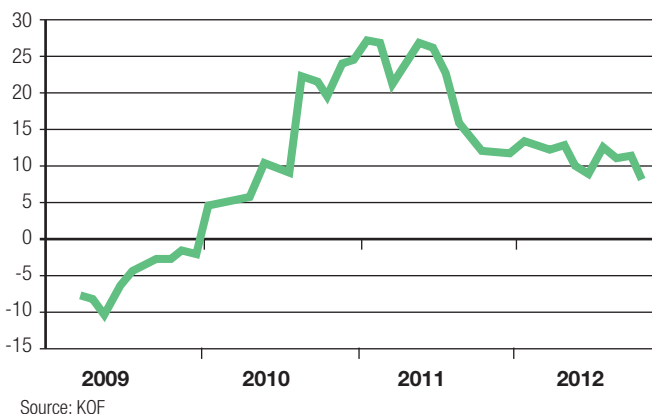
This mixed context, with strong domestic demand and external uncertainties, has had the effect of halting the constant increase in the KOF economic barometer<sup>(11)</sup>, which stabilised in October but nevertheless remains high.

**Change in total banking sector assets**  
(CHF bn)



The survey itself shows a deterioration in the indicator of the business situation returning to its lowest level since mid-2010.

**Indicator of the business situation**  
(balance of answers)



Thus, the expectations of entrepreneurs of each large sector reflect the scenario where household consumption will continue to be buoyed in 2013 and foreign demand less intense. On the manufacturing side, concerns are both on the state of intermediate stocks and finished products considered to be too abundant, suggesting a slowdown in production by the end of the year and probably great caution in early 2013. Construction contractors are satisfied with the sustained activity they enjoy but join their counterparts in the manufacturing sector on the development of the coming months and expect a slowdown in demand (see above, the regulatory impact to curb mortgage loans). If retailers expect a stabilisation of their activity after a slight boom for the end-of-year holiday season, wholesalers, who distribute both to retailers but also to producers, are already feeling a downturn in demand and the index returned to the level of 2009. In the hotel industry, the situation continues to deteriorate markedly and the outlook is bleak. Finally, the financial sector is concerned about the change in its transactions with foreign customers.

**... their impact is diversified according to sectors**

Companies oriented towards the domestic market should continue to benefit from the high level of household consumption. In contrast, with a still strong Swiss franc, the effects of a sluggish economy in the main trading partners, Germany and the United States, or even very depressed like in Italy and the United Kingdom, without forgetting a slight acceleration in emerging countries will have a different impact on the results of various export sectors. Some are more sensitive to changes in demand than that of prices, even though the latter retains its importance. These include chemicals and pharmaceuticals, plastics, watches and precision instruments. Apart from luxury goods that are less sensitive to prices, other branches will probably grant price reductions to maintain their market share, which will affect their margins.

*Company margins remain under pressure, particularly in the textile, wood, mechanical and plastics industries*

(11) KOF is a centre for economic research (KOF is the acronym of the German word «Konjunkturforschungsstelle»), which each month publishes confidence indicators.

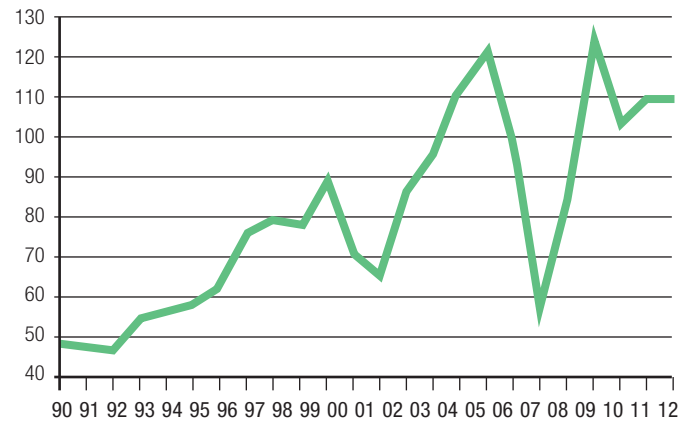
Other sectors (machinery, electronics) are vulnerable to both demand and prices and should also lower their prices in response to the slowdown in investment in eurozone countries in particular. The paper, textile and interior design sectors, which have experienced fierce competition since the start of the crisis, should have difficulty in coping with a slowdown in external demand. In turn, the food industry is vulnerable to rising costs of commodities.

**On the highest step of the world podium**

What clearly emerges from this analysis is the great adaptability of Swiss companies to their environment. For the fourth consecutive year, Switzerland ranks first in the most competitive countries, published by the World Economic Forum <sup>(12)</sup>. The behaviour of companies in this period of uncertainty proves their overall adaptability. In 2011 with room for manoeuvre available to them through innovation and their wide positioning on products with high added value, they faced the handicap of a high exchange rate and its volatility. In 2012, they resisted the drop in orders from European partners whose economies are under pressure and benefited from economic activity in Germany and the United States. The stability of the Swiss franc, and the slight depreciation vis-à-vis the dollar, effectively buoyed their exports. In 2013, it seems to us that they will still have the resilience needed to cope with the cyclical trough, especially as their profits are at a high level (around 110 billion Swiss francs, or 18% of GDP): they have stabilised since the start of the year, after falling between mid-2010 and mid-2011, and have recovered following the SNB's decision.

*Bankruptcies fell by 2% over the first ten months of 2012*

**Change in company profits**  
(CHF million)



This situation is also reflected by the decrease in bankruptcies by 2% over the first ten months of 2012 (compared to the same period of 2011).

**Slight growth in 2013**

As a result, the Swiss economy should resist the slowdown in European and worldwide economic activity. This will allow the federal government to stabilise its tax revenue while slightly reducing its spending in order to limit the deceleration of its budget surplus in 2013 to 0.4% of GDP. Public debt should continue to decrease substantially to around 33% of GDP <sup>(13)</sup>, under the effect of the debt brake in force since 2003 <sup>(14)</sup>. Prudent management of public finances and the efficiency of unconventional monetary policy by the SNB (which is expected to continue in 2013) offer businesses a context of great stability, essential to cope with external uncertainty and to buoy consumer confidence. We have certainly seen that the economy is not without risks, but these are under control. Therefore, growth after having decelerated in 2012 (around 0.7%) is expected to increase in 2013 (+1.2%).

(12) This ranking takes into account the quality of institutions, infrastructure, health and education, economic stability, but also development and efficiency criteria (labour market, including technological maturity) and finally innovation criteria (high-end production process, R&D etc.).

(13) According to Maastricht criteria. The debt is around 45% according to the IMF definition that includes provisions and is valued at market prices, causing frequent fluctuations. In general, the trends between the two models are identical.

(14) Or "Brake on debt" which is based on the principle that one does not spend more than one earns.

**RESERVATION**

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## Jan-Egbert Sturm

Director of (KOF), Swiss Economic Institute

# The greatest strength of the Swiss economy, its adaptability

The Director of the Swiss Economic Institute thinks that the Swiss economy should gradually recover in 2013. But while the structure of a country, which has a number of very innovative small companies and benefits from a flexible job market, is an asset; exporters have had to reduce their costs and margins to counteract the rise in the Swiss franc – halted by the monetary policy of the Central Bank – and reduced foreign demand.

### ➔ What's your view on the outlook for the main Swiss trade partners (Germany, US, France, Italy, UK ...)

Jan-Egbert Sturm (JES): The repeated resurgence of the banking and debt crisis in the euro area hindered the recovery before the previous GDP level in the euro area could be reached. The continuing uncertainty brought about by inconclusive policies with regards to the future of the euro is hindering the companies' readiness to invest. Some of the uncertainty was removed by the European Central Bank's announcement that it would buy up unlimited quantities of government bonds from crisis-ridden countries, and by the conditional approval of the German Federal Constitutional Court for the European Stability Mechanism (ESM). But Europe will remain in recession during this winter and will only start slowly expanding again as of the 2nd quarter 2013. Although the differences within Europe remain substantial the lowest growth rates will only be reached this winter. Growth in the USA has slowed down somewhat over the course of this year. A number of fiscal stimulus measures will be coming to a close now – if they are unexpectedly not extended, this could cause a massive negative fiscal shock. We do expect a compromise solution in which case the US economy will be able to continue to expand by growth rates of around 2 per cent.

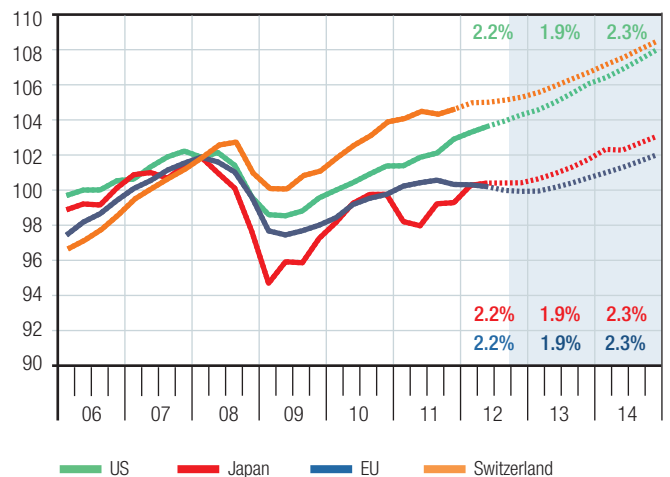
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*Nothing justifies the current level of the Swiss franc, other than its function as a safe haven*

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In sum, the outlook for the international economy is still cautious.

Change in GDP in certain countries



Sources: BEA, Eurostat, ESRI, National Bureau of China, KOF

### ➔ What is your GDP forecast for Switzerland in 2012 and 2013? What is the rationale behind of these forecasts?

JES: Switzerland's gross domestic product (GDP) will grow by a mere 0.9% in 2012. The reasons for this are the abating momentum of the global economy during the summer semester and Switzerland's own economy that fared worse than expected in the spring. Next year, a recovery will gradually make itself felt and the Swiss economy will grow by 1.3%. Employment will only see weak development in 2013. The construction industry will – but with high production levels – stagnate. Companies have responded to the strength of the franc mainly by lowering costs and margins. Corporate earnings have accordingly declined considerably since the second half of last year. Looking at export prices, the threshold of price concessions seems to have gradually been reached. Given the still weak external demand, however, Swiss exports will only recover slightly in the course of the coming year.



By contrast, the domestic economy will see more stable development. Sustained growth of household income in the coming year coupled with a slight rise in unemployment, will allow for a more or less steady increase in private consumption. Investments in construction and machinery and equipment has provided positive signals for economic growth in 2012. The construction industry is profiting from a continuous rise in demand for residential construction. On the other hand, the number of requested building permits do suggest that the investments could stagnate or even decrease in the near future. In spite of positive developments, investments in machinery and equipment are, in light of the lower capacity utilisation rates, not as vigorous as in the past year.

The stability and trust in the domestic economy combined with ultra-low interest rates support more domestically oriented firms. In particular, the construction sector has so far been able to benefit from this. Looking at the financial sector, then one needs to distinguish between insurance companies, that fare well during this crisis, and the banking sector that is facing pressure from other governments and is going through a structural reform at the same time.

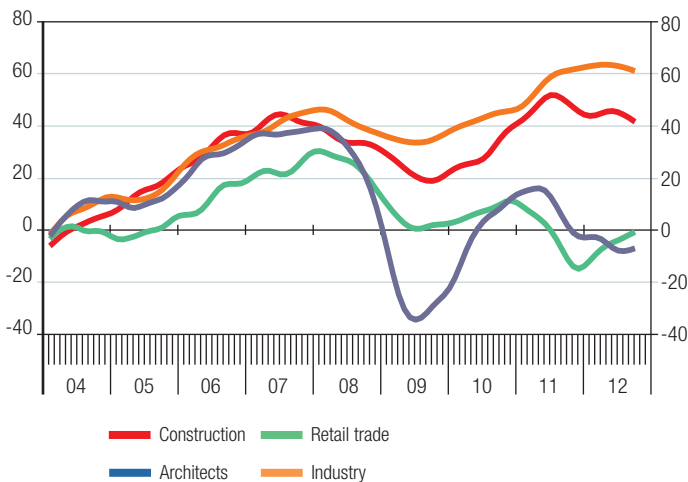
➔ **What according to you are the strengths and weaknesses of the Swiss economy in terms of sectors and competitiveness?**

**JES:** The biggest strength of the Swiss economy lies in its ability to adapt to relatively quickly changing situations. Its structure with a large number of small-sized firms that are highly innovative combined with flexible labour market regulations are the big assets in that respect. Another strength is its stable political situation. This allows firms and households to plan ahead. Especially during the crises since 2008 in which loss of trust and increased uncertainty have been key words, this has proven to be important. This high degree of political stability can, however, also turn into a weakness; it is very difficult to change the system if that would be needed. This is exactly one of the critiques many have regarding to the European (Monetary) Union. Switzerland is not in that situation and we hope that it will stay that way.

➔ **Has the pegging of the Swiss franc to the Euro helped the Swiss economy? Should and will the exchange rate policy be modified in 2013?**

**JES:** The introduction of the lower boundary of the value of the Swiss franc vis-à-vis the euro by the SNB has certainly helped the Swiss economy. Not only did it stop a further appreciation of the Swiss franc, it most importantly reduced uncertainty about its future course. Given the still prevailing uncertainty regarding the situation in the euro area there is no reason for the SNB to change this policy any time soon. The only economic motivation for the current strong Swiss franc is capital flight towards safe haven currencies. Theories based on either purchasing power parity, interest rate differentials, trade imbalances or growth potentials all would not warrant the current exchange rate level. Hence, the Swiss franc is still overvalued.

Corporate valuation in chosen sectors



Source: KOF

➔ **How does the European crisis affect the Swiss economy?**

**JES:** The safe haven function of the Swiss franc has led to a substantial appreciation in particular in 2011. Swiss firms are still in the process of adjusting to the new external value of its currency. What is, however, currently more worrisome for Switzerland is the weakening external demand. These are the two direct channels by which in particular Swiss export firms are affected.

**Interviewed by Coface**

François Maudet

Economics Department, Embassy of France in Switzerland

# Important on an international scale, the Swiss financial market faces real challenges

Financial activities are an essential cog of the Swiss economy. They represent 10.5% of GDP, 8.1% of all tax revenue and provide 210,000 jobs. Internationally, they play an important role in wealth management, financing, commodity trading and insurance. The Swiss financial market is dominated by the banking sector, where wealth management is the flagship sector, while insurance assets are relatively modest. Finally, banks face major challenges: regulations and lower margins in wealth management, redefining the «integrated bank» model of UBS and CSG and increased mortgage lending risks in Switzerland.

### Financial activities greatly contribute to the Swiss economy and hold a good position on an international level

#### Contribution to the creation of value:

According to figures from the State Secretariat for Economic Affairs, the added value created in 2011 by the financial services sector accounted for 59 billion Swiss francs or 10.5% of Swiss GDP (566 billion Swiss francs) including 35 billion for banks (6% of GDP), 24 billion for insurance and reinsurance (4% of GDP). If we include all the service providers from the financial sector (property services, consulting, IT services, law firms and trustees), the value created by the financial sector totals 124 billion Swiss francs (or 22% of Swiss GDP).

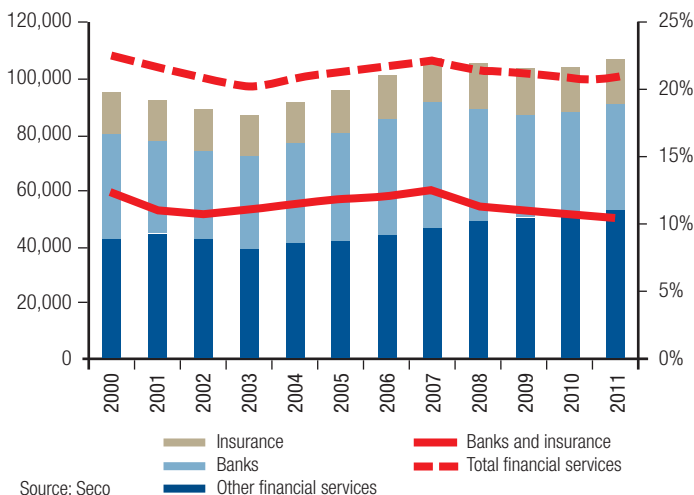
#### Contribution to employment:

According to the Federal Statistical Office, in June 2011 the financial services sector accounted for 210,334 jobs, or 6.1% of jobs in Switzerland: 123,119 jobs in banks (58%), 48,000 in insurance (23%) and the rest in activities related to financial services and insurance<sup>(1)</sup>.

#### Contribution to tax revenue:

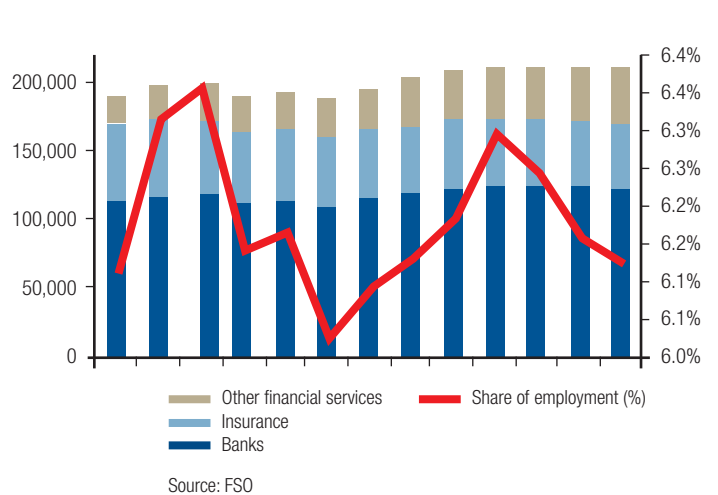
In 2010, the contribution of financial services to tax revenue amounted to 5.9 billion Swiss francs (60% levied on individuals and 40% on companies) or 8.1% of all federal, cantonal and communal taxes on income and wealth.

Creation of value of financial services (Millions of Swiss francs and % of GDP)



Source: Seco

Contribution of financial services to employment (In full-time equivalent and % of total)



Source: FSO

(1) Particularly brokerage of securities and goods direction and management of funds.

**An important role on an international scale**

**Financial services**

Account for 10.5% of GDP in Switzerland, more than in Germany (5.2%), the UK (8.9%) or the US (8.5%), but less than Singapore (11.2%), and above all Luxembourg (28.3%).

**Wealth management/offshore management**

Switzerland remains the world leader, according to the Global Wealth 2011 study published by the Boston Consulting Group, with just over 2.1 trillion dollars or 27% of the total of such funds, ahead of the United Kingdom and the Channel Islands (26%), the Caribbean and Panama (12%). These funds come from Europe (50%), Africa and the Middle East (23%), Latin America (11%) and Asia Pacific (11%).

**Insurance and reinsurance**

In 2011, Swiss Re was the second largest reinsurer in the world (after Munich Re) in terms of premiums (21 billion Swiss francs), while, according to the Insurance Information Institute, Zurich Financial Services (ZFS) is the fourth largest insurer globally in terms of turnover (after Allianz, Berkshire Hathaway and AIG).

**The Stock Exchange (SIX Group)**

According to data from the World Federation of Exchanges, the Swiss Stock Exchange was, in 2010, ranked fifth in Europe and fifteenth worldwide with a capitalisation of 1.229 billion dollars.

**Financing of commodities**

Geneva is ranked first globally for financing oil trading and represents a significant share of the funding of ferrous/non-ferrous metals and agricultural commodities. BNP Paribas and Cr dit Agricole dominate this sector and Soci t  G n rale created a team in 2010. This sector employs nearly 8,000 people in the canton (banks, trading companies, certification companies).

**The banking sector dominates, particularly due to wealth management activities**

Despite the significant reduction in the size of the consolidated balance sheets of banks in Switzerland since 2007 (see interview on page 13) the total assets of credit institutions totalled 2.793 billion Swiss francs in 2011. By comparison, the total of the insurance balance sheets was much smaller at 579 billion Swiss francs.

The breakdown of the share in added value of the different segments of the financial sector in 2010 was 57% for banks, 33% for insurance and 11% for other financial services.

Within banks, the distribution per business segment was as follows: 44% for private banking, 35% for retail banking, 12% for asset management and 9% for investment banking.

**A Swiss financial market facing new constraints**

**The wealth management sector in Switzerland, a very heterogenous world**

In a study published in February 2011 («Wealth management in Switzerland»), the SBA, based on 2009 data, distinguished four categories of institutions in terms of assets under management <sup>(2)</sup>.

- Assets exceeding 1 billion Swiss Francs are managed by two institutions for a total of 3.462 trillion Swiss Francs and employ over 10,000 employees worldwide.
- Assets between 50 and 1 billion Swiss Francs: generally employ more than 1000 employees. In 2007, 14 institutions managed 1.887 billion Swiss Francs.
- Assets between 10 and 50 billion employ more than one hundred employees in Switzerland. In 2009, they managed a total of 906 billion Swiss Francs.
- Assets below 10 billion Swiss francs were managed in 2009 by 89 institutions for a total of 345 billion Swiss Francs.

The uniqueness of the Swiss wealth management landscape is independent managers. These are non-bank financial institutions and, therefore, cannot accept deposits from the public in a professional capacity, and are not subject to the prudential supervision of the Swiss Financial Market Supervisory Authority, FINMA. Generally, these independent wealth managers themselves monitor the assets of their clients and advise them on financial and wealth matters. In 2009, they managed around 600 billion Swiss francs of assets (11% of the Swiss market). They are usually organised into small or very small businesses (80% of the service providers employ fewer than five employees).

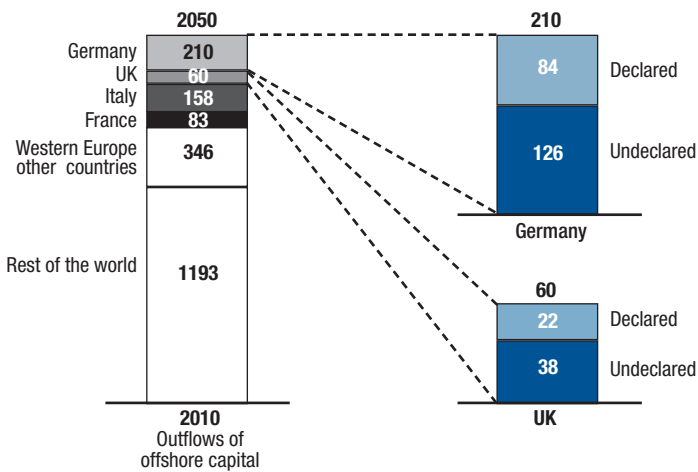
**The sector must adapt to new tax regulations and lower gross margins**

The conformity of Swiss banks to international tax standards entails new costs (particularly in terms of compliance). Similarly, the coming into force in 2014 of the Foreign Account Compliance Tax Act (Facta) in the United States should generate additional costs for Swiss banks in which US taxpayers hold bank accounts. Recent studies on the subject show a sharp decrease in the profitability of wealth management globally and in Switzerland. According to Price Waterhouse Coopers, margins fell sharply from 2006 to 2009, while efficiency (cost-income ratio) declined during the same period. Therefore, smaller banks that are not significantly large in size (less than 10 billion of assets under management) have begun to consolidate or be taken over.

(2) The variance between these figures and those of the SNB are explained by differences in statistical area: data from the ASB report include assets managed abroad by Swiss banks. Moreover, micro-managers of wealth (less than 1 billion Swiss francs of assets under management) have not been included in this study.

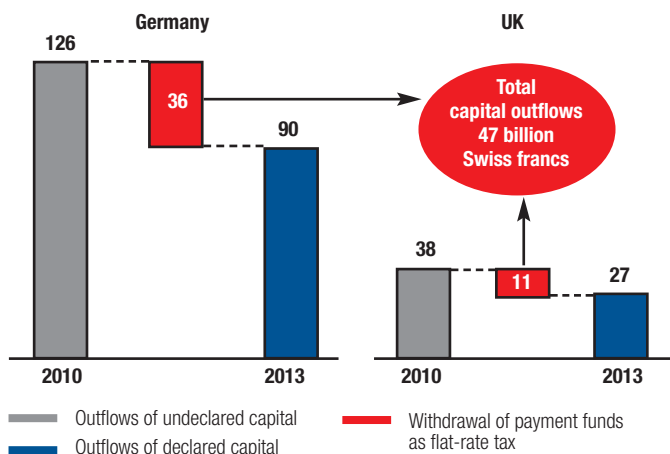
Moreover, bilateral tax agreements (RUBIK) with Germany, the UK and Austria, aiming to address the issue of undeclared funds in past and future income, require the establishment of infrastructure by Swiss banks to collect tax revenue. The invoice could total 500 million Swiss francs according to the Swiss Bankers Association. In addition, these agreements are likely to result in a substantial decrease in assets under management invested in Switzerland. According to the Boston Consulting Group (June 2012), withholding tax could lead to a 248 billion reduction in assets under management from Europe, while Booz & Company (November 2011) estimates that capital outflows from German and UK clients could total 47 billion Swiss francs.

**Graphic 3**  
Offshore assets under management in Switzerland in 2010  
(billions of Swiss francs)



Source: Booz&Co

**Graphic 4**  
Outflows of undeclared assets from German and UK clients  
(billions of Swiss francs)



Source: Booz&Co

The breakdown of the share in added value of the different segments of the financial sector in 2010 was as follows: 57% for banks, 33% for insurance and 11% for other financial services.

**UBS and Crédit Suisse: due to the new Basel III regulations, the two major banks are to review their «integrated bank» business model**

To implement the Basel III regulations and faced with the current tensions on the markets, UBS and Crédit Suisse are deleveraging their investment banking activities via the reduction of nearly half of their Risk-Weighted Assets (or RWA). In addition, for both groups, the current strategy aims at investment banking serving wealth management and strengthening synergies between these activities. Finally, in the context of the publication of its report on financial stability in Switzerland in June 2012, the Swiss National Bank (SNB), and the IMF in its review under Article IV, severely criticised the level of capital ratios of UBS and especially those of Crédit Suisse. According to the vice-chairman of the SNB, «in the event the eurozone crisis deepens, the potential loss of large banks would be considerable compared to their capital». Those which would be «capable of absorbing losses represent 2.7% of the total assets of UBS in net terms and only 1.7% [...] for Crédit Suisse». Thus, the SNB has ordered the two major banks to «accelerate the process and make every effort to increase substantially again this year, the amount of their tier 1 capital».

**Financial Stability: Exposure to mortgage lending of certain institutions focused on the domestic market poses medium-term risks**

The IMF, in its review of Switzerland under Article IV, and the SNB, in its 2012 report on financial stability, re-emphasize the risks associated with Swiss mortgage lending of certain banks. On the one hand, the Swiss central bank notes the longer maturities of mortgages, and on the other hand, the decrease in interest rates of these loans, which contributes to the increase in credit risk and rates for some banks. In this respect, with 60% of all mortgage loans in the market, the cantonal banks (34%), Raiffeisen banks (16%), regional institutions and savings banks (10%) are the institutions most exposed. Furthermore, while these three categories of banks hold only 25% of the total assets of the banking sector in Switzerland, their mortgage lending takes up a preponderant share of their balance sheet (between 60% and 80% of total assets). Faced with these risks, the Swiss authorities have put pressure on the SBA, which has tightened criteria for granting mortgage loans and have just created a counter-cyclical capital buffer dedicated to property, which will be activated from July 1st 2012.

Philippe Brunel

Economics Department, Embassy of France in Switzerland

# The size of the banking sector remains essential, even if it has shrunk

Highly concentrated, with UBS representing 30% of the assets and Crédit Suisse 22%, the banking sector remains important to the Swiss economy, even if its size has shrunk to 5 times the national wealth compared to 6.6 times in 2007, emphasises Philippe Brunel. And 82% of people working in this sector are located in the banking Confederation. Does this sector remain at the heart of Swiss national wealth?

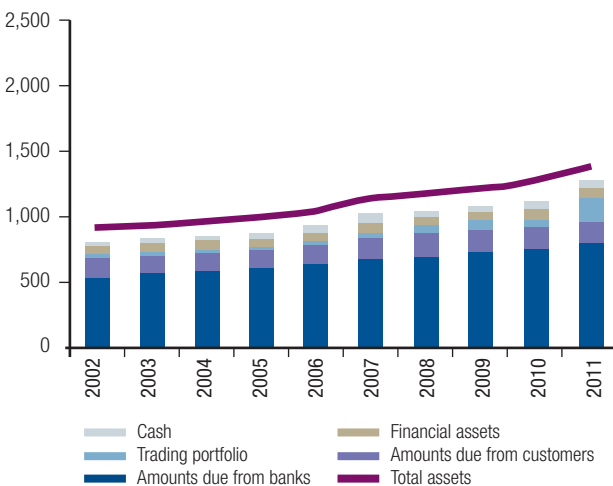
Its size remains essential, even if it has diminished. With 2,793 billion Swiss francs of assets, at the end of 2011, banks accounted for 5 times the GDP of the Confederation, compared to 6.6 times in 2007. And this is a sector that is highly concentrated. While the Swiss National Bank (SNB) listed 312 banks in its country last year – compared to 356 in 2002 – the first 5 banks have 65% of the assets. UBS alone accounts for 30% and Crédit Suisse 22%. Far behind we find the Raiffeisen Group (6%), the Zurich Cantonal Bank (5%) and HSBC Private Bank (2%).

➔ What is the share of the domestic and foreign market?

Philippe Brunel (PB): Swiss banks' assets are divided equally between Switzerland and abroad. Outside the Confederation, they are found mainly in the branches of large banks in the United States (29%), the UK (26%) and in offshore financial centres (13%). But, the vast majority are owned by the two big banks UBS and Crédit Suisse. As to their commitments, they are distributed in roughly equal proportions between offshore financial centres (28%), the UK (22%) and the USA (20%).

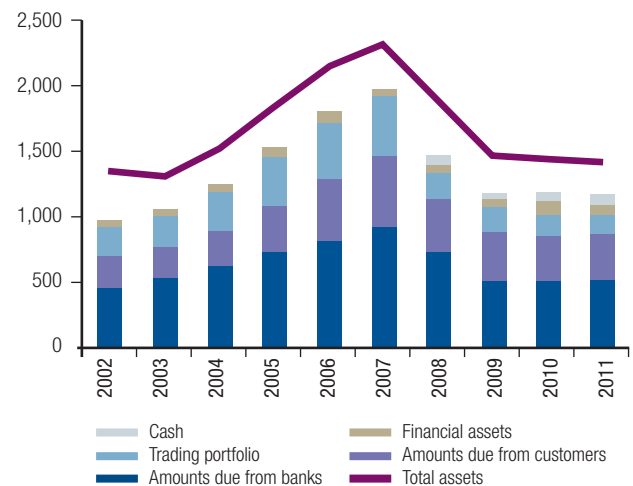
This strong presence should not blind us to a worrying trend: the assets of the branches of Swiss banks abroad have fallen by 39% since 2007, while those in Switzerland show a steady and strong increase (+20% since 2007) particularly due to the increase in outstanding mortgage lending (Graphs 1 and 2).

Graph 1  
Assets in Switzerland - Main balance sheet items  
(CHF billion)



Source: SNB

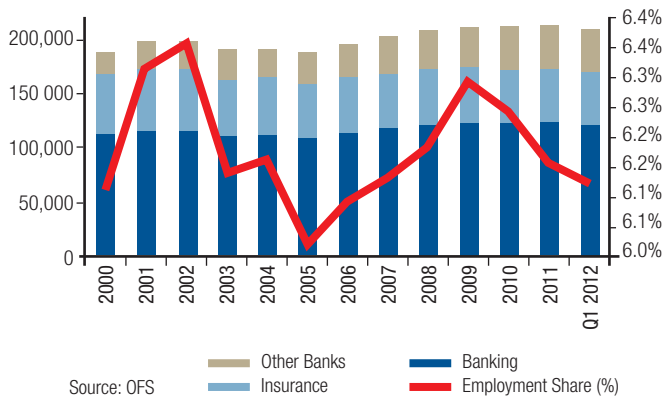
Graph 2  
Assets abroad - Main balance sheet items  
(CHF billion)



Source: SNB

Finally, it is worth noting that 82% of some 132,000 people working in Swiss banks are located in the Confederation (Graph 3).

**Graph 3**  
**Contribution of financial services to Swiss employment**  
*(in FTEs and % of total)*



➔ **Since 2007, has the structure of bank balance sheets also changed?**

**PB:** In fact, cash and loans have increased at the expense of amounts due from banks and trading portfolios. On the liabilities side, amounts due to banks decreased in favour of amounts due to customers, mainly in the form of deposits.

On the domestic market, mortgage lending which represents 58% of assets, with 798 billion Swiss francs, is the main item on bank balance sheets. The second largest item relates to cash with 13% of assets, or 187 billion Swiss francs. A figure that has risen sharply compared to 2010 due to the implementation of the exchange rate policy of the SNB to limit the increase in the Swiss franc against the euro.

Concerning the liabilities side on the domestic market, the majority (64%) consists of deposits, amounting to 836 billion Swiss francs, an increase of 6 percentage points compared to 2007. If we exclude savings and investments, which represent about half of the deposits and include pension assets, the underlying trend is an increase in deposits at the expense of term deposits. In Switzerland, the loan/deposit ratio for all banks remains high (114%), but it has improved significantly since 2002.

➔ **Is this loan/deposit ratio also high for foreign branches?**

**PB:** No. It is only 59%, compared with a ratio of 75% in 2007. In these branches abroad, there has been a significant decrease in all major asset items except cash between 2007 and 2011. Thus, securities trading portfolios fell by 70%, inter-bank loans by 42% and amounts due from customers by 34%. On the liabilities side, banks' obligations have also significantly fallen to represent only 27% in 2011. A fall that benefited deposits and bonds.

➔ **What is the share of derivative financial instruments?**

**PB:** In off-balance sheet transactions, derivative financial instruments totalled 53,083 billion Swiss francs at the end of 2011, a slight increase compared to 2010. For the most part, they were composed of interest rate derivatives (73%) including swaps, followed by currency derivatives (19%) and credit derivatives (6%). It should be noted that 97% of positions are held by the two largest banks, UBS and Crédit Suisse.

➔ **Have banks' profits suffered from the financial crisis and the changes that you have just outlined?**

**PB:** In fact, there has been a significant fall in commission income, which still represents 40% of net banking income. And the cost-income ratio for large banks, foreign banks in Switzerland and private banks has deteriorated. It is particularly high (71%) for UBS and Crédit Suisse, and 75% for foreign and private banks. However, depreciation of fixed assets, valuation adjustments, provisions and losses are returning to normal and pre-2007 levels.

**Interviewed by**  
**Coface**

Jean-Philippe KEIL

Partner, director, Mazars Coresa, Zurich French Foreign Trade Adviser

# Complex taxation, subject to close monitoring by the population

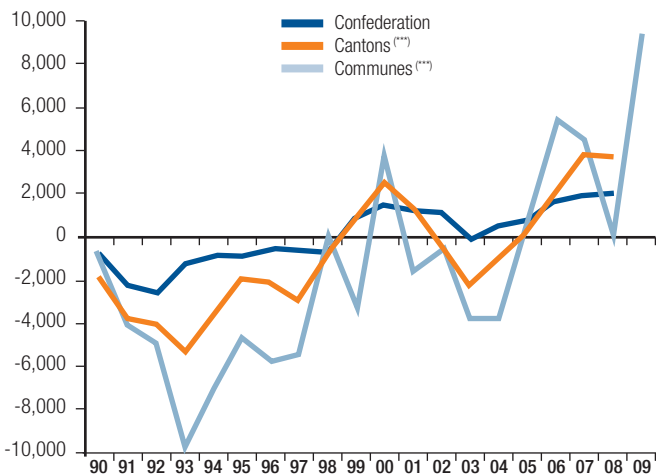
The Swiss taxation system is unified at the federal level for taxpayers. The tax deducted and the maximum rate of federal tax are stipulated in the Constitution and can only be modified by a referendum. But the 26 cantons and the communes can decide on their own taxation.

The Swiss tax system is quite complex because it is a Federal, Cantonal and Communal system (see text box on the right). The federal level ensures a unified system for all taxpayers, but the 26 cantons each have their own taxation, which is, however, partially harmonised and also subject to the will of the people. In general, each commune also has a different tax rate.

The tax authorities are however open to dialogue, and ruling practice is very widespread.

Another uniqueness is that this system results from the will of the people. The taxes levied and the highest rate of federal tax are provided for in the Constitution, which cannot be modified without a referendum. This arrangement is thus closely monitored by the Swiss themselves, but it has proved to be efficient, since, at the end of the day, public finances are sound (see graph below).

**Annual accounts of the Confederation, cantons and communes (\*) (\*\*)**  
(In millions of Swiss francs)



\* Annual accounts of the Confederation, cantons and communes  
 \*\* Including special accounts (Confederation) or concordats (cantons)  
 \*\*\* The 2009 amounts for the cantons and communes are not yet known

## Types of taxes levied at each level:

### Federal Taxes

- Direct federal tax (income/profits)
- Anticipatory tax
- VAT
- Stamp duty (trading/issue)
- Customs duty
- Other sundry taxes

### Cantonal tax

- Income/profits tax
- Capital/wealth tax
- Tax on inheritances and gifts
- Real estate gains tax
- Property tax
- Transfer tax
- Other taxes

### Communal tax \*

- Income/profits tax
- Capital/wealth tax
- Tax on inheritances and gifts
- Real estate gains tax
- Land tax
- Transfer tax
- Other taxes

\* Communal tax = generally a percentage of the cantonal tax

**Taxation of legal entities**

**Principles of taxation of profits**

According to commercial law, the balance sheet and income statement are what determine the taxation of a company. The latter has the option, in its statutory accounts, of creating provisions (precautionary principle), which will be also be recognised for tax purposes:

**Derogatory measures aimed at optimising the taxation of companies in Switzerland**

The measures presented below constitute differences with accounts presented according to French or IFRS standards:

- Companies usually use the direct declining-balance method of depreciation, which consists in applying the rate of depreciation used for a fixed-asset class to the net book value at the beginning of the year. It is also possible to come to an agreement with the cantonal tax authorities for specific depreciation methods (for example: 80% the first year and 20% the following years).
- For inventories and work in progress, the Code of Obligations allows for flat-rate depreciation of 33.33%. In addition, companies are free to create provisions based on economic criteria.
- The risk of non-recovery of trade debts can be the subject of a provision for depreciation of 5% in respect of domestic customers and 10% for customers located abroad. Provisions based on economic criteria may also be recognised.

- Provisions for liabilities and charges are permitted provided they are justified by economic criteria or proven risks. The creation of a provision in respect of the guarantee of 1% to 3% of turnover is common.
- Reversals of latent reserves must be mentioned in the notes to the accounts

Very few rules exist that allow the tax authorities to modify the tax base resulting from the statutory accounts. These corrective rules include:

- The reversal of charges that are not commercially justified (excessive or unjustified depreciation/provision, unjustified expenditure, etc.).
- Costs of acquisition, production or improvement of fixed assets which must normally be recorded as assets and should not reduce taxable income.
- Repayments of capital, payments of dividends and benefits that can be valued in money are not considered deductible charges.

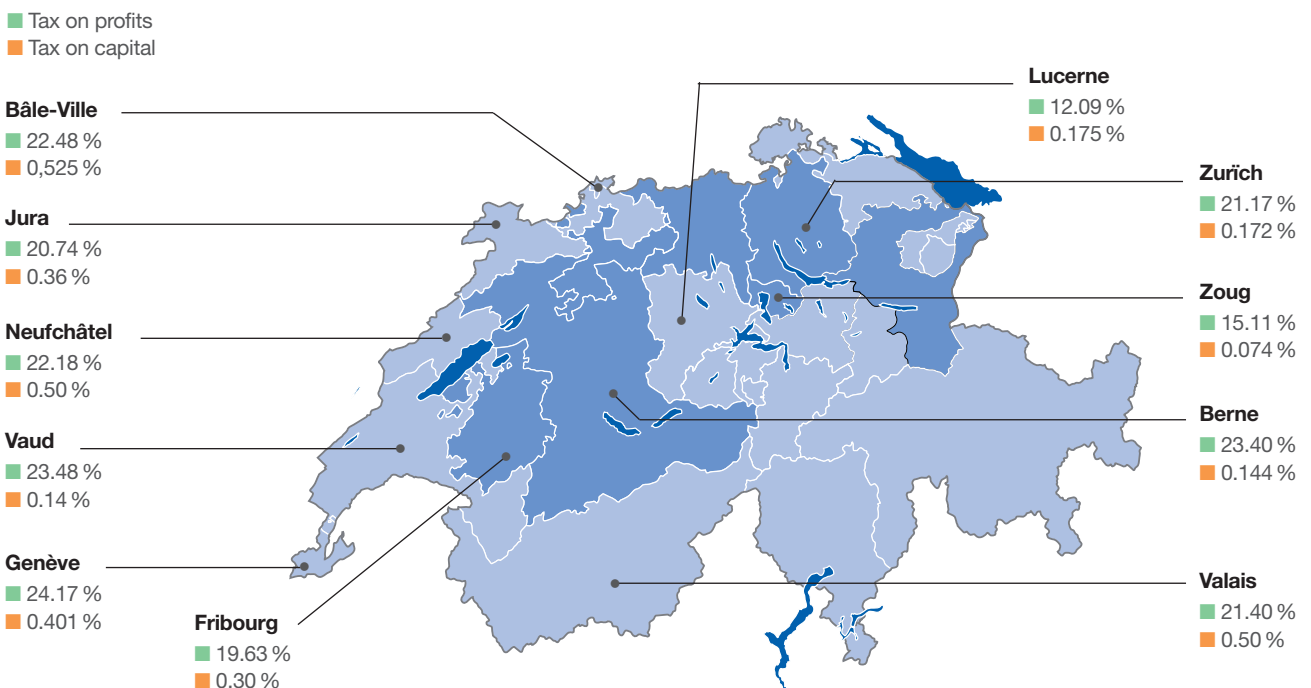
It should also be noted that taxes due are deductible from the assessment basis (leading to a difference between the statutory and effective rate). Losses may be deferred over 7 years.

**Main tax regimes (cantonal/communal only):**

Tax regimes only apply to taxes levied by the Cantons and Communes:

- Holding company  
The statutory purpose consists of the holding of interests, and two-thirds of the balance sheet or revenues consist of holdings or income from holdings.

**Summary of effective tax rates per administrative centre**





A holding company does not carry out commercial activity. This kind of company is exempt from cantonal/communal tax on profits. The tax on capital is generally reduced. The effective rate is 7.83% (federal rate), but the holding reduction applies, which can reduce the taxation rate to 0%.

- **Auxiliary/base company**

These kinds of company primarily have an international focus (at least 80% of turnover generated abroad). They typically are trading, licence or finance companies. Foreign-source income benefits from an exoneration of approximately 80%. Income from holdings is tax free. However, income generated in Switzerland is taxed at the usual rate. The capital tax rate is generally reduced. The effective rate is approximately 12% in Geneva and 9% in Lucerne.

- **Services company**

This is not a tax regime strictly speaking, but it offers simplified rules for companies that provide intra-group services. Income is determined on a cost-plus basis and margin depends on the gain generated by the service provided. The margin varies according to type of service but it is generally in the region of 5%.

**Tax reliefs**

Tax relief and temporary exemptions depend on the size of the project in the canton in terms of employment, type of activity, investment and foreseeable economic consequences. The granting of relief is a political decision. Temporary exonerations may be total, and last for 10 years at most. They are generally subject to the condition (in addition to the completion of the project concerned) that the company stay for 10 years after the exoneration expires (risk of retroactive taxation in the event of early departure). At the federal level, exonerations are only granted for projects in very specific areas where the Confederation wishes to boost economic development. The major urban centres are therefore not eligible.

**Taxation of individuals**

**Principle of taxation of income**

In theory, all incomes are taxable, except those that are subject to another tax (real estate gains, inheritance, gift tax, etc.) or those that are exempt, such as capital gains on securities.

Deductions exist and vary from one canton to the next, but generally relate to professional expenses (travel, meals), health insurance, childcare costs, costs of dependents, etc. Social contributions are deductible (old age and survivors' insurance (AVS), 2nd pillar, redemption). Deductions for private provident insurance (3<sup>rd</sup> pillar) and interest expense on liabilities are limited.

For the self-employed, the income of a partnership (determined according to the same principles as for legal entities) is added to the personal income tax return. Couples are taxed as a unit; the two incomes are therefore added together.

**Tax rate**

At all levels, rates are progressive based on taxable income. Income from holdings is only partially subject to tax. However, less than 10% of the share capital must be held in order to benefit from this partial exemption, which reaches 40% at the federal level. At the cantonal/communal level, the exemption can vary between 20% and 50%.

**Forfait fiscal or tax on expenditure.**

There exists a simplified regime for the taxation of foreign individuals who do not carry on an activity in Switzerland. A fixed sum or a fixed tax base is determined based on the taxpayer's expenditure (and not his effective income). The minimum fixed sum is based on 7 times the rent paid (or the rental value for the owner) as well as other family maintenance expenditure (other property, school expenses, general lifestyle, etc.) but is at least CHF 400,000.

This taxation principle has drawn a lot criticism in Switzerland: the criteria for determining expenditure have been revised upwards, and some cantons have even abolished this practice (Zurich, Schaffhouse, Appenzell).

**Overview of other taxes**

VAT is 8% generally, 3.8% for the hotel sector and 2.5% for food products, beverages, medicines and newspapers/books.

The anticipatory tax is a withholding tax of 35% levied on investment income (primarily bank interest and dividends). In Switzerland, the tax is refundable if the income is declared. However, it constitutes a definitive tax for foreign residents unless a tax treaty for the avoidance of double taxation provides for a tax reduction or a total exemption (generally the case with France for example). A declaration procedure is also possible in the case of payments within a group (including abroad). The request must however be made before the date of payment.

The issuance stamp duty is 1% of created share capital (including agio) above CHF 1m.

## Fabrice Lelouvier

Manager of Ubifrance in Switzerland

# A very competitive market which is a valuable test case for exporters

Swiss consumers are demanding, commensurate with significant purchasing power. But although profit margins are generally large, market penetration costs for a foreign company are high.

### → What are the strengths of the Swiss market?

**FL:** The primary strength of the Swiss market is that it comprises consumers with substantial purchasing power, who are consequently demanding and prepared to pay if the quality of the products or services justifies it. Profit margins are therefore generally high. Many international groups achieve their best margins in Switzerland. The country's second strong point is its test value. A company that wants to export worldwide will find in Switzerland a competitive market in the proper sense of the term, which will allow it to test and, if necessary, improve its products before launching in other markets. For example, launching in German-speaking Switzerland before entering the German market is often very revealing. Of course, the political and economic situation of Switzerland is also an asset which attracts foreign companies. As are its strong international integration, the flexibility of its labour regulations and its relatively moderate taxation system.

### → Does this idyllic picture have any grey areas?

**FL:** I don't think there are any true grey areas. The real problem, in my opinion, is that the cost of entering the market for a foreign company is high. The company's offering needs to be solid, efficient, of good quality and innovative. That all requires financial resources that are significant or at least adequate. You will only sell in Switzerland if your offer is innovative and if your after-sales service is impeccable.

### → Exporting to Switzerland thus requires specific qualities. What about setting up there?

**FL:** Naturally, setting up in Switzerland requires substantial human and financial investment. Everything depends on what a company is prepared to invest. Opening a subsidiary or acquiring a local company is by far the best solution. There is no doubt that the best way for a company to become established in Switzerland is to become Swiss. For French readers of your Panorama, Ubifrance published a work on "Setting up in Switzerland" in 2012, which describes the administrative formalities for setting up under optimum conditions.

## Ubifrance

Ubifrance, the French agency for the international development of French companies, provides French businesses with information and advice. In France, 6 interregional divisions, identify, mobilise and direct companies with strong export potential, in partnership with the Chambers of Commerce and Industry (CCI). At the international level, these businesses benefit from the services of Ubifrance's 1400 employees in 80 offices and 60 countries.

Interviewed by  
Coface

## Pascal Vallet

Founding Partner of Antaès Consulting SA and French Foreign Trade Adviser

# Swiss quality is not an empty phrase, and requires great discipline

On this small market where quality is part of the country's culture and must be incorporated into any sales strategy, building trust is a step-by-step process.

### → You have solid experience of the Swiss market. What advice would you give companies that want to sell their products and services or establish themselves in Switzerland?

**Pascal Vallet (PV):** We have been established in Switzerland since 2007, and have succeeded in winning the trust of large companies and multinational banks. Our invoices are thus paid without problem and on time. At the beginning, we nonetheless used the services of a factoring company to secure our payments, but this soon proved unnecessary. When I arrived in Switzerland,

I had a cliched picture, without believing in it too much, of this country that is synonymous with quality. In fact, it's true. Swiss quality is not an empty phrase. It is part of the culture of this country and it should be integrated in one's sales strategy. By quality we mean the quality of products or services, of course, but also the quality of innovation or marketing method. This method requires great rigour. All this is necessary to gain the trust of your future partners. This trust is built step by step and once established, will last.

➔ **How would you describe the Swiss market?**

**PV:** It's a small market, but one with strong purchasing power. It therefore has high expectations and, as I've just said, particularly in terms of quality. It is often "used" by companies as a market test. Many companies that are bringing out a new product start in Switzerland, which is a reliable way of assessing it. The Swiss market is a very instructive market with strong positioning, and one which can be lucrative.

**Antaès Consulting SA**

Created in 2007 and with offices in Geneva and Lausanne, Antaès is a firm of experienced engineers which provides companies, and primarily international groups, with organisational advice (strategic studies, preparation of master plans, business mapping, compliance procedures, etc.), advice on information systems (project owner or design assistance, etc.) or industrial engineering advice, mainly in the luxury clock and watchmaking sector. One of the top 10 Swiss consulting firms, we have a turnover of approximately 15 million Swiss francs, up by more than 40% in 2012.

**Interviewed by  
Coface**

**Olivier Bel**

Arbitre Coface

**Business risk is satisfactory  
but confidentiality remains strong**

**Overall, the situation is good, even if the German-speaking cantons are more rigorous on the whole. Taking into account a tradition of confidentiality, we have built, based on trust, a true database of information on companies.**

➔ **How would you evaluate the risk related to Swiss companies?**

**Olivier Bel (OB):** It is good overall. Moreover, our ratio of claims to domestic risks (coverage of risks that our customers take in respect of Swiss companies) is satisfactory and, in any event, better than our export risk. Why? Because Switzerland benefits from a macroeconomic environment that is still quite favourable, a skilled, flexible and very productive labour force, a stable social climate, liberal labour laws and companies that are generally sufficiently capitalised to withstand economic shocks. The payment behaviour of Swiss companies is therefore satisfactory, even if there are differences between cantons, the more Latin cantons (such as Geneva, Vaud or Valais) tend to pay their invoices with some delay, whereas the German-speaking cantons (like Zurich, Basle or Bern) are generally more disciplined.

➔ **To arbitrate your risks as effectively as possible, how do you analyse the financial situation of Swiss companies?**

**OB:** By definition, Swiss companies are quite discrete and still have a strong tradition of confidentiality. Those which are listed on the stock exchange are required to publish their results, but most of the others don't publish anything. To make up for this lack of information, we examine other criteria like the age of the company, its branch of industry or any other information which we can collect from external sources or debt collection offices. We mostly use information which we collect directly from companies. We have developed our own experience as a long-established insurer in this country. We share this experience with our policyholders to help them to select buyers and monitor their financial situation as effectively as possible. It is quite difficult at the start. You have to win the trust of your client, and conclude a non-disclosure agreement (NDA) with the company, but once this stage has been reached, we obtain reliable information easily and regularly. We now have a genuine database and have access to more up-to-date reports and information than a good many information companies on the market.

➔ **Do you often require security before taking certain risks?**

OB: We very rarely ask for bank guarantees or extended and prolonged reservations of title (RPEP); these kinds of guarantee that are very common in Germany are less effective than in Switzerland. Sometimes, we ask for a guarantee from the client's head office.

➔ **Is the relationship with your clients very important to you?**

OB: Coface's policy is not only to guarantee policyholders' trade receivables via credit insurance, but also to help them evaluate and prevent risks so they can make the best decisions at the best time. To help them do this, we provide them with analyses of country, sectoral and credit risks. We also have a lot of contact with them in order to exchange information on risks and industry sectors, to explain our underwriting decisions to them, or to review their risk portfolio in order to adapt their risks to their needs.

➔ **What kinds of payment default do you encounter?**

OB: Arrears are relatively rare, but the recovery of sums owed is always a delicate matter. There are relatively few recurring small claims, except in sectors like construction, retailing and the hotel and catering industries, which alone account for nearly 60% of insolvency cases.

**Coface Switzerland**

In 1995, Coface set up a branch in Switzerland in order to offer its credit insurance solutions to Swiss companies and to international groups present in this country.

With a team of over 30 people, Coface Switzerland offers Swiss companies and international groups present in the territory of the Swiss confederation all of the comprehensive solutions of the Coface Group. All the credit insurance services, particularly the Globaliance contract, are available: analysis, prevention, claims management, recovery and protection.

**For further information:  
[www.coface.ch](http://www.coface.ch)**

On the other hand, large claims can occur in the wake of sudden bankruptcies, like that of the company Petroplus at the end of 2011.

➔ **Of the sectors you have just mentioned, which are most risky in your opinion?**

OB: Those which I have just mentioned are the riskiest. The building sector, primarily because of subcontractors' high exposure to the payment delays of their clients and thus to the consequences of "domino" effects in the event of crisis. Retail is also a delicate sector, except for big groups like Migros, Coop, Manor or Adli. Hotel/restaurant, finally, because the sector is not very competitive and is subject to stiff competition from neighbouring countries, particularly Austria and France.

➔ **And what sectors are attractive?**

OB: The pharmaceutical industry is a buoyant sector, because it is not very sensitive to the economic situation. The chemicals industry offers significant opportunities, even if it is a little more sensitive to the economic situation. The clock and watch industry was able to diversify its customer base after the 2008/2009 crisis and find market opportunities in Asia.

➔ **What advice would you give to a company that was entering the Swiss market for the first time?**

OB: I would give four tips. First of all, understand the diversity of the market. Taking linguistic and cultural differences into account is essential for prospecting, organising commercial actions, signing contracts or managing risks.

Secondly, take account of buyers' requirements in terms of products and services, which must be of very high quality, a requirement that is more important than the price.

Thirdly, be discrete and respect the principles of confidentiality to which Swiss business people are still attached.

Finally, as in many other countries, build trust and try to form lasting relationships. Once trust has been established, your customers will keep coming back.

## Jean-François Rondest

Group Information and Claims Department, Coface

# Debt collection Swiss specificities

As with all European countries, Swiss law belongs to the system of statute law based on codes and laws, with all of it borrowing from federalism including sharing jurisdiction between the Confederation and cantons. A new unified code of civil procedure since 1<sup>st</sup> January 2011 has overcome an obstacle to safe and expeditious justice.

### Characteristics of debt collection in Switzerland

Switzerland has certain legal and technical characteristics:

- Existence of an administrative authority in each canton, which executes a great many legal documents: the debt collection office, («l'Office des poursuites et des faillites, "Betreibungs und Konkursamt / Ufficio di esecuzione e fallimenti» – OPF) whose formalities are standardised and laid down by a federal law applicable over the entire territory. Interested parties can consult the registers of this body and obtain extracts of them.
- Establishment of a new unified code of civil procedure, drafted by a commission of experts, approved by the Federal Council and effective since 1 January 2011. The promulgation of this code repeals the 26 cantonal procedural laws, which were impeding secure and rapid justice.

Legal action requires however the assistance of a lawyer who is familiar with the organisation of the local courts, as well as the language in which the proceedings will be conducted (French, German, Italian).

This text provides for various types of courts depending on the nature or stakes of the dispute, and specifies that the parties must attempt conciliation or subject themselves to mediation before initiating a substantive action.

### The amicable phase

Amicable collection begins with a formal notice sent by registered mail (thus triggering interest to be accrued) to the debtor, asking him to pay, within fifteen days, the principal amount

plus the default interest fixed by the Code of Obligations at the rate of 5% per annum, even if the parties agreed a lower rate or, between merchants, at the bank discount rate applicable in the place of payment if this rate is higher than 5%. Amicable transactions are to be favoured when possible, payments may be spread over time, or a payment of final settlement depending on the client's solvency.

### The legal phase

If payment is not made at this stage, the creditor will file a debt collection request with the OPF, whereupon the debtor will receive a notice to pay the debt within 20 days.

If the debtor does not react within the time limit, the applicant can request that the proceedings be continued. He has one year in which to pursue the proceedings.

Owing to the flexibility of this creditor action, the defendant can file an objection within 10 days of the notice without having to give reasons, which will oblige the creditor, in this case, to seek collection in the courts.

However, a supplier who holds an unconditional acknowledgement of debt of his customer (any original documents in which the latter confirms that he owes a sum of money, a bill of exchange, cheque, etc.), will be able to request, without having to appear in court, the provisional dismissal of the objection by means of summary proceedings that are fast and inexpensive, where the judge rules on the evidence.

A judgement provisionally dismissing the objection authorises the debtor, within a period of 20 days, to initiate an ordinary legal collection action before the substantive courts.

This is a formal procedure, which is now standardised, and which comprises a written phase during which the main pleadings of the parties are submitted, followed by the replies and rejoinders. Next comes an oral phase in which witnesses, if any, are heard and which generates a timeline of one to three years depending on the canton in order to obtain enforcement and which entails legal expenses of highly varied amounts, depending on the scales implemented by each canton.

After the lawsuit, upon a request to continue the proceedings, the OPF will issue, on the basis of the final judgement, either an order for the seizure of the debtor's property, or, in the case of a merchant, an order to pay for the purposes of establishing bankruptcy.

Although in theory, the unsuccessful party bears the costs of the proceedings, in practice, these expenses only are partially passed on to the party concerned.

### The courts

Legal actions take place in the court in the first instance or district court, being specified that for commercial matters, commercial courts composed of professional and non-professional judges exist solely in four German-speaking cantons (Argovie, Bern, Saint-Gall and Zurich).

Following an appeal lodged with the cantonal court, remedies of last resort, for cases involving sums greater than 30,000 Swiss francs (CHF), are brought, at the federal level, before the main federal legal institution, located in Lausanne, the Swiss Federal Court (Schweizerisches Bundesgericht / Tribunale federale svizzero).

The federal court comprises seven courts: two civil right courts, two civil law courts, one criminal law court and two social law courts.

### Arbitration

To avoid legal action, the parties can agree, within the framework of their contractual undertaking, to resolve their differences by arbitration.

The arbitration agreement, which must be in writing, concerns existing or future disputes arising from a given legal relationship.

Arbitration means *ad hoc* arbitration organised by the parties or institutional arbitration with reference to a permanent arbitration tribunal.

In order to promote and standardise international arbitration, the chambers of commerce of Basle, Bern, Geneva, Lausanne, Lugano, Neuchâtel and Zurich jointly adopted, on 1st January 2004, Swiss international arbitration rules which govern the scope of the arbitration, the composition of the arbitral tribunal, the arbitration procedure, the issuance of the award and the determination of the arbitration costs.

The Swiss rules are essentially based on the arbitration rules drawn up by UNCITRAL (United Nations Commission on International Trade Law), by reference to a widely recognised institution.

In addition, Switzerland ratified, on 1st June 1965, the New York Convention of 10th June 1958 on the Recognition and Enforcement of Foreign Arbitral Awards.

