

## Press release

### 2016 Swiss Export Risk Monitor

*300+ export-oriented Swiss companies surveyed by the Bern University of Applied Sciences and Euler Hermes*

- Swiss companies rely on innovation and expansion into new growth markets as a recipe for future success
- Currency risk remains the biggest risk; increased economic and political risks expected to intensify in 2016; defaults in foreign countries to rise along with associated liquidity bottlenecks and contracts lost as a result of political upheaval
- Risks are currently increasing in many emerging economies and growth markets due to worsening payment practices and a rise in the number of insolvencies; Swiss companies' need for protective measures is growing, with the focus on pre-payments and advance payments, guarantees and credit insurance
- Export profits still expected to rise among Swiss exporters in 2016 – and facilitate regaining some ground after the 2015 currency turmoil

**ZURICH – 7 APRIL 2016** - After an initial study launched in 2015, the Bern University of Applied Sciences and Euler Hermes again surveyed over 300 export-oriented Swiss companies about their export risks in 2016. The majority of the surveyed companies were SMEs with between 10 and 250 employees. As part of the survey, companies revealed which protective measures they use to counteract current and expected export risks. Many expectations have been confirmed in comparison with the previous year, such as declines in exports as a result of the strong Swiss franc. Other trends have changed during the last 12 months, as companies readjusted to the current environment.

#### **Swiss companies counting on innovation and globalization as recipe for future success**

“2015 was characterized by currency turmoil and an associated decline in exports of CHF 5.5 billion,” says Ludovic Subran, chief economist at Euler Hermes. “In 2016, Swiss exporters can recoup at least half of this amount, as we expect profits from exports to increase by CHF 2.5 billion. Many Swiss exporters believe the recipe for success is innovation. They are looking to diversify even more strongly in the future, both in new products and sales markets, and by expanding their presence in key export countries. However, export risks are currently rising in many areas, with payment habits deteriorating and defaults and insolvencies increasing, for instance in the Gulf States, Southeast Asia and the U.S. Protective measures are therefore a key focus for exporters. It is noticeable that Swiss companies rely primarily on prepayments, advance payments, guarantees and credit insurance in this regard.”

#### **Shift in risk expectations: political and economic risks versus currency risk**

Over a third of Swiss export firms expect that economic and political risks will increase in the future, whereas currency risk will remain stable.

“Over the next 12 months, Swiss exporters anticipate an increase in political and economic risks,” explains Dr Paul Ammann, head of the Executive MBA course at the Bern University of Applied Sciences. “The situation was exactly the opposite a year ago. Only 22% of companies surveyed expect exchange rate risks to rise in 2016, compared to 69% in 2015. Currency risk still remains the leading risk, however. 96% of companies are still suffering to an average or high degree from the strong Swiss franc, and report that they have lost contracts abroad as a result. Other risks are showing an upward trend, not least due to weak global trade. Unpaid invoices to foreign customers and the resulting liquidity bottlenecks have increased recently for Swiss exporters, for example. The same is true for contracts lost as a result of political upheaval.”

#### **Imports, outsourcing and innovation growing in importance**

Nonetheless, foreign markets are still playing an important role. All companies in the 2016 survey again reported that they were outsourcing more business abroad, purchasing more abroad and

establishing an increasing presence in key export markets. This is consistent with Swiss export statistics, which have recorded a reduction in import prices. According to the Swiss Customs Administration (EZV), imports from the UK and the U.S. rose by 2% and 7%, respectively. Swiss firms are also looking to focus on product innovations.

### **Cloudy crystal ball – not all 2015 expectations came true**

In comparison with 2015, Swiss companies expect a significant increase in 2016 exports to France, Germany, the Gulf States, India, Japan, the UK and the U.S. Declines in exports, on the other hand, are anticipated primarily for Brazil and Russia.

“Looking back, only some of the 2015 survey expectations related to exports actually came true,” says Stefan Ruf, CEO of Euler Hermes Switzerland. “In 2015, companies expected that exports to China, the Gulf States and the U.S. would rise sharply. The 2016 statistics show that, although they were right about the U.S., the U.K was the other main country to which exports have risen. The anticipated fall in exports to euro zone countries due to the strength of the Swiss franc did indeed occur. Looking forward, it is positive that companies expect exports to these countries to be stable or to begin growing again, albeit slightly, in 2016.”

The key reasons for these differences were changes in the economic situation and favorable exchange rates. “Exports to China failed to grow in line with expectations due to the economic slowdown,” Subran explains. “We see this phenomenon not only in Switzerland but also in other countries that are key trade partners with China. However, it wasn’t only economic risk which increased in China last year - so did the risk of default. This is having repercussions in other emerging markets in Europe, Latin America and Southeast Asia. The Gulf States are also experiencing difficulties due to low oil prices. When it came to trading with the UK and the US, Swiss exporters benefited from the stable dollar and pound exchange rates: so their expectations for these countries were accurate.”

### **2016 risk situation in export countries to worsen vs 2015**

At the start of 2015, Swiss companies rated the risk situation in Africa, Russia and South America as high, which was confirmed during the course of the year. This year, Swiss exporters once again consider the risk situation in Brazil and Russia to be critically high, and added increasing risks in the Gulf States and Turkey.

### **The top 3 export risks in 2016**

1. Currency risk
2. Economic risk
3. Del credere/credit risk

The currency situation continues to have a strong impact on Swiss exporters. 96% (2015: 87%) of companies surveyed were affected by currency risk to a high or average degree. Economic and del credere/credit risks remain the second and third most important risks, having been cited by 83% (88%) and 57% (55%), respectively, of Swiss exporters affected to a high or average degree.

### **Top 6 protective measures employed by Swiss exporters between 2014 and 2016**

1. Prepayment/advance payment (78% vs 68% in 2015)
2. New products/innovation (66%\*)
3. Close contact with distribution partners abroad (65%\*)
4. Strengthening presence in key export markets (diversification) (55 vs 48% in 2015)
5. Making purchases abroad when the Swiss franc appreciates (53% vs 52% in 2015)
6. Cutting costs in Switzerland when the Swiss franc appreciates (49% in 2016 and 2015)

## The six most frequently used protective measures

### Do you use these protective measures?

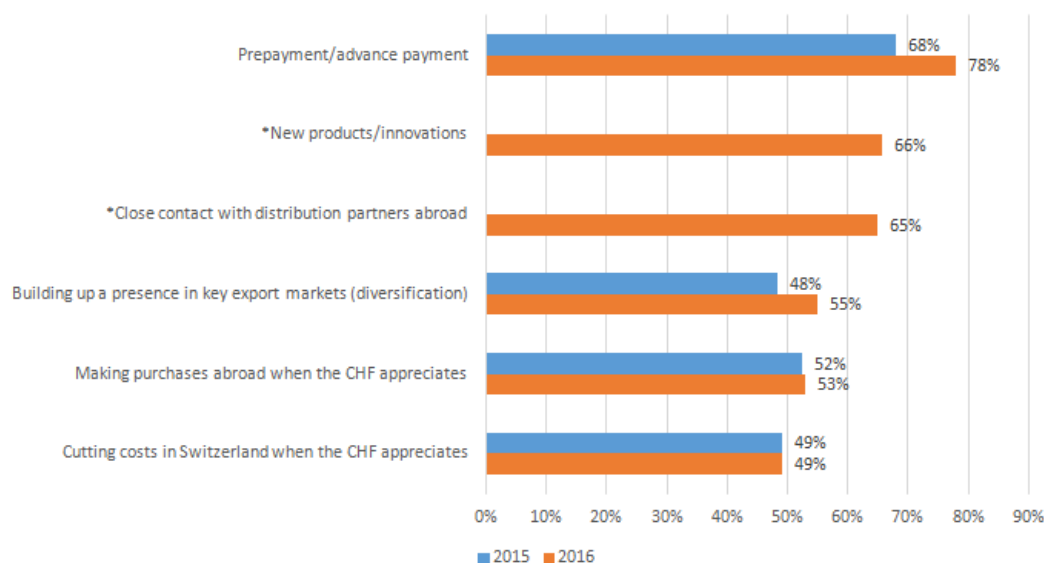


Figure 1: The most frequently used protective measures as a percentage of companies

\*New feature in the survey based on survey input to the 2015 survey

### Currency risk still poses the greatest problem for exporters

The majority of Swiss exporters (53%) mitigate currency risk by making low-priced purchases abroad, lowering their costs in Switzerland, invoicing their foreign customers in USD, EUR or CHF, or simply by raising their prices abroad. Furthermore, **outsourcing abroad** (26% of companies surveyed) is also becoming a vital instrument for counteracting currency risk. 58% of companies employing this protective measure indicated that they would use it more intensively in the next 12 months.

“26% (24% in 2015) of companies state that they are able to pass on the costs of the Swiss franc’s appreciation to their foreign customers by raising prices. This is an encouraging figure. An additional question was asked in order to further examine this situation: only 20% of companies are able to pass on more than 80% of the appreciation to foreign customers. In other words, even businesses that are able to enforce price increases still incur a certain loss due to the appreciation in the Swiss franc,” Ammann says.

### Political and del credere risks (non-payment risk) mostly mitigated by prepayments

“Political and default risks grew globally in 2015,” Subran explained. “Turbulence was the order of the day, especially in Brazil, China and Russia, as well as in numerous emerging economies. We expect a 2% rise in global insolvency figures in 2016, the first increase for six years.”

“However, staying at home is not a viable solution if companies wish to grow over the long term. If they withdraw from higher-risk markets now, they will be at the end of the queue when growth picks up at some point in the future. That is why hedging liquidity and balance sheet risks is becoming increasingly important. In the future, instruments such as credit insurance will help ever more companies to remain competitive and improve their sales abroad,” says Ruf.

The survey shows that Swiss companies primarily use advance payments, creditworthiness assessments of companies in export countries, letters of credit, guarantees and credit insurance to manage non-payment risk. However, a number of companies state they are deliberately avoiding exports to politically uncertain markets.

“Three-quarters of companies surveyed manage to enforce prepayments from customers abroad,” says Ammann. “Furthermore, 66% of companies indicated they could demand prepayments of 100% in certain cases. However, 89% stated that they had implemented measures other than those listed in

the questionnaire. These open responses make it clear that a majority of companies are able to demand an advance payment of 30% at the time of order, which is quite a high figure.”

13% of companies reported using credit insurance. Of this group, it is noteworthy that 58% of companies that have taken out credit insurance make frequent use of it. The percentage is similar for guarantees. The question arises whether Swiss businesses are sufficiently well informed about these instruments. Relatively few firms employ them, but those that do use them very intensively. In the long term, as the strength of the competition increases, fewer and fewer customers will be prepared to make prepayments.

### Survey information

The 2016 survey is the second time in Switzerland that export risks were analyzed in-depth and companies were polled about protective measures. The goal is to provide exporters with a basis for comparison, to support their efforts to protect against risks and to highlight potential areas for improvement. The survey asked about risks associated with exports - specifically currency, del credere, economic, inter-cultural, political and security risks - and also the risk of a lack of legal certainty.

A significant majority of the surveyed companies were SMEs with between 10 and 250 employees. The survey focused exclusively on exporters that produce capital or standard goods, are active in customer-specific projects or trading, or are service providers. Two-thirds of the companies surveyed generate at least 30% of their sales through exports.

Further information is available at [www.ti.bfh.ch/exportrisiko\\_monitor](http://www.ti.bfh.ch/exportrisiko_monitor).

- Country report Switzerland
- Economic Insight
- Press conference presentation
- Full study available on request

### CONTACTS

#### Euler Hermes Switzerland

Alexandra Kraehenmann

Tel: 044 283 65 14

[alexandra.kraehenmann@eulerhermes.com](mailto:alexandra.kraehenmann@eulerhermes.com)

#### Euler Hermes Group Media Relations

Remi Calvet +33(0)1 84 11 61 41

[remi.calvet@eulerhermes.com](mailto:remi.calvet@eulerhermes.com)

#### Publicis Consultants

Romain Sulpice +33 (0)1 44 82 46 21

[romain.sulpice@mslfrance.com](mailto:romain.sulpice@mslfrance.com)

**Euler Hermes** is the global leader in trade credit insurance and a recognized specialist in the areas of bonding, guarantees and collections. With more than 100 years of experience, the company offers business-to-business (B2B) clients financial services to support cash and trade receivables management. Its proprietary intelligence network tracks and analyzes daily changes in corporate solvency among small, medium and multinational companies active in markets representing 92% of global GDP. Headquartered in Paris, the company is present in over 50 countries with 6,400+ employees. Euler Hermes is a subsidiary of Allianz, listed on Euronext Paris (ELE.PA) and rated AA- by Standard & Poor's and Dagong Europe. The company posted a consolidated turnover of over €2.6 billion in 2015 and insured global business transactions for €890 billion in exposure at the end of 2015. Further information: [www.eulerhermes.com](http://www.eulerhermes.com), [LinkedIn](#) or Twitter [@eulerhermes](#).

**Cautionary note regarding forward-looking statements:** The statements contained herein may include statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements which are forward-looking by reason of context, the words "may", "will", "should", "expects", "plans", "intends", "anticipates", "believes", "estimates", "predicts", "potential", or "continue" and similar expressions identify forward-looking statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) general economic conditions, including in particular economic conditions in the Euler Hermes Group's core business and core markets, (ii) performance of financial markets, including emerging markets, and including market volatility, liquidity and credit events (iii) the frequency and severity of insured loss events, including from natural catastrophes and including the development of loss expenses, (iv) persistency levels, (v) the extent of credit defaults, (vi) interest rate levels, (vii) currency exchange rates including the Euro/U.S. Dollar exchange rate, (viii) changing levels of competition, (ix) changes in laws and regulations, including monetary convergence and the European Monetary Union, (x) changes in the policies of central banks and/or foreign governments, (xi) the impact of acquisitions, including related integration issues, (xii) reorganization measures, and (xiii) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences. The company assumes no obligation to update any forward-looking statement.