StrategicRISK

RISK INNOVATION

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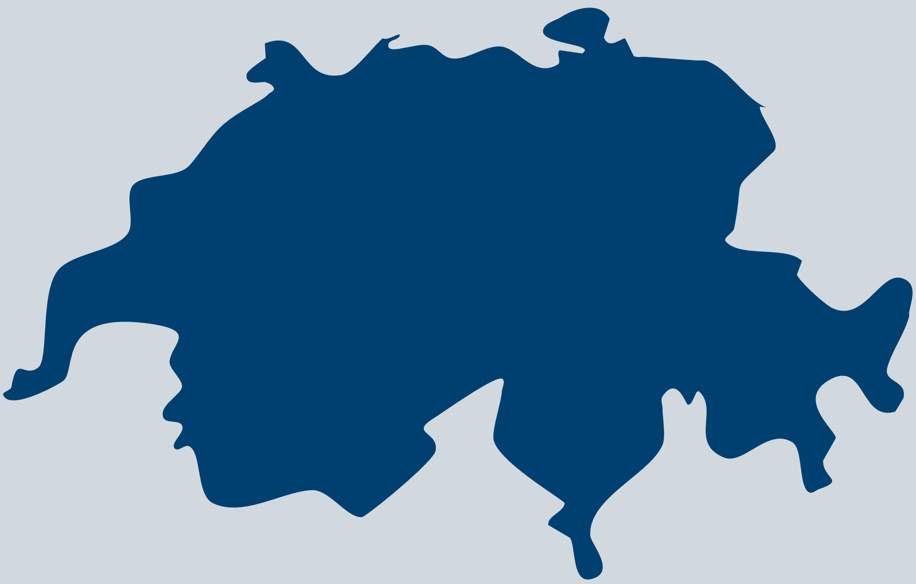
SWITZERLAND



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INTRODUCTION

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Where quality and efficiency scale peaks

One of Europe's wealthiest countries per capita, doggedly outside the EU, the last word in neutrality and democratic government, Switzerland seems immune to risk. But those attracted to live and do business in the shadow of the mountains still need to keep a wary eye on the horizon

The approach to Zurich Airport leaves passengers in little doubt about the beauty of Switzerland.

Descending through the clouds reveals a perfect patchwork of green fields and criss-crossing valleys, hemmed in by forests, woodland and lakes. The vista is completed by the magnificent mountains that surround much of the country and provide it with a protective border.

But Switzerland offers far more than scenic symmetry and stunning natural features.

It also embodies many other qualities that together make it one of the most attractive countries in the world both to live and to conduct business.

Switzerland is one of Europe's wealthiest countries per capita, it has very low unemployment, a thriving industrial centre and competitively low rates of taxation.

Arguably, it is also the world's most democratic nation, with inhabitants regularly offered the opportunity to determine government policy through referendums.

Highest standards

Switzerland is also synonymous with quality, accuracy and efficiency – all of which offer significant advantages to companies based there. However, this also means that reputation is a major risk, since anything that falls below the highest possible standards can damage the prospects of a business.

The country is also renowned for banking secrecy, although Switzerland is being pressured to reveal account data to foreign governments keen to track the assets of individuals considered to be avoiding tax payments in their home countries.

In many ways Switzerland is an anomaly. It is the most European of countries owing to its geographical position at the centre of the continent and having four official languages: German – spoken by about two-thirds of its population; French – the preferred tongue of almost a quarter; Italian; and Romansh, which is a traditional language of the south-east and is used by fewer than 1%.

With a four-party coalition government since 1959, this is one of the most politically stable nations in the world

Although landlocked between Germany, France, Italy, Austria and Liechtenstein, Switzerland remains stubbornly outside the EU. Several have taken place on the issue of membership, and there is political will to progress. However, for the foreseeable future, an application for membership made in 1992 remains on hold owing to continued reticence from the Swiss people.

Despite this, several concession agreements on trade have been signed with the EU. In 2005, the Swiss also voted to sign up to the Schengen Agreement, allowing freedom of movement to EU citizens.

Famously neutral – it avoided invasion in both major world conflicts of the past century – Switzerland's insistence on independence extends beyond Europe's borders. It did not become a full member of the United Nations until 2002, the last major country to do so. Only Vatican City remains a non-member.

To understand why Switzerland has developed in this way requires some consideration of its history. A brief civil war in 1847

caused fewer than 100 deaths, but served to focus the will of its people on the concept of strength through unity. The lasting impact of this can be felt to this day.

Switzerland's constitution, adopted a year later in 1848, is one of the oldest in the world and is structured to bring unity both to the people and the system that governs them. The country is divided into 26 semi-autonomous states (cantons) that run their own affairs. National issues are dealt with by two federal houses of representatives and nothing of significance is passed without deferring to the people by a referendum.

A four-party coalition has run the country since 1959, making it one of the most politically stable nations in the world.

This same stability is also a key feature of the Swiss economy, which punches significantly above its weight. The World Economic Forum's (WEF) *Global Competitiveness Report* has, for the past four years, ranked the Swiss economy as the world's most competitive. Among key factors cited by the WEF were business sophistication, innovation, education and infrastructure.

Switzerland might be a small nation, with a population below eight million people and limited natural resources, but it is a significant global performer ranking among the world's leading export nations. The country has also been ranked as the world's wealthiest on a per-capita basis, where non-financial assets are also taken into consideration.

Switzerland has been affected by the global downturn – particularly in terms of exports and the effect on its banking sector – but it remains in robust shape. It is hardly surprising that it continues to attract global businesses. Yet not everything is perfect and risks, both economic and social, remain. **SR**

INTRODUCTION

Looking at the bigger picture

Switzerland has a strong reputation not only for its financial sector but also for its manufacturing. The financial downturn, however, has meant that firms have to cut prices while trying to maintain quality and has also resulted in increased pressure on the banking sector to be less secretive and help fight tax evasion

Unrivalled political and economic stability makes Switzerland a highly attractive destination for business, which is why so many leading multinationals choose to be based there.

For a significant number, the country offers a natural hedge against the potential volatility their company might face when operating elsewhere. As such it provides security and certainty in a world of turbulence.

While the country is well known for its financial sector – the famous Swiss banks – manufacturing dominates the Swiss economy, with chemicals, pharmaceuticals and electronics among the leading exports.

Switzerland is also the world's largest producer of precision instruments and watches, with many internationally renowned brands located within its borders. That industry is largely based on traditional craftsmanship and skills honed, in many cases, over more than a century.

Swiss watchmaking symbolises what makes the country's products and services so sought-after: quality and reliability. Yet while businesses understand this is where they can profit, risk managers also see a potential downside: "Because they know you are Swiss, people expect additional quality from you," is a common sentiment expressed by risk managers operating in the country.

This has become particularly apparent since the start of the global economic downturn in 2007.

While the Swiss economy has been relatively protected from the worst financial pain – unemployment at a shade

above 3% is far lower than in other European countries – there has been an impact.

The Swiss franc is considered a safe currency haven at times of economic uncertainty and a rise in its value during the financial crisis inflated the price of exports. This prompted many Swiss companies to look at ways to save money to remain competitive. But cutting costs creates issues in terms of the potential to compromise quality, particularly regarding outsourcing, and reputational issues are key for Swiss business.

Financial industry

The general risks facing Swiss-based corporations are broadly similar to those affecting businesses operating in most European and developed countries – supply chain, cyber, environment and internal communication issues. All three rank highly among concerns.

As Switzerland is often only a company's 'home', compliance is also a worry as businesses need to ensure their operations remain legal in multiple national jurisdictions.

While Swiss government policy is largely controlled by the will of the people by allowing them to vote on important issues via referenda, there are worries that regulatory changes at home might also have an impact.

The one area of the Swiss economy affected most by the global downturn is the financial industry. Thousands of jobs have been cut from the sector in the past five years, as chastened banks reduce their reliance on borrowed money and become more selective regarding client business profitability.

The banking sector has also come under pressure from other countries keen to lift the lid on client secrecy, so it is easier for them to track down people they suspect of avoiding tax payments. In May 2013, the EU approved the start of talks aimed at getting Switzerland to disclose bank data.

The Swiss public remains determined to keep bank confidentiality for domestic clients. A recent survey by the Swiss Bankers Association found that the population still considers protection of financial privacy a valuable asset.

The research also revealed that many Swiss consider the competitiveness of their country as a financial centre to be increasingly under threat and want political action to provide protection.

Most of those questioned do not want Switzerland to yield to international pressure, although an increasing number understand that concessions might be required.

The situation is the cause of considerable concern as more than one-third of those surveyed (35%) fear that the competitive position of Switzerland as an international financial centre is set to deteriorate.

What happens next is unclear save for the certainty that it will not be a secret. SR

INNOVATION IN SWITZERLAND

Collaboration's the word

Successful risk management comes from ensuring all parts of a business adopt a common approach and understand its rationale

For Tetra Laval group risk management and insurance director David Howells excellence at work is easily summed up: "It's all about collaboration. Having a good procedure, or methodology, is only the start. Implementation requires the buy-in, co-operation and commitment of the businesses, plus having audit understand and support your approach."

Howells says that success comes from focusing the attention of colleagues on the benefits that good enterprise risk management (ERM) can bring: the improved practices and better decision-making that comes from not simply ticking boxes or marking milestones just for the sake of being able to say 'we've done it'.

But despite this seemingly simple logic, the route to delivering the benefits of ERM within Pully-based Tetra Laval has required the creation of a complex and thoroughly researched plan. "We were asked by the group board to centrally define a methodology for the identification, measurement, documentation and reporting of risks," says Howells. "We then assisted each business unit to understand this common approach and to implement the procedure."

The group board defines the risk appetite in each risk category and sets the reporting requirements. Howells says: "This approach requires the integration of risk management activities into all business processes. The standardisation ensures that management of risks and associated controls is consistent and documented, properly supervised, covers all types of risks and allows the board to maintain strong oversight and gives them the ultimate approval of each industry group's risk management strategy."

Adapting to change

This methodology was reached by adapting the most important elements from the UK Combined Code, the US Sarbanes-Oxley Act, the Committee of Sponsoring Organizations of the Treadway Commission and other governance and legislative frameworks to the culture and structure of the Tetra Laval Group, which is privately owned.

Howells says: "[The plan] was reviewed and overhauled in 2010 to include the latest regulatory and risk management advances and focus more on the added value brought.

> 'We will end up with a procedure that meets the needs of the board and the industry groups'
> David Howells, Tetra Laval

"It is currently being reviewed again and, this time, the focus will be on internal control systems and deriving added value from the procedure and the improved decision making it brings."

Tetra Laval's ERM reflects the firm's complex risk profile: the group is present in more than 190 countries and has more than 30,000 employees working across five business segments: milk production, food preparation, processing, packaging and distribution. More broadly, these segments provide a huge range of goods and services, including packaging, the technology for processing and distributing foodstuffs, including liquids, fruit and vegetables, ice-cream and processed food, along with systems for managing agricultural production and livestock herds.

Howells says: "We face challenges similar to other multinational companies and risks specific to our businesses and areas of activity. At the moment, we are investigating, like most organisations, supply chain risks, political risk and cyber exposures. These risks are regularly reviewed, their impact and probability are monitored and new or emerging risks are tracked. Then, the knowledge and understanding gained from these activities is integrated into the business-planning processes, feeding strategy, financial planning, reporting, operations and so on."

Howells believes that one of the successes of Tetra Laval's approach to ERM is that each individual business, or industry group, has its own risk officer who is responsible for implementation of the group methodology on their particular patch. "By providing them with a common procedure, my team is able to support the work they do and share best practices and the challenges," he says. "The chief executive and

IN NUMBERS

-0.3%
Annual inflation

0.46%
Inflation (three-year annualised)

0.421%
Inflation (five-year annualised)

$633.6bn
GDP

0.8%
Real GDP growth (year-on-year)

$80,500
GDP per capita

$45,286
GDP (PPP per capita, current international $)

-0.028%
GDP per capita growth (annual %)

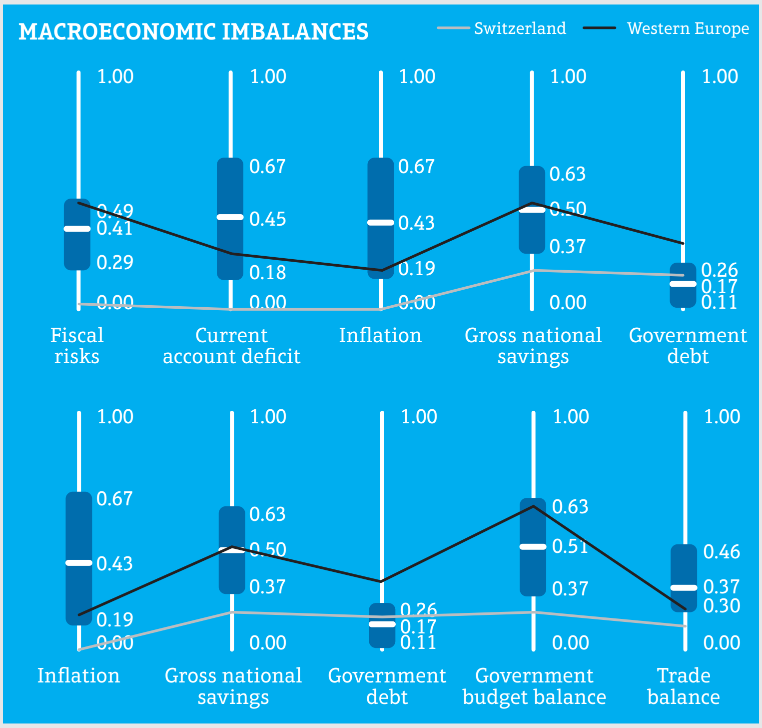
48.9%
General government debt (% GDP)

92.8
Country credit rating, 0-100 (best)

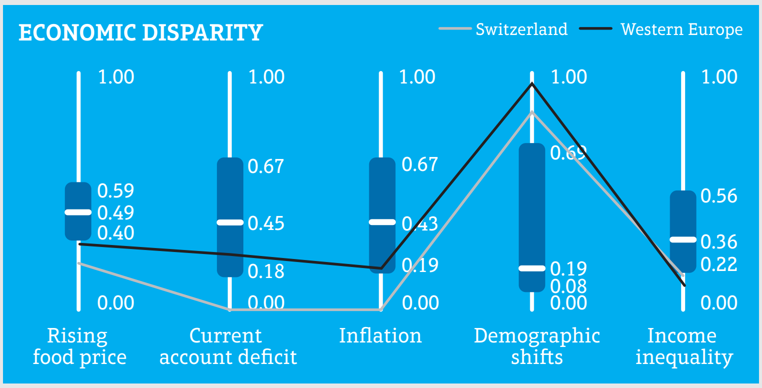
10.5%
Current account balance, three-year average (% GDP)

40.3%
Imports (% GDP)

Source: Zurich Risk Room



Switzerland remains less exposed to the macroeconomic imbalances that have beset the southern European eurozone periphery countries in the past three years. It has a balanced budget, a large current account surplus, low inflation and a government debt level among the lowest for advanced economies. Further, its high national savings rate contributes to the large current account surplus. On the downside, despite a well-diversified trade portfolio, the country's trade linkages with the rest of Europe and its financial haven status leave it vulnerable to developments in the eurozone. Home-grown economic imbalances exist as well.



Switzerland saw continued net immigration in the past decade, which slowed down the inversion of the demographic pyramid, in particular the ratio of the old to people of working age, compared to countries with negative birth rates and/or net emigration. Also, immigration has been skewed towards skilled labour, which filled the gaps in the domestic talent pool. Still, net immigration will not be enough to overcome the challenge of an ageing population, and state pension and other social security liabilities at current levels will necessitate discrete adjustments to be sustainable in the medium to long run.

NOTE: The risk bars indicate the world distribution of the particular risk, from the lowest-scoring country to the highest. The lower the score, the lower the risk or exposure to the particular indicator (a lower score is always positive).

Source: Zurich Risk Room

leadership teams of each industry group have been quick to embrace risk management, and we now have good collaboration between my team and the risk officers, and among the risk officers.

"This has not been quick to achieve, but we can see the benefits of working together on problems rather than reinventing the wheel every time a new challenge arises."

Identifying risks

Howells believes one of the best examples of how well this collaboration works is in the way the group is reviewing its risk management methodology by engaging with individual risk officers throughout the review process. "I am confident that we will end up with a procedure that meets the needs of the board and the industry groups. Because they have been involved in and contributed to the update, they have buy-in and the enthusiasm to implement it within their own organisations."

It all comes back to that word again: collaboration. Howells says: "We work with the business to understand the risks it has identified, to challenge the measurements it has defined and the effectiveness of its controls.

"Once we are comfortable that the current, or 'net' exposure is understood, we determine if the level of residual risk is acceptable. If it is not, we investigate how the current controls can be strengthened and improved to further reduce the probability of an occurrence or its impact. Only after that exercise has been completed do we consider if the remaining risk could, or should, be transferred."

For example, the multi-departmental challenges of mergers and acquisitions mean that everyone needs to be talking – together – about risk. Howells says: "Whether you focus on depth of due diligence, the accuracy of valuations and pricing, the financing structure or extracting value from the integration of successful acquisitions, each step contains risks.

"A sound risk management procedure and risk management approach to acquisitions will identify these at the beginning. Risk managers bring another tool to this process, and we need to demonstrate that it is not a barrier, but a value-adding tool we are bringing." **SR**

INNOVATION IN SWITZERLAND

A 360-degree approach to risk management

Risk management is not only about identifying and preventing threats, but also involves revealing how these dangers hide opportunities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In difficult economic circumstances, risk managers are often faced with justifying the value of what they do to the wider company. Gategroup group risk and insurance manager Daniel Halter seems clear on his answer to this conundrum: knowledge is power.

He says: "It is important that information is shared within a company. What we do is ensure that everyone, whether they work in marketing or finance, knows the big picture. They all see, not only the risks, but the opportunities those risks bring as well.

"The value we provide is not only the opportunity for the company to think about and plan for the threats it faces, but also they way in which those threats might hide opportunities that weren't seen until we began our analysis.

"We provide the tools to work through what the business does and enlarge the picture for everyone; in business, all knowledge is always better than not knowing."

Gategroup is the Zurich-based parent company for 11 brands providing a range of services to the travel industry – particularly air travel – including catering, hospitality, provisions and logistics. It has more than 27,000 employees working across 170 facilities in 35 countries. Revenue for 2011 was CHF2.7bn (€2.2bn).

Innovation in risk management

Two years ago, the firm began to implement an innovative new enterprise-wide risk management plan, at the heart of which was an integrated approach to risk management focused on providing real value across the company.

Halter says: "We have always done the bottom-up approach. This has been mainly about compliance. What we are doing now is bring that together with the top-down approach to more strategic risks."

Halter and Gategroup worked with risk consultants Aon to identify the top risks to the firm. "These are not so different to many other international firms, although there are some sector-specific risks," he says. "For example, we

> **'We are enlarging and developing the awareness of the business, from top to bottom'**
> Daniel Halter, Gategroup

are a business-to-business operator, and although there are some 270 airlines worldwide, only about 20 are responsible for 90% of our sales. If something happens to one, that could be a problem for us. Perhaps, they don't pay their bills or they change some system. We try to mitigate this by working closely with them, but they are all exposed to wider crises: credit problems, economic slowdown. We have to prepare. Plus there are the 'traditional' risks, such as food safety, which is extremely important, along with fire risk. The latter means looking beyond our immediate facilities to understand the impact."

Operating globally in 35 countries, with different demands, regulations, laws and expectations further complicates the picture.

Airports are heavily regulated environments subject to intense policing and site control – when things go wrong, they can go wrong fast and the footprint of the impact can be large.

"At Heathrow, a building burned down and the authorities closed the entire sector down," says Halter. "We were not able to operate for two days."

Disruption like this had the potential to have a huge impact on Gategroup's customers – some may not even have been able to fly without access to its services. Instead, though, the company not only kept running, but it demonstrated to its customers Gategroup's competence and ability to manage a crisis, as well as the value of risk management. "We handled it," says Halter. "Luckily, we had a good back-up plan. But the lesson for everyone is that a back-up plan is not enough, in a way you always need a new back-up plan. It has to be a dynamic document that adapts to change and stays relevant throughout it all."

Taking risk seriously

Successes such as this tend to act as catalysts for renewed vigour and adverts for the importance of everyone in an organisation taking risk seriously. Halter believes that widespread faith in risk management has helped the successful implementation of the Gategroup strategy.

Halter says: "We have been good at finding out risks across the business and challenging the way that they are being approached. Sometimes, existing mitigation has been

good, sometimes not so good. But this has been the value of taking a new look at all our operations.

"Now both the finding out of risks and their treatment have been combined into one operation. We now have a cross-function steering committee in place looking at risk, with different experts from human resources, finance, all aspects of the business, with everyone bringing their expertise to the issue. It's more of the 360-degree approach and everyone values that level of scrutiny.

"We are not only enlarging and developing the awareness of risk, we are enlarging and developing the awareness of the business, from top to bottom."

And that is something everyone can value. SR

BROKER VIEW

Market split

Peter S Philipp, managing director, Willis Global Solutions (International)

For perhaps five or six years now the insurance market in Switzerland has been soft. For the past two or three years, we have expected to see the kind of hardening that has taken place abroad in countries such as the UK, but so far this hasn't happened.

Although I wouldn't say premiums are cheap, we have been getting reasonable prices for large corporate clients so far in 2013.

We are seeing more and more providers move to Switzerland from abroad. Bermudan providers in particular seem to have decided that Switzerland is a good place in which to invest. They bring more capacity. This has the effect of further driving down premiums.

Broadly speaking, looking at employee benefits and pensions cover, the market is about 90% local providers, whereas with marine, property and casualty cover, the market is more like 50% local, 50% international.

When it comes to innovation, there is a split between the smaller medium sized businesses and the large multinationals with a turnover above $1bn.

Growing interest in captives

With the smaller clients, they are not asking for innovation, they just want the job done and their insurance needs covered. Having said that, they are willing to buy products.

With the larger companies, they are definitely getting more demanding and asking for more consultancy from their brokers and insurance.

The result of this is that the market is getting spread between the brokers who can deliver what the multinationals want, and those who cannot. Those who cannot are getting squeezed out.

One interesting change is that we are seeing an increasing interest in captives. More and more our large, multinational clients are asking for information about captives cover.

Cyber is another growth area, and there is a lot of consultancy on this. Patent infringement cover is also something of real interest to the boards of large companies. SR

INNOVATION IN SWITZERLAND

Running like clockwork

Swiss firms aim for nothing less than perfection and this quest for excellence has also influenced the way in which risk managers approach their job

Reputational risk management at Swiss firms is not like in other countries. European and US risk managers are often concerned about acquiring the tools to stop mistakes affecting their brand's public perception. In Switzerland, however, the 'risk' that is mentioned time and again is of not being the absolute best: anything less than perfect is considered reputational damage.

"What marks us out is our Swissness", says Olivier Balmat, head of group risk management and responsible for enterprise risk management (ERM) at Syngenta, a specialised chemicals company that markets seeds and pesticides and undertakes biotechnology and genomic research.

"The quality of our products and services, our stability across the economy, finance and politics: these things are predictable and easy to plan against. We provide a good home base. In fact, this is our unique sales position."

In their DNA

Swiss firms know that their customers expect them to be the best in the world and this approach to doing business runs through firms' DNA. Risk management is no exception. The way to do this is to take a total approach to the task in hand.

"[At Syngenta], we take a holistic, group-wide approach to risk management," says Balmat. "We introduced company-wide ERM in about 2006. Since we are at heart a chemicals company, we have always had risk assessments looking at, for example, health and safety, environmental risk, security – but not all together. That's what we set out to change. Now, we take not only the individual view of what the major risks are, but we also consider risks in relation to other risks and put all this together into a single picture. One thing that distinguishes our approach to risk management is that we try to be sustainable in the long term."

Balmat says the risk team at Syngenta works to ensure that people accept risk management as a core management task and, again, excellence trumps other considerations. "In some ways, our priority was not speed, or developing particularly sophisticated methods of assessment, it was making the shift from risk management to managing risk," he says. "We have achieved a good integration. There is no more discussion of the value of 'risk management'. There is no question and, in that way, we don't need all the fancy stuff.

> **'We have to study, research, plan, and not rush, which happens too often'**
> Olivier Balmat, Syngenta

"Among companies of our size, we have achieved something special, in that we have fully integrated top-down and bottom-up reporting processes for all management teams, and this runs all the way down the organisation and back up again.

"As far as I can see, there aren't many white spots on the map. I'm not aware of other large companies that are this integrated and I'm proud of what we've achieved."

Balmat is quick to add that over-confidence is also a risk – even in Switzerland – and real issues have to be managed and planned for, especially in terms of his firm's most high-profile products: genetically modified crops and pesticides.

Balmat says: "The big risks for us are regulatory and the legal, ethical and environmental challenges presented not only by genetically modified organisms (GMOs), but all our other products and services. These can be a challenge, particularly in Europe. Outside Europe, these things are less of an issue."

But despite the risk posed, Balmat is confident. "If I were to offer advice to anyone, I would say: invest in us," he says. "We are in a good position. We are helping the world feed itself and this is only going to become more of an issue over time."

Syngenta's global sales in 2010 were $11.6bn (€8.9bn), and the company employs more than 26,000 people in 90 countries.

"It is estimated that the world's population will reach nine billion by 2050, and those people need to eat," says Balmat. "Moreover, they increasingly want to eat different things. There is a growing middle class in emerging markets and these groups seem to increasingly want to eat more meat. This means that a lot more food is needed. It takes about 800 calories of grain to produce 100 calories of beef.

"These two factors are major drivers for our business; they will drive economies around the world. Increasingly, people will be looking to GMOs to solve their problems."

Balmat believes this position places Syngenta in an excellent position. "We are in all the emerging markets, but European growth is still there for us despite the economic crisis," he says. Also, despite the controversy around GMOs in some countries, time will work in Syngenta's favour. Balmat says: "We have been unable to find any adverse effects from GMOs – and the first commercial crops were planted in 1996. However, it is not our business to change the law; we are hear to help businesses use our products to help society."

Integrated solution

Beyond these issues, Syngenta faces similar risks to most large, multinational chemical firms. "Things are getting tougher. We can't be complacent," says Balmat. "We have to study, research, plan, and not rush, which happens too often. We have avoided major accidents, or explosions, but challenges remain, although they are not unique: credit risk, currency risk, the things with which everyone must deal."

For others negotiating the same path implementing risk management in a large multinational, and keen on establishing their own piece of Swiss excellence, Balmat has one piece of essential advice: "Ensure that management stands behind you," he says. "You need the top general managers in the country or territory to be saying 'yes, this is important and we need to be dedicating time to it.'

"It's important that they are asking questions and making risk management a living part of the business and a permanent part of the management agenda."

Once that is in place, everything will soon be running like Swiss clockwork. SR

IN BRIEF


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A growing death market

Of all the huge organisations based in Switzerland – Glencore, Nestlé and Novartis to name but three – there is one whose reputation far exceeds its size: Dignitas.

As the debate on assisted suicide rages across the world, Switzerland has been quietly pioneering a new approach to death. Key to this is Swiss law. Since 1942, assisted suicide has been legal and, critically, the law does not require a physician to be involved, nor does it require the recipient to be a Swiss national. Together, these two facts give the country an unique selling point.

Switzerland's position as a progressive country when it comes to suicide is attracting an increasing number of foreigners. While the market within Switzerland has experienced little 'growth', with about 300 annual total assisted deaths among natives, or 0.5% of all deaths, as of 2008, 100 UK citizens had already travelled to Zurich to die at one of several Dignitas apartments scattered across the city, and a further 725 had joined up as members believing that they would eventually take a one-way journey to Switzerland.

Several high-profile cases have boosted awareness of the organisation and diminished British citizens' fear of prosecution if they assist a relative in making the trip.

In 2008, the Crown Prosecution Service decided that it was not in the public interest to press charges against the parents of 23-year old injured rugby player Daniel James after they helped him die at Dignitas.

In 2011, a BBC TV documentary, *Choosing to Die*, presented by best-selling author Terry Pratchett, followed Peter Smedley, a 71-year-old motor neurone disease sufferer, as he committed suicide at the Swiss facility.

Moreover, the Swiss support the growth of Dignitas. In May 2011, a referendum was held over whether assisted suicide should be banned, with a separate question asking whether foreigners should be prevented from accessing assisted suicide services. A massive 84% opposed a ban on assisted suicide, and 78% opposed a ban on foreigners.

For once, growth represents only tragedy – however merciful.

INNOVATION IN SWITZERLAND

A tricky balancing act

Although Switzerland has a strong economy and currency and is outside the EU, it still faces risks associated with doing business with the eurozone countries and the general economic downturn

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Switzerland occupies an interesting position where risk managers need to learn the art of effectively handling their companies' power and those who don't know their own strength face real problems.

The country is at the heart of Europe but outside the EU and the eurozone. It is strong – the economy grew in the fourth quarter of 2012 with gross domestic product increasing by 0.2%, following a 0.6% rise in Q3, helped by a 1.1% hike in consumer spending that is almost unique in Europe. And yet a strong currency brings with it many problems, particularly with an economy focused on exports.

All of this means the country has an interesting risk profile and an environment where success means balancing these strengths and weaknesses with precision.

Know your risks

Travel industry services provider Gategroup group risk and insurance manager Daniel Halter says: "Switzerland is a successful country and many international companies are here, both ones that have been established here for some time and some that moved here more recently for tax reasons."

These two groups have different exposures and demand different approaches to risk.

"Risk managers should look at where most of the workers are in their company, as this can have a big effect on their risk profile," says Halter. "Generally speaking, mainly smaller and medium companies have a large Swiss footprint and some multinationals locate only their headquarters here, although plenty employ a lot of local people.

"People are expensive and, depending where you are earning your money, a large workforce can be a real risk. The strong [Swiss] currency is not so good if most of your costs are in-country, such as salaries. Especially if you are reliant on exporting," says Halter.

But the message is not as simple as outsourcing. The Swiss workforce is well educated, and while wages are relatively high by European standards, other business costs, such as taxes, ancillary labour costs and social security premiums are moderate. Further, the Swiss are dedicated, work hard and rarely strike – Switzerland tops the overall rankings in the *World Economic Forum Global Competitiveness Report 2011-12*.

"There are benefits to having a Swiss workforce," says Halter. "Our labour laws are flexible and we don't have the same strong unions and compensation demands as in other countries. If you need to change something or adapt your workforce, you can move quickly, within two or three months."

The political climate is also conducive to risk management. "Generally, we are a pretty stable country," says Halter. "Even political change will not usually mean 'change' in the same way as in other European countries. On the one hand, this is good, as you can plan effectively. On the other hand, things can be slow. But even this has a benefit to risk managers. For example, if I know that a law is going to change, say, something to do with environmental change, I know it will take time, and so I can prepare and work systematically to ensure compliance."

It is hard, however, to escape the fact that a strong currency on a struggling continent does not make exporting easy and it is hard to be competitive when price is more important than the Swiss reputation for excellence and top quality.

"Most Swiss companies export to the EU and eurozone, and so a strong currency is not so good," says Halter. "But we adapt. This is a learning process for Swiss firms and they are adjusting and looking outwards to countries beyond Europe, to India, China and the US. Diversification in exports is generally a good thing and will be a good thing for us in the future.

"But in the end, most Swiss companies are international and outward-looking and we are not an island. We still face the risks associated with doing business in the eurozone and the general economic slowdown. We need to speed up plans, be flexible and stay focused."

In this kind of environment, risk managers come into their own. **SR**

CEO VIEW

Above and beyond

Manuel Meier, chief executive, Zurich Global Corporate Switzerland

Our customers face several risks. Cyber risk is becoming an increasing issue in Switzerland, while supply chain problems dominate for customers with an international agenda in the form of concern over natural catastrophes, crop growth and contingency planning.

More broadly, we as insurers face a challenge in continuing to make insurance relevant to our largest customers. Some businesses turn over several billion Swiss francs, so offering them capacity measured in millions is not enough. We need to become smarter in terms of additional services such as sharing risk insight, claims servicing, risk engineering services and so on.

By adopting a different approach to the concept of risk and insurance, taking a holistic view and going beyond capacity, we can offer customers added value that has relevance. Zurich is well positioned to capitalise on these opportunities with our global footprint and our capabilities.

Switzerland's unique political situation creates both opportunities and challenges for business. Its stable environment is attractive to companies and people who seek jobs from the whole of Europe. It is crucial that Switzerland continues to proactively drive the political agenda with its neighbours, important trading partners and the EU. Our strong economy should give us confidence to deal with our peers the right way.

Emerging markets also create opportunities for business and for ourselves, as few have the size or operational capacity in so many countries to be able to handle the challenges. Zurich has unrivalled global reach and, with more Swiss companies dealing with international challenges, this is an area where we have an opportunity to work closely with businesses. Swiss companies traditionally seek a partner to develop a stable relationship with, which can then be used as a platform from which to develop growth.

We have two advantages here. Zurich is renowned for thought leadership and we are often the first to move into many countries. This puts Zurich in a unique position to offer business knowledge and insights to our customers in addition to insurance cover.

INNOVATION IN SWITZERLAND


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Austerity in the safe haven of Europe

Executive remuneration has come under intense public scrutiny here, as it has across the rest of Europe, but what impact will the recent pay-and-perks clampdown have on this long-established safe haven?

From the outside, Switzerland seems to be a country at home with wealth. Ask anyone to play a word association game with "Swiss" and you'll most likely hear "bank" in response. The country has long offered a safe haven for the world's rich and, thanks to its high standard of living, low unemployment and modern infrastructure, there has been little of the populist political protests that have left the rich feeling uneasy across the rest of Europe.

So it was all the more surprising in March when 68% of Swiss voters rattled business leaders by voting in favour of the so-called people's initiative against fat-cat pay.

In practice, this means that Swiss-listed companies now have to offer shareholders a binding vote on senior managers' pay and appointments every year at annual general meetings. And it comes with sharp teeth: failure to comply could mean up to three years in jail or a penalty of up to six years' salary.

Unsurprisingly, business leaders claimed that the new law would threaten Switzerland's status as a premier league investment destination, and mounted a counter-attack. They offered a compromise agreement that would grant shareholders more voting powers without the back-up of criminal charges.

But voters threw that back at them, leaving Swiss business federation Economiesuisse bloodied and muttering warnings that complex changes must be implemented carefully.

Popular pressure

The strength of popular feeling against super-rich bosses may comes as a surprise to outsiders, but Switzerland, like much of the rest of the Western world, has been rocked by popular anger at top executive pay.

In February, the news that drug firm Novartis planned to give its departing chairman, Daniel Vasella, a CHF72m (€58m) pay-off sparked widespread anger. Vasella later refused the deal.

The vote has been a triumph of democracy, but whether or not it poses a risk to the economy remains to be seen. Along with overall pay, the new law bans several incentives, including severance packages for board members and side contracts. How attached the international business community was to these perks is not yet clear.

Despite calls by the country's socialists that the government should go further and cap top executives' pay at 12 times the rate given to the lowest paid, for now popular anger has been quelled. However, cynics say that it will be years before workable laws are in place and the money taps will not be turned off overnight – testing the public's patience again.

In the meantime it's worth reflecting on how much effort has gone into attracting foreign investment to the country. In 2002, Switzerland was ranked 15th in the World Economic Forum's Global Competitive Index. In 2009, it topped the list and has stayed thereabouts ever since, leading to a long line of multinationals setting up global or regional headquarters in the country.

Local and international communities alike will be waiting to see whether the new laws will halt this flow of wealth. SR

IN BRIEF

Immigration issues

Being one of the few countries with any money these days is bound to make you popular. But in Switzerland's case, it has turned immigration into a big issue for the country.

As unemployment in Europe soars, particularly among the young and mobile, Switzerland has become the destination for a rising number of migrants – and many Swiss people don't like that.

Even before the current economic crisis, the issue was rising up the agenda. The anti-immigration Swiss People's Party was already the largest group in the Federal Assembly in 2003 – and has retained a substantial share of the vote. The 2011 parliamentary elections were the first in 20 years when they didn't increase their share.

In 2009, the population voted for a ban on building minarets in the face of a growing Islamic population. Then in April this year, despite EU opposition, the country announced tough immigration quotas.

Switzerland already restricts newcomers from the eight eastern European countries that joined the EU in 2004, but as well as extending those limits, other nationalities will be targeted.

According to government sources, nearly a fifth of those now living in Switzerland have arrived from the EU. A statement from the Swiss federal council said: "Switzerland is an attractive destination for migrants, and over recent years the number of people coming to live and work in the country rose annually by between 60,000 and 80,000, compared with the number of people leaving the country.

"This constant growth has both positive and negative effects – for example, on the economy and the labour market, on the social insurance system, spatial planning, the housing market and infrastructure."

Doors open to China

Swiss government agrees free trade deal with eastern behemoth, which was made possible by its non-EU status

With many European economies continuing to be affected by the impact of the financial crisis, Switzerland is seeking new partners with which to do business.

In May, the Swiss government confirmed that it had agreed the framework for a free-trade agreement with China. Full details of the arrangement are expected to be announced over the next few months but, ostensibly, it will herald a reduction in tariffs covering manufacturing and industrial sectors such as chemicals, pharmaceuticals, watch-making and agriculture.

The deal is only the second of its kind to be struck between China and a European country – Iceland led the way with a similar arrangement in April this year.

That Switzerland has been able to strike such an agreement is down to its non-EU status. The EU refuses to recognise China as a market economy – despite the country's insistence it is one. The failure to meet this precondition precludes EU countries from structuring free-trade arrangements with China.

One to watch

China's voracious appetite for luxury items is set to benefit many Swiss companies – including the country's world-renowned watch makers – as even though the Chinese economy is starting to slow, there remains plenty of strong demand for quality Western products.

Watches imported from Switzerland are subject to high levels of taxation in China. These are set to be lowered once the agreement comes into force and so it is likely that the country, which is already the third largest export market for Swiss watches, will increase its appetite significantly.

Similarly, China's continuing industrial growth will generate strong demand for Swiss chemicals and also agricultural products.

While there are clear benefits to increased trade with China, there are also concerns that risk managers must take into account when advising on strategic decisions.

First is China's human rights record, which critics have cited as a key reason for continuing with trade restrictions, and reputational damage could arise from this.

The counterpoint to this argument is the potential for reform offered by China's new ruling administration – although again sceptics suggest countries and companies should bide their time.

Spread betting

Whatever the outcome of the China agreement, it is likely that Swiss businesses will seek out other trade partners around the world to help safeguard their export-led economy.

Emerging markets elsewhere in Asia and beyond offer huge opportunities for companies with an appetite for business, provided they go into arrangements with their eyes open and can understand the risks from the outset.

Many Europe-based firms have realised that their continent offers limited potential for the future, even without the current economic crisis.

Businesses based in Switzerland have the opportunity to seek out new markets without the restrictions imposed by the EU. As such there is plenty of potential for Swiss companies to find further growth areas – enough to keep the country's risk managers busy for some time to come. SR

INNOVATION IN SWITZERLAND

SWITZERLAND ECONOMIC STATISTICS

All indicators based on % change on one year ago

GDP

Current (Q4)

+1.4%

(euro area average -0.9% Q4)

Change on previous quarter

+1.0%

(euro area average -2.3%)

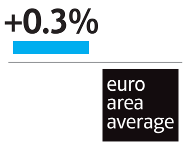
2013

+1.2%

(euro area average -0.5%)

BUDGET BALANCE (EST)

% of GDP 2013



CONSUMER PRICES

-0.6%

(Apr)

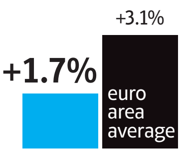
(euro area average +1.2%, Apr)

2013

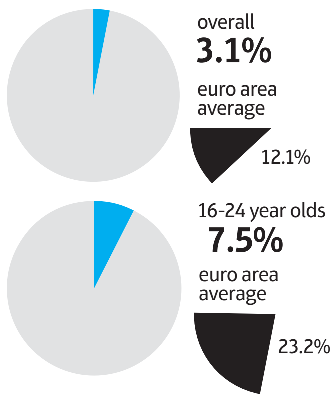
+0.1%

(euro area average +1.6%)

INDUSTRIAL PRODUCTION



UNEMPLOYMENT RATE



CURRENT ACCOUNT BALANCE

Latest 12 months, $bn

+85.8%

(Dec)

(euro area average +173.2, Feb)

% of GDP 2013

+10.8%

(euro area average +1.6%)

INTEREST RATES

10-year government bonds, latest

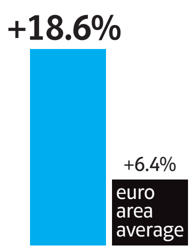
0.63%

(euro area average 1.27%)

STOCK MARKET

Switzerland 11 May 2013

(% change in euros since 31 Dec 2012)



Source: *The Economist*, Eurostat and OECD

SECTOR VIEW

High stakes

Lorenzo Arias, head of international technology and financial services, Zurich Global Corporate Switzerland

Compliance and regulatory risk is a major issue for companies based in Switzerland. As the country remains outside the EU, there are increasing concerns for businesses over sanctions and taxes. This is not only a problem for Swiss corporations dealing with countries inside the EU, but also for their global operations as other nations raise regulatory barriers.

The increasing number of natural catastrophes presents another significant concern. Events are becoming more unpredictable because they happen so fast and it is not always possible to work out where they will occur. As such, they are often unavoidable and their impact can be enormous in terms of physical and financial losses.

Another area of concern for companies in Switzerland is multiple tactical operational changes. There has been a lot of these since the start of the financial crisis. For example, a reduction in suppliers often means there are fewer stock warehouses and this leads to a concentration of risks. Also, firms are increasingly turning to low-cost countries for supplies – this often results in lower quality and higher credit risks.

Reputation is another serious risk for businesses in Switzerland, where quality is considered to be extremely important. These days it is easy for companies' reputations to be damaged because of the speed of communication when there are problems. Cyber risk continues to be a concern, although it is difficult to tell the level of risk this represents at the moment.

Broadly, as companies try to streamline their processes they need to have alternative options for supply chains and other emergency alternatives in place, and a greater awareness of the risks they face in general. And, with those risks they must decide if they want to take them on or not – to create what is effectively a no surprise culture.

A company will be prepared to take some risks and not others, and this is where firms need to see if someone else – insurers – can deal with those risks on their behalf.