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Peter Gisler (CEO) and Thomas Daum (Chairman of the Board)

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SERV closes the 2018 financial year with net income only modestly in positive territory, despite record premium income. How do you explain this result?

[Thomas Daum] The 2018 results highlight the extent to which SERV’s annual company earnings are subject to periodic contingencies. We achieved very high premium income thanks to a number of large transactions that do not occur every year. By way of contrast, there was also an extraordinary accumulation of losses in our expenses. SERV’s financial development can only be realistically assessed over the long term.

[Peter Gisler] The economic viability calculation is also based on a long-term perspective and was also positive in 2018, despite the high loss expenses. Total loss expenses amounted to CHF 104.5 million, the second highest figure since 2011. The reasons for this high amount were written-off losses that we had previously recorded in the books, value adjustments to loss expenses and provisions for imminent

and reported losses. These provisions primarily related to business in the United Arab Emirates and Turkey.

The Federal Council increased the framework of obligation to CHF 16 billion in December 2018. It had previously been increased by CHF 2 billion to CHF 14 billion in 2016. Why was another increase needed?

[D] The Federal Council defines the maximum scope of SERV’s insurance obligations and therefore the Confederation’s maximum residual risk resulting from our insurance activities. At the end of September, 85 per cent of the previous CHF 14 billion had been exhausted, and our major clients announced possible transactions of over CHF 2.5 billion for 2019. To ensure that we remained available for exporters, we applied for an increase to CHF 16 billion. We were very pleased that this was approved very promptly by the Federal Council. Our capital resources also make the increase easy to justify.

[G] In the energy, rail and engineering sectors in particular, we are seeing an increase in transactions with a contract value in excess of CHF 300 million. In 2018, a project for the construction of a gas-fired combined-cycle power plant in Brazil stood out in this regard. We are talking here about a cover amount of CHF 1 billion at the time the policy was issued. The increase in the framework of obligation means that we continue to have the capacity to support even transactions of this magnitude.

If SERV insures an increasing number of large transactions, will it still have sufficient scope for the needs of SMEs?

[D] Supporting SMEs remains an important objective for SERV. This is reflected in the fact that, in terms of numbers, insurance policies for SMEs account for almost 70 per cent of SERV's business. The corresponding exposure, however, accounts for less than 25 per cent of our total exposure. The unbalanced structure of the portfolio and the high volatility of the large transactions make managing the insurance business very demanding. The increased framework of obligation therefore also means that SERV is better able to respond to the requirements of SMEs.

[G] Our commitment to our SME promotion mandate is reflected in our working capital insurance and counter guarantee products, for example. Both are important instruments to relieve liquidity bottlenecks and are used in particular by SMEs. These products are often what makes it possible for SMEs to export in the first place. The demand for them has grown continuously over the years and they are now an integral part of SERV's product range.

Export transaction structures are constantly changing, both with regard to value creation and financing. Can SERV keep pace with this structural change? Does it have sufficient freedom of action and is it often issued with directives from the Confederation?

[G] One trend that has been around for quite some time is that Swiss exporters are producing components or plant equipment more cheaply abroad or purchasing them from foreign suppliers in order to maintain their competitiveness. Experience shows that a purposefully adapted procurement structure allows exporters to secure highly qualified and value-creating jobs relating to the manufacture of key components in research and development, project management and engineering in Switzerland. SERV takes all these factors into account when it comes to assessing whether a transaction is eligible for insurance. We make flexible use of the scope provided by the legislator in the interests of the Swiss export industry.

[D] SERV's framework of action is defined by the SERV Act and Ordinance as well as by the four-year targets set by the Federal Council. Key factors are the funding mandate, the financial requirements of the framework of obligation and economic viability, as well as compliance with foreign policy principles. The Federal Council can only issue instructions to SERV in the event of "transactions of particular significance", which has only occurred once to date. This means that we have a considerable degree of autonomy.

You mentioned compliance with the Confederation's foreign policy principles. What does that mean and how does SERV meet its obligation in this regard?

[D] SERV must assess insurance applications to ensure that they comply with the requirements regarding environmental protection, human and social rights and combating corruption. In doing so, it pays particular attention to the requirements of the OECD and the standards of the World Bank and other international institutions or treaties that Switzerland is bound by. The Board of Directors attaches great importance to these aspects.

[G] Assessing transactions forms an integral part of the application process for each transaction. The increasing complexity of the projects is also reflected in the issue of sustainability, which is why we have also increased the number of staff in this area. SERV works with exporters, banks, buyers and often also with other government export credit agencies in order to obtain as complete a picture as possible of all the sustainability risks. Where necessary, it lays down conditions to ensure the implementation of international sustainability standards. These are monitored by specialist consultants. In the interests of transparency, SERV publishes all the major transactions it supports on its website. Where the transactions are of a particularly sensitive nature, we also examine detailed reports before coming to a decision. SERV has maintained a dialogue with interested non-governmental organisations for many years in order to continuously improve its processes and to exchange general information about its business activities.

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Viviane Gnuan (Communications Manager) spoke to Thomas Daum and Peter Gisler.