

Euler Hermes Switzerland

Credit Risk in U.K.

Paradiso, 11/05/2017

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Sales Manager - Ticino

Customers

We have over 52,000 clients worldwide

- ✓ 6,000+ employees
- ✓ €789 billion business transactions protected around the globe
- ✓ 1,700 claims indemnified per week
- ✓ 20,000 credit limit requests received per day

Expertise

We monitor over 40 million companies internationally

- ✓ 1,500 risk experts in more than 50 countries
- ✓ We are the world market leader in trade credit insurance
- ✓ 245 countries rated
- ✓ 85% of credit limit requests processed within 48 hours
- ✓ 34% market share globally
- ✓ 380,000 debt collections handled in 130 countries

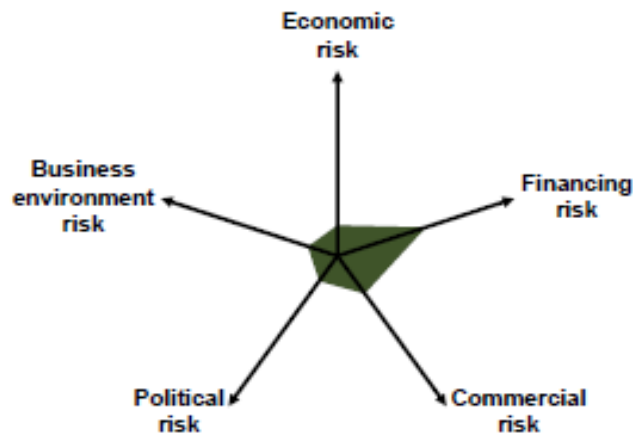
Solidity

We are rated AA– by Standard & Poor's and Dagong Europe

- ✓ 2016 consolidated turnover: €2,3 billion
- ✓ 2016 net income: €373,3 million
- ✓ A company of Allianz

Country Rating

AA1



Source: Euler Hermes

Strengths

- Supportive economic and fiscal policies
- Accommodative financial conditions
- Healthy banking sector
- Diversified export structure
- Fiscal consolidation under way

Trade Structure

By destination/origin (% of total, 2014)

Exports	Rank			Imports
United States	11%	1	17%	Germany
Germany	10%	2	8%	China
Netherlands	7%	3	8%	Netherlands
Switzerland	7%	4	7%	United States
France	6%	5	7%	Belgium

By product (% of total, 2014)

Exports	Rank			Imports
Cars And Cycles	9%	1	8%	Cars And Cycles
Non-Monetary Gold	8%	2	5%	Crude Oil
Pharmaceuticals	7%	3	5%	Pharmaceuticals
Aeronautics	6%	4	5%	Refined Petroleum Products
Crude Oil	5%	5	4%	Computer Equipment

Source: Chelem

Weaknesses

- High trade balance deficit
- High current account balance deficit
- Uncertainty surrounding Brexit
- Decreasing long term per capita income
- Low productivity growth

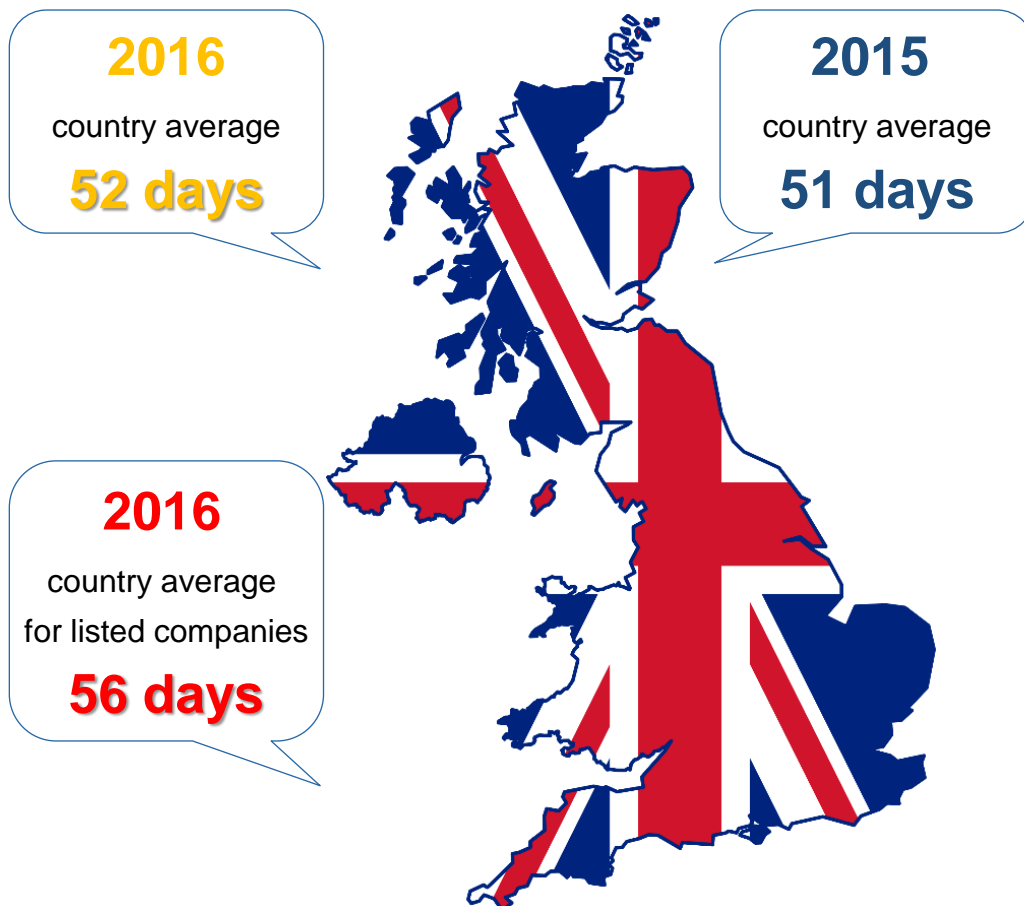
Trade credit risk in UK (2)

- ✓ **Brexit aftermath: volatility for the long run.** The citizens of the UK voted to leave the EU on June 23, 2016. In the morning of June 24 the pound was down -10% against the USD (-8% against the EUR). Downside pressures could remain high in the near future - and so will volatility.
- ✓ **Prolonged uncertainty will weigh on investment and private consumption will suffer from the sterling depreciation.** The withdrawal process includes a 2-year negotiation period, beginning at the date of the official notification. If experience is anything to go by, the time frame is ambitious. For example, when Switzerland rejected EEA membership in 1992, negotiations on bilateral arrangements with the EU have dragged on for five years. It took another three for these to come into force. The complete trade agreement was finalized in 2010. Uncertainty, coupled with the loss of purchasing power, will impact companies' profitability as the UK has a very high goods trade balance deficit, more than 60% of which is with the Eurozone.
- ✓ **Free Trade Agreement (FTA) or no FTA post EU exit?** Negotiations with the EU are likely to be long. In practice, the UK would need to renegotiate not only a FTA with its European counterpart. It might be forced to set terms for trade with up to 52 countries which have agreements with the EU in place. From then onwards two scenarios can unfold: a) with FTA = Soft Leave, b) without FTA = Hard Leave
- ✓ **Insolvencies back on the rise.** In 2016, business insolvencies are expected to increase by +1%, for the first time since 2012. The upward trend is forecast to accelerate in 2017 with insolvencies up by +4%.



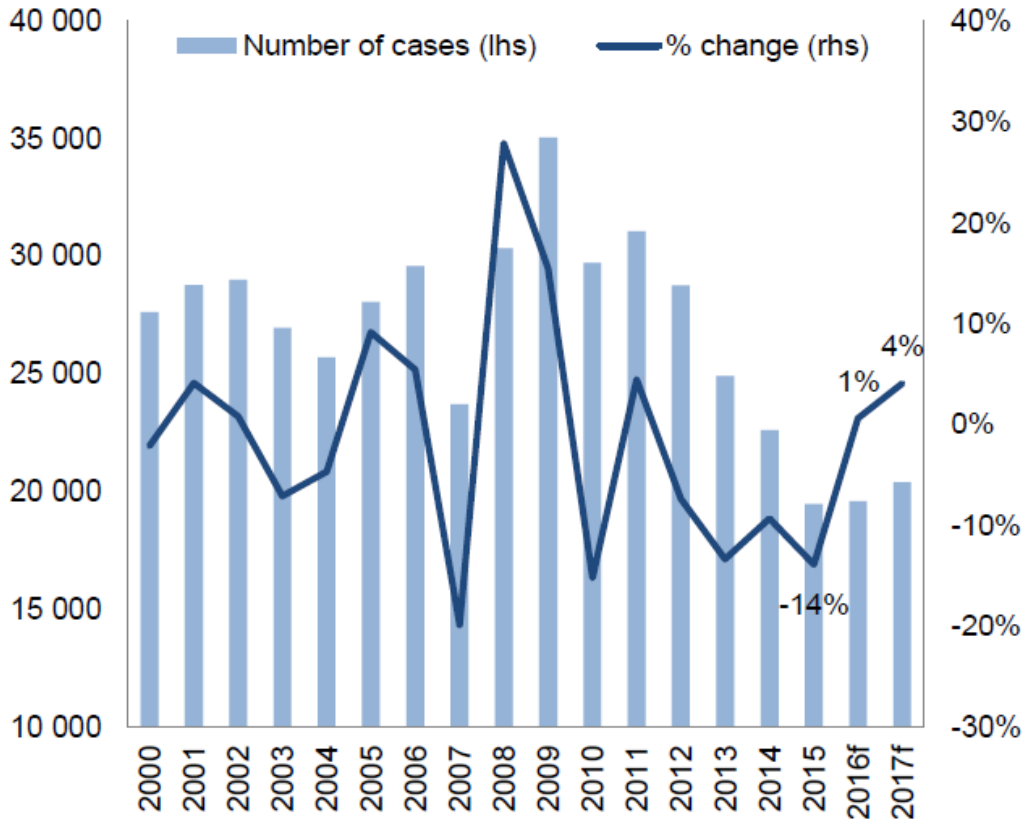
Payment behavior in UK

How long it takes to get paid in UK?



Sector	D.S.O. days sales outstanding
Chemicals	75
Construction	43
Electronics	77
Household goods	36
Oil & Gas	44
Business Services	58
Pharmaceuticals	71
Retail	16
Technology	83
Telecom	44
Transportation	35
Paper	54
Automotive	42
Machinery Equipment	67

Number of insolvencies by sectors over the last years

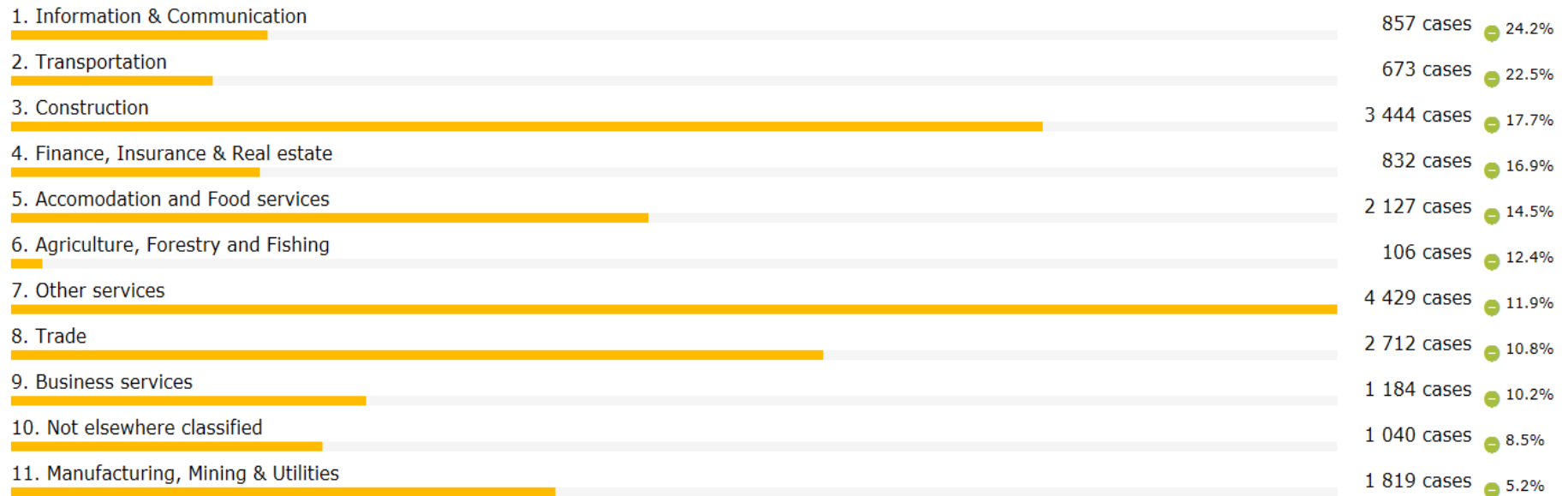


Sources: ONS, Euler Hermes

In **2016**, **business insolvencies** are expected to increase by **+1%**, for the first time since 2012.

The upward trend is forecast to accelerate in **2017** with insolvencies up by **+4%**. This U-turn is due to two main factors. First, the Brexit effect will weigh on companies payment behavior as the sterling is depreciating and the domestic activity is slowing down. Second, there are +9% more enterprises in the country in 2015 compared to 2013. Despite this increase, insolvencies will remain at acceptable levels with 20,400 cases expected in 2017, i.e. -24% less than the 2003-2007 average.

Number of insolvencies by sectors over the last 12 months

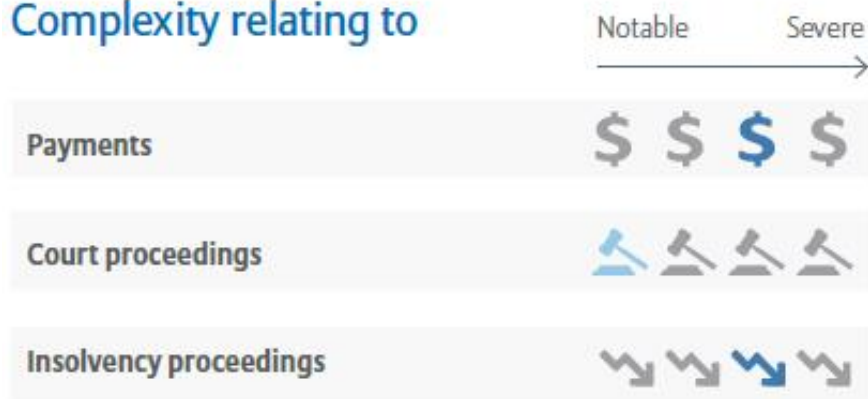


Getting paid in UK (1)

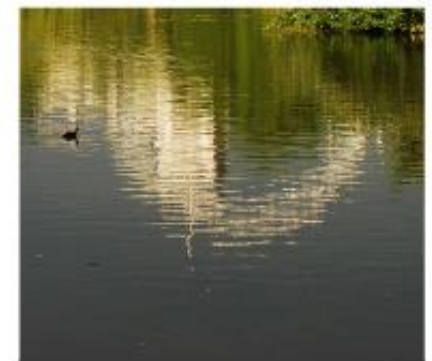
Collection complexity



Complexity relating to



**World Bank
Doing Business
Insolvency rating for
2016: 13/189 countries
(against 12/189 countries
in 2015).**



- ❖ **Courts are efficient in delivering timely decisions but pre-legal action efforts remain the most effective.** The longer the legal proceedings the greater the chances of facing insolvency issues.
- ❖ **The insolvency framework is oriented towards the protection of the creditor's rights,** but an emphasis has been made on the need to rescue viable businesses. **Such proceedings would however not guarantee that the debt would be recovered** as in practice there are no limitations as to how much of the debt may be written off during renegotiations. Furthermore, **liquidation proceedings would rarely yield any of the proceeds to unsecured creditors.**

Getting paid in UK (2)

Are financial information available? Visibility is reliable but limited, for example SMEs are not required to publish full financial information.

How many legal systems exist? UK splits into 3 distinct legal systems, the laws of England and Wales, the laws of Scotland and the laws of Northern Ireland. Proceedings in the Commercial Court are governed by the Civil Procedure Rules (CPR).

How long could legal action take? It's really depending on the amount of the claim and on a lot of other factors. It might takes also more than 2 years.

How much a legal action could cost? A lot. As a general rule, the unsuccessful party may be required to pay part of the other party's costs. Only fixed costs are recoverable on the small claims track and so regardless of your legal costs, you will only be entitled to seek recovery of a fixed amount if you win. A statutory demand procedure (the 1st step) costs around 1'500 GBP. Contingent fees whereby the legal professionals are entitled to receiving a percentage of the final award are capped to 50% of the claim.

Any alternative to legal action? Yes: Alternative Dispute Resolution methods (ADR), Foreign forums, Enforcing foreign awards.



Any
questions?



Take care of your account receivables!

In case you might need help, just call me.



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