Coronavirus

Swiss lead way with crisis loans to small businesses

Companies secure credit overnight while schemes elsewhere are mired in delay

An efficient coronavirus credit scheme means small businesses in Switzerland have been able to access swift financial help © Arnd Wiegmann/Reuters

Sam Jones in Zurich 10 MINUTES AGO

It took Matthias Knaur only a minute or two to complete and scan the single-page form for a liquidity lifeline from the Swiss government. About 30 minutes after sending it, the money was in his company's account.

The comparison with his computer hardware support company's UK subsidiary, based in the North Yorkshire town of Ilkley, could not be starker. Mr Knaur has 80 staff in Ilkley and is the town's second-biggest employer.

After days of confusing phone calls to UK authorities, the company's application for an emergency loan, part of a multibillion pound package of funding pledged by the government to support small businesses during the coronavirus pandemic, was denied.

The story has been the same for his other subsidiaries in Europe, he said: "The Brits are still trying to work out what to do, in Germany the system got completely overloaded and broke apart and the French are stuck in paperwork.

"The backbone of all these economies are SMEs and they need money now. I don't think politicians are aware of the magnitude of this."

Switzerland unveiled its SFr20bn ($20bn) package of emergency loans to support small businesses on March 25. In its first week of operating, it disbursed more than SFr15bn to 76,034 businesses. On Friday, Bern announced that it would double the facility to SFr40bn.

Its success is drawing attention elsewhere in Europe, with Swiss banks and the government in contact with European counterparts in recent days over how the scheme is structured.

In the UK, the Treasury is now considering a sweeping overhaul of its coronavirus lending scheme, barely a fortnight after it was launched. It has had 130,000 inquiries but by Thursday last week said it had granted only 983 loans.

In Germany, Europe's largest emergency loan scheme has had patchy success: communication has been poor, uptake low, and some companies report their banks telling them that money may take days, if not weeks, to arrive.

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In Italy, politicians last week spoke in parliament and urged their government to follow Switzerland's model.

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Alberto Belloli, head of Belloli engineering

Even Swiss people accustomed to the relative efficiency of their country have been surprised at the speed of its economic coronavirus counterattack.

"I've never experienced anything like it," Alberto Belloli, head of Belloli, a family engineering business in the canton of Graubunden, told the Financial Times. "I applied on Friday afternoon and we had the money on Monday morning. It was a one-page form."

The money, when it arrived, meant that Mr Belloli could pay his staff and has time to put measures in place to protect his business.

"The co-operation between the banking system and federal government was brilliant," he said. "Speed is everything here to secure jobs."

Getting the correct support for smaller businesses will be the litmus test of how the world's biggest economies are handling the economic fallout of Covid-19, say economists.

SMEs are at the frontline of the crisis, said Hans Gersbach, professor of macroeconomics at ETH in Zurich and an adviser to the German ministry of economic affairs: "If [smaller business] cannot survive with sufficient health and with the possibility to invest in their businesses again the other side of this health crisis, then the economy will be in very great trouble."

The Swiss scheme has two elements. Under the first, businesses can apply for an immediate loan, worth up to 10 per cent of their annual revenue, capped at SFr500,000. The loan is interest free and provided by Swiss banks, which are underwritten with a full credit guarantee on the amount by the Swiss government. A simple declaration is all that is needed.

The second facility lends up to SFr20m, also provided by the banking system. Bern guarantees 85 per cent of the loan, charged at 0.5 per cent interest. The bank assumes risk of the last 15 per cent, charged at a competitive rate.

Because it is run through the existing banking network and its customer relationships, the authorities were able to roll out the scheme almost overnight. Barely any new infrastructure was needed and banks already had the necessary credit history and data on their clients.

Switzerland's small, clubbable world of business and political elites, often chided for its insularity, has been seen as a crucial factor in getting the programme rapidly off the ground.

The plan started as an idea of Thomas Gottstein, the chief executive of Credit Suisse, as he watched the flow of negative economic data crossing his desk turn into a torrent.

After phone conversations with finance minister Ueli Maurer in Bern, SNB chief Thomas Jordan and Mark Branson, head of market regulator Finma, a task force was set up to bring other banks on board. Four days later the plan was ready to go.

"The key thing was for the process to be conducted in a rapid and straightforward manner, so that the money is transferred to the company's account as quickly as possible," Mr Gottstein said.

In total, 121 Swiss banks are participating. UBS is Switzerland's largest lender to small enterprises and has become the biggest channel. “We covered more than 10,000 requests in the first two days,” said Axel Lehmann, president of UBS Switzerland.

UBS has delegated 300 extra employees to handle the programme, he said. It is also using 100 “robots” — algorithms that automatically scan and process applications — to process requests swiftly.

But the success of the scheme addresses only one element of the economic challenge, experts warn.

The harder task will be preventing a liquidity crisis evolving into an insolvency crisis, said Prof Gersbach.

“That carries much more of a financial burden for governments and more risk,” he said. “What Switzerland has done [so far] has been efficient economically — it has done very well. But ultimately it still might only hold off insolvencies for a few weeks.”