

# Risk management

## Swiss Post

### Key facts

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The Swiss Federal Audit Office (SFAO) examined Swiss Post's risk management from May to September 2018. The general part of the audit mandate assessed the question of whether the Confederation, as the owner, sets suitable requirements for risk management and whether Swiss Post fulfils them. Based on the two case studies PostBus France and Liechtenstein, the SFAO examined in a specific section whether Swiss Post assesses, manages and communicates its risks in these two companies at the appropriate levels.<sup>1</sup> Onsite visits were also made in Lyon and Vaduz. The totality of Swiss Post's foreign risks were not assessed and these two case studies are therefore not representative.

The Federal Council expects Swiss Post to maintain a modern risk management system and wants to be informed about major corporate risks.<sup>2</sup> However, as a result of its public corporate governance approach, the owner exerts little influence on Swiss Post's specific risk management.

Swiss Post operates a financial risk management system and quantifies its risks and opportunities as deviations from the planned EBIT (earnings before interest and taxes). In the case of risks for which provisions have already been established in previous periods, only the residual risk is shown.

Swiss Post's risk management is primarily geared to the risk-bearing capacity of its equity capital. The current risk strategy of the group and its individual divisions is not formulated explicitly enough. It should be derived from the corporate strategy and the strategic objectives of the Federal Council.

The SFAO recommended that the Federal Department of the Environment, Transport, Energy and Communications (DETEC), in cooperation with the Federal Finance Administration (FFA), should carry out a periodic effectiveness audit of Swiss Post's risk management, or have one carried out. The DETEC and FFA do not agree with this recommendation. The SFAO took note of this and will address the issue at a different level.

### **Ensuring an effective risk management system is the responsibility of the board of directors**

From a formal point of view, everything is included in Swiss Post's risk management. The role of group risk management in assessing important individual investment applications and major projects is to be viewed positively.

The risk reports are very complex from a financial point of view and are not appropriate for the target group. The question arises as to whether the risk reports in this form can fulfil their function as management and early warning instruments.

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<sup>1</sup> Turnover in France and Liechtenstein amounts to 17% of revenue in the PostBus division and 2% of Swiss Post's total turnover.

<sup>2</sup> Federal Council strategic objective no. 2.7 for Swiss Post (strategic objectives of the Federal Council for Swiss Post AG 2017–2020). The Federal Council is calling for alignment with the ISO 31000 risk management standard.

At the time of the audit, the relevant aspects for the board of directors and group management, such as risk strategy (risk appetite and risk-bearing capacity), risk culture (soft factors) and risk communication (post-internal and to the owner), did not occupy enough space in the group risk management regulations. Since then, on 27 November 2018, Swiss Post's board of directors approved several improvements with effect from 1 January 2019. However, the revised regulations were no longer the subject of the audit.

To date, the group risk management has been managed by the strategic group controlling and will now report directly to the group's Chief Financial Officer (CFO) from 1 February 2019. In the SFAO's view, this new organisational subordination can also adversely affect the necessary independence. The CRO function should have free access to the Audit, Risk & Compliance Committee of the board of directors and should not be performed by the same person as the CFO.

### **Swiss Post has viewed its PostBus activities in France over the last few years too positively**

The profitability of CarPostal France was negative from the outset due to the start-up costs. Capital increases of CHF 19 million and debts of CHF 57 million to the parent company make it difficult for the French business to achieve a return on investment. CarPostal France's modest profits in recent years could only be achieved thanks to a reorganisation of the group by means of waivers of receivables of CHF 25 million recognised in the income statement. In the risk report, CarPostal France was still assessed as an "opportunity" rather than a risk at group level up until the end of 2017. The risk assessment was not carried out directly by the local management.

With the announced review of an orderly exit, including the option to sell CarPostal France, new risks are emerging that have not yet been reflected in Swiss Post's risk management as the risk report is prepared every six months. The SFAO is of the opinion that a portfolio collapse is looming, as the clients of a company that is considering leaving France may not want to renew their contracts. CarPostal France and PostBus Switzerland have not yet made any provisions for exit costs. Swiss Post assumes that assets worth CHF 124 million will retain their value and exceed debts. However, in the SFAO's view, a reduction in staff (above all at the French head office in Lyon with around 60 employees) can also lead to additional costs that have not yet been taken into account if a potential buyer does not want to take over the non-operational areas. Swiss Post only wants to sell the French business as a whole.

The question arises as to whether the Federal Council strategic objective no. 5, which requires close cooperation and participation (especially abroad) and special attention to be paid to risk management, has actually been achieved in the case of CarPostal France.

### **The DETEC does not manage Swiss Post as an independent risk unit**

The DETEC only transfers Swiss Post's risks generally (under the heading "risks of inadequate management of companies affiliated with the federal government") to the federal risk management unit. To this end, the DETEC summarises all companies in its area of responsibility in a risk sheet. The DETEC has already initiated improvements for risk reporting in 2018.

Neither the DETEC nor the Federal Finance Administration criticised the limited significance of the chapter on risk management in the 2017 report on the strategic objectives of the Federal Council 2017–2020 of Swiss Post.

**Original text in German**