

IN THE HIGH COURT OF JUSTICE
BUSINESS AND PROPERTY COURTS
COMMERCIAL COURT (QBD)
FINANCIAL LIST
FINANCIAL MARKETS TEST CASE SCHEME

BETWEEN

THE FINANCIAL CONDUCT AUTHORITY

Claimant

-and-

- (1) ARCH INSURANCE (UK) LIMITED**
(2) ARGENTA SYNDICATE MANAGEMENT LIMITED
(3) ECCLESIASTICAL INSURANCE OFFICE PLC
(4) HISCOX INSURANCE COMPANY LIMITED
(5) QBE UK LIMITED
(6) MS AMLIN UNDERWRITING LIMITED
(7) ROYAL & SUN ALLIANCE INSURANCE PLC
(8) ZURICH INSURANCE PLC

Defendants

AGREED FACTS – DOCUMENT 6

SWEDEN

1. According to WHO statistics, Sweden first had over 100 reported COVID-19 cases in a day on 12 March 2020 and as at 14 June 2020 there had been 50,931 total confirmed cases and 4,874 deaths (218 of which had been in the 7 days prior to 14 June 2020).
2. In response to the COVID-19 pandemic the Swedish Government, notably:
 - a. Banned all public gatherings and public events with more than 50 people, including at cinemas, concerts and sporting events;¹ and
 - b. From 24 March 2020 required businesses serving food and drink (e.g. restaurants, bars and cafes) to comply with binding regulations aimed at reducing the spread of COVID-19. These regulations meant those businesses could only allow visitors to eat and drink while sitting down at a table or pick up food for take away. Such businesses also had to ensure that there was no congestion or long customer queues.
3. The Swedish Government did not impose either:
 - a. A mandatory closure of businesses; or
 - b. A general mandatory restriction confining Swedes to their homes (a 'lockdown'), nor issue any other general mandatory restrictions on citizens' freedom of movement
4. Non-mandatory guidance was issued in Sweden, including to the effect that: shops, shopping centers, and similar establishments should reduce the number of customers who are in the same space at once, and produce alternative solutions to check-out queues; employers should ensure that employees, if possible, work from home and avoid unnecessary business travel; individuals should observe social distancing and refrain from participating in larger social gatherings, such as funerals and weddings, and refrain from unnecessary travel; individuals who are infected or suspected of being infected with COVID-19 should stay home and avoid social contacts; individuals over the age of 70 should also avoid public transport and avoid shopping in certain stores.
5. Many businesses in Sweden may have experienced business or trading losses, notwithstanding the absence of measures comparable to those imposed in the UK.

¹ When first introduced on 12 March 2020 the ban was of more than 500 people but this limit was reduced to 50 on 29 March 2020.



The Riksbank's Business Survey

“The whole of society is on hold”
Companies struggling
in the wake of the pandemic

May 2020

The Riksbank's business survey in May 2020¹

The corona pandemic has meant that large parts of the business sector have experienced very rapid and severe falls in demand. With regard to the manufacturing industry, a combination of supply problems, production shocks and restrictions on movement have led to closure of production, postponement of investment, liquidity shortages and cost-cutting. The requirements regarding social distancing have led to very sharp falls in sales in the sectors with operations based on social contacts, such as the hotel and restaurant industry and parts of the retail trade.

The sector of the economy that has managed best so far is the construction industry, which has been able to function as before, with only minor disruptions to production.

Future prospects are clearly subdued. A majority do not believe that the economic situation will be better in six months' time, and three out of four companies believe that it will take more than nine months before the economy has recovered again. Many companies are expecting a slow recovery under very uncertain conditions, which also holds back investment.

Companies with a high level of indebtedness and/or weak profitability have suffered acute financing problems. It has become both more difficult and more expensive to obtain financing via the securities markets and many also point out the larger companies also need targeted support.

The prevailing circumstances have also made companies more restrictive in their pricing, and a majority state that prices are under severe pressure now and they expect sale prices to fall in the coming period.

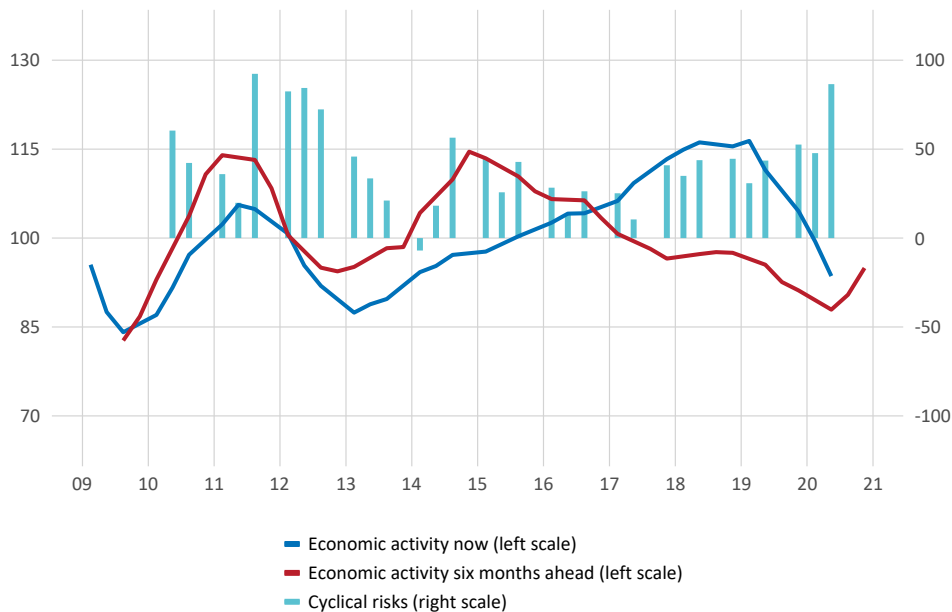
¹ The Riksbank regularly interviews the largest companies in the industrial, construction, trade and part of the service sectors. This is normally done three times a year, but because of the pandemic the Riksbank has carried out four additional rounds of telephone interviews during March and April. For the Riksbank's business survey in May, representatives of 62 companies, with a total of approximately 300,000 employees in Sweden, were interviewed by telephone during 6 to 11 May. Representatives of various trade organisations were also interviewed by telephone during this period.

Weaker economic activity and protracted recovery

The economic situation is said to be weaker than normal and has declined since the previous survey in February (see Figure 1). It is hardly surprising that cyclical risks, that is, the risk that economic activity will deteriorate further, have soared and the entirely dominant reason is the uncertainty surrounding the future development of the pandemic. The majority of companies believe that the economic situation will remain weaker than normal in six months' time, but the responses from different branches and sectors differ significantly. The parts of the manufacturing and service sectors that say the economic situation has weakened the fastest are also those who believe it can be slightly better in six months' time. In some cases the responses may be affected by the idea that in principle things cannot be worse than they are now, for instance with regard to operations that are – or have been – almost entirely closed down. In contrast to these branches, the construction industry believes that economic activity will be poorer in six months' time, at the same time as they state that the economic situation is good now.

Diagram 1. Economic situation and economic risks

Weighted index (left scale) and weighted net figures (right scale)

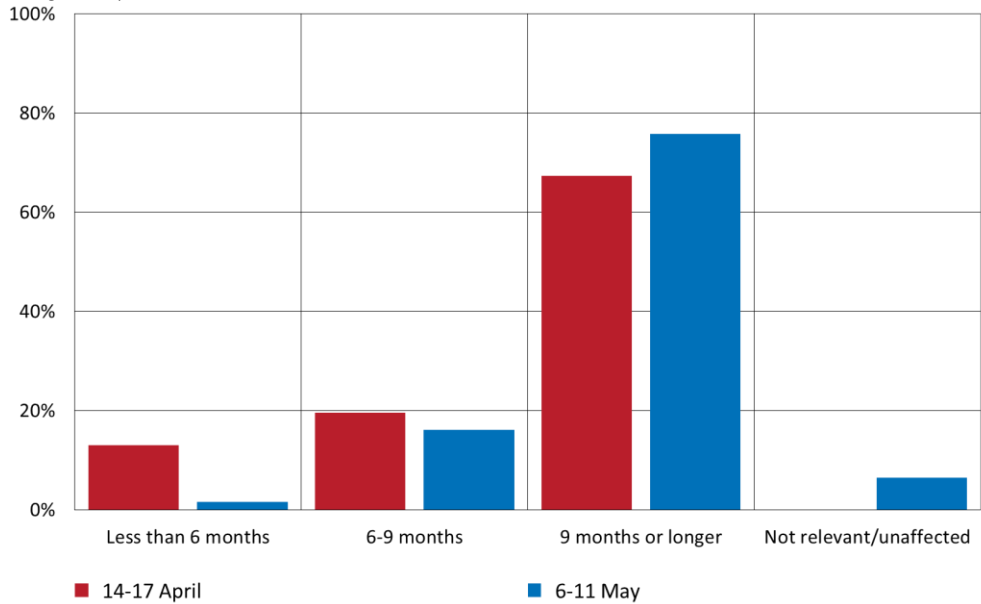


Note. The weighted index figures show a standardised value (mean value = 100 and standard deviation = 10) of the net figures for companies that say that the economic situation is currently good or bad and those who say that the economic situation will be better or worse in six months' time. The red line, the economic situation in six months' time, has been moved forward two quarters. The series for the economic situation has been smoothed out with a moving average based on three observations. The bars show the weighted net figures for those companies that say that the risks to economic development are currently greater or smaller than normal. The survey is performed three times a year, which means that there are only observations for three quarters of each year in the figure. As of 2017, there are observations for the two first quarters and for the final quarter of every year in the figure.

The expectations of an improvement in the economic situation, to something similar to the situation before the pandemic crisis, have become slightly more pessimistic over the past month, and now around three in four companies believe that it will take nine months or more (see Figure 2). In some cases, they believe that it may take as long as two years before the economy has recovered completely, but the responses differ substantially between the sectors.

Diagram 2. When will the economic situation for your company be back at a level comparable to that prevailing before the coronavirus outbreak?

Percentage of companies

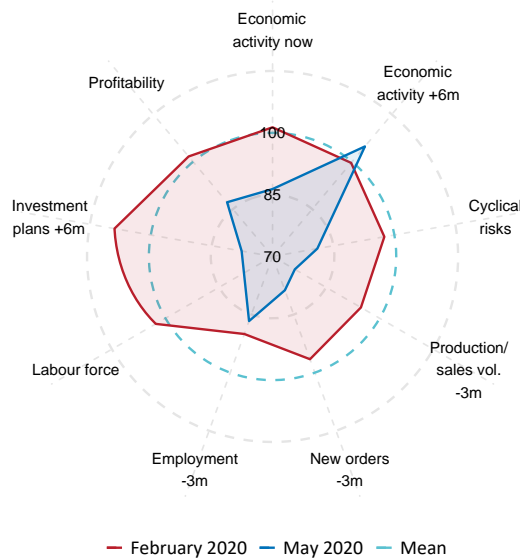


Note. All companies.

The companies' aggregate responses indicate that their economic situation has deteriorated since February (see Figure 3). Companies' relatively optimistic view of economic developments is partly due to some companies feeling that the situation cannot get any worse than it is now.

Diagram 3. Companies' overall response patterns

Weighted index



Note. The responses to the questions are plotted along "spokes" in the figure, where an index figure closer to the centre is worse. Greater cyclical risks, too large stocks and too large a workforce in comparison to demand/production are assumed here to be deteriorations and therefore lead to lower index figures. The historical average is calculated from the date when the question concerned was first included in the survey. The term -3m / +6m refers to the most recent three months and the coming six months respectively.

Some industries have opened up again, but the question is for how long?

The overall picture in the manufacturing industry is rather fragmented, with some companies that have completely closed down production and others that have kept their operations going with only minor reductions in production. The first category includes the export-dependent automotive industry, which for a period of time had closed down entirely, like other European branch colleagues, but has since reopened with limited production. Unlike the automotive industry, mining, steel and forestry companies have maintained their production rate.

Mining and steel companies have felt the effects of the clear slowdown in demand from companies and subcontractors in the automotive industry, however. Steel companies were operating at full production up to April, but as a result of a decline in demand have now been forced to reduce their production volumes. The industries that use metal have had more and longer production stops than those that produce metal, with the result that there is a surplus of metal right now. Stocks are therefore increasing and will contribute to holding back metal prices for some time to come. However, profitability is expected to be satisfactory as the weak krona should compensate for the somewhat lower world market price, which is set in USD. Nevertheless, the shrinking volumes are expected to affect profitability further ahead. The oil-based commodities industry is the hardest hit in this sector. They have seen heavy falls in demand that have led to sharp falls in prices on the world market.

Difficult to plan: “The depth of vision is zero”

The forestry and paper industry has, like other industries, experienced a decline in the demand for its products during the crisis. Although the decline has not been as great as for the automotive industry, for instance, they are clearly affected by demand from Europe now being lower than normal. Earlier supply problems have eased somewhat since the Chinese market started up again, which increased the access to containers. Given the conditions, they feel that goods transports are working well. The fall in production has not had an impact on the figures yet, but as the prices on the world market are expected to be maintained, they say that profitability is “OK under the circumstances”. Companies are having difficulty predicting the future but feel it will take a long time before the situation normalises.

The engineering industry is feeling the effects of the problems in the automotive and aviation industries. Companies with fragmented and global logistics chains still see considerable challenges with regard to their deliveries. Previously, they could produce machines with the intermediate goods they had in stock, but this is no longer possible. One company says, “It has never been this bad before, that we have had to stop production”. They, like other sectors, notice the “new shoots” from Asia, but say at the same time that developments are constantly changing and that they are worried about a “double dip” if there is a second wave of the coronavirus.

Vehicle producers have seen a large fall in demand over the past three months. Several manufacturers closed down production temporarily, but they have now gradually begun to start up again at a lower pace. Demand has increased rapidly in China, while there is still considerable uncertainty over how demand in Europe and the United States will develop. Orders are no longer at zero, as during the most acute phase of the pandemic, but they are far from the levels they had prior to the outbreak. They are expecting to be able to keep production going until the summer, and in some cases they have also been able to increase the pace somewhat, but they say they cannot plan for after the holidays because “visibility only covers ten days ahead”.

Food producers have increased their production, and demand was especially high in March, when households were stockpiling. The decline in orders from the hotel and restaurant industry has been more than compensated for by orders from the non-durable

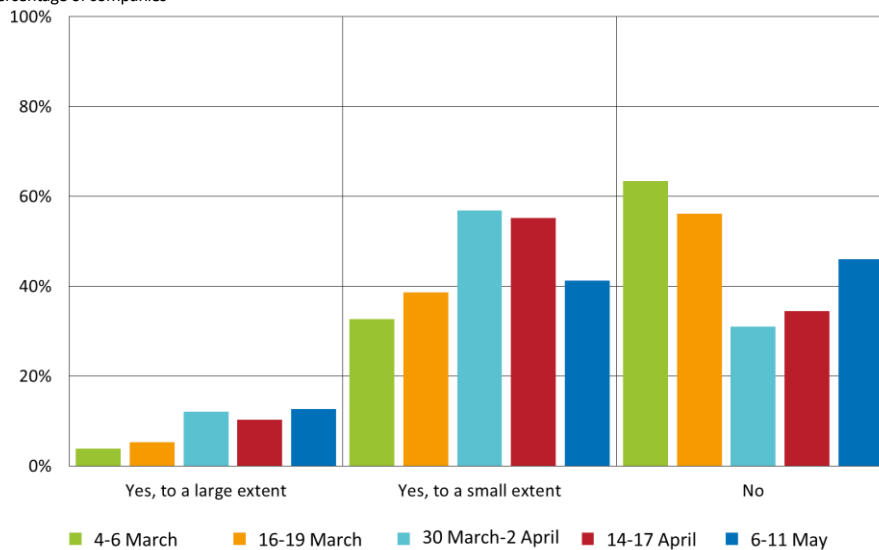
goods segment. There is greater uncertainty in general, but they don't see any major fluctuations in orders or production ahead.

Common for the manufacturing companies is that they have reduced their workforces in connection with the corona crisis. The companies have stopped temporary **recruitments** and terminated agreements with consultants. In addition, they have signed agreements with most of their permanent staff regarding short-time work and furloughing.² The companies believe there is a substantial risk that they will need to give employees notice of redundancy, unless production picks up significantly after the summer. One company says "Our costs are a little too high and we need to tighten our belts".

The need to cut costs, falling demand and increased uncertainty over the future are making companies postpone decisions regarding new **investments**. At the same time, one company executive points out that it is important not to cut back on large-scale, more strategic investments: "We will suffer for it late" if we don't make them now. It is mainly decisions on various investments for development that companies are postponing, while as far as possible they are investing in maintenance. However, they are following through on investment decisions made earlier, as these are expensive to cancel. The shocks to production and deliveries have declined recently for the manufacturing sector, and for other sectors (see Figure 4).

Diagram 4. Has the outbreak of the coronavirus led to disruptions in production or deliveries to Sweden?

Percentage of companies



Note. All companies.

“The construction climate is good now. We haven't been affected much yet”

Construction companies have so far been relatively unaffected by the pandemic, and economic activity in the construction sector is on the whole described as fairly good. Orders are described as good, and assessed to be sufficiently large to keep them occupied for at least a year to come. They see some shift in the order intake, with more orders from the public sector and fewer from the private sector. The situation is slightly different in the different parts of the construction industry. Housing construction is described as uncertain and on a downward trend. One telling comment is "Housing was really strong during the first quarter,

² When signing agreements for short-term work/furloughing, the state covers up to 60 per cent of the cost of staff reducing their working hours. The agreements can be constructed in different ways (within a certain framework) and they are signed locally. The agreements are managed on behalf of the state by the Swedish Agency for Economic and Regional Growth.

but since corona (mid-March) it has been much, much weaker". Commercial construction is seeing a decline in orders. On the other hand, public sector construction and infrastructure/civil engineering are doing well. This is partly because municipalities, municipal housing companies, regions and public authorities are bringing their orders forward.

Some construction companies have reduced their workforces, while others have not made any changes. However, the labour market in the industry has become sluggish recently. Employees are not changing job to the same extent as before, which is partly because they do not want to be first in line for redundancy (in accordance with the "last in, first out" principle). One construction company, with a so far unchanged workforce, points out that it may be necessary to give notices of redundancy after the summer, if orders do not pick up. The larger construction companies have not signed any agreements on furloughing. One company points out "We have investigated the possibilities for support for furloughing and other forms of state support, so we know what is available if we need it in the future". A construction company says that it has abolished dividend payments in that they may need to sign agreements on furloughing. They observe "In all probability we will need to sign this kind of agreement going forward".

Divided outlook among consultants

The demand for services from companies active in the **technical consultant branch** is split. Consultants who focus on large parts of the manufacturing industry, including the automotive industry, see a clear decline in demand. They believe that demand will continue to decline in the near term, but they hope for an improvement in economic activity six months' ahead. Several automotive consultants have both given notices of redundancy and signed contracts on furloughing. One company points out that "The risks are much greater now than during the financial crisis". In other branches, such as "Life science" and telecoms, there is much more activity for consultants and other service companies.³

"Economic activity must improve or we won't be around much longer"

Temporary employment agencies describe economic activity as poor. Those who have hired out staff to the manufacturing industry are in a difficult situation. The quotation "In the automotive industry we have lost 97 per cent of our assignments" is very telling. Only a very few manufacturing sectors have seen an improvement recently. Temporary employment assignments in warehouses and logistics have increased as e-commerce has grown, and in the food industry temporary employment agencies provide cover when the number of staff on sick leave increases. Temporary employment agencies have given notice of redundancy to staff on probationary employment, given notice of redundancy to permanent staff and signed agreements on furloughing to manage the loss of income.

"The word non-existent describes our profitability better than the word poor"

The economic situation for **travel companies** is very bad with a general 95 per cent loss of sales during the coronavirus crisis. They are hoping to be back at around 50 per cent of normal sales in the autumn. However, they are beginning to be concerned that 2021 could also be a bad financial year for them if the economic recession in the wake of the pandemic continues to hit households hard. The travel agencies' services are "luxury consumption".

There is considerable uncertainty over what is happening in Sweden and also in the countries that are normal tourist destinations. They call for clearer information from

³ Branches in the "Life science" concept include medical technology, pharmaceuticals, food and agriculture.

governments and authorities “Vague information about summer travel is very difficult for us”. They believe it may take around two years before the branch returns to a normal situation.

The hotel industry is in roughly the same situation as the travel industry. They are expecting it to take at least 24 months before the situation is more normal. Sales/room bookings have declined by around 90 per cent. It is a difficult situation for the branch, which is clearly illustrated by the comment, “All operations are aimed at minimising costs, downsizing and working to get credit lines that are as long as possible”. The hotel chains’ view of the usefulness of implementing campaigns when their customers are governed by fear is illustrated well by the comments: “Price elasticity is low, and it is rather fear that governs customers than willingness to pay” and “We have fewer campaigns now than before as there is no point”.

Some of the larger **restaurant chains** have lost an average of 15-20 per cent of their sales during the pandemic. For the industry as a whole, the sales loss is much higher – around 70 per cent. However, there are major differences between the different types of restaurant/situation, where “Drive thru” restaurants are doing relatively well and restaurants in city locations and shopping centres have lost a lot of business. Sales also differ according to the weekday for some of the restaurant chains. On weekdays, the restaurants experience sales as reasonable, or slightly poorer than usual. The lack of night-life, due to the maximum limit of 50 people at public gatherings, means on the other hand that sales at the weekends are “really bad”.

“This feels like it will last a while”

The non-durables sector has benefited from the pandemic and is steadily attaining higher sales volumes than normal. They are counting on this development continuing for a while, but are unsure what will happen in the future. Risks are thought to be at a normal level, which could be linked to the fact that the non-durables sector is not normally affected much by cyclical fluctuations. However, during the pandemic this sector has both taken market shares from restaurants and been affected positively by households’ stockpiling: “There are large fluctuations, but in a positive way”. They have hired more staff as a result of an increased need to manage stocks and logistics, but also to deal with an increase in sick leave. Online purchasing of non-durables has increased substantially, but is “unfortunately loss-making” as there is such stiff competition.

Pharmacies, especially those with e-commerce, are experiencing good economic activity. The pandemic has given them an extra boost: “this applies to e-commerce in general, the situation is good for all e-commerce companies”. One e-commerce company reports that the number of employees has increased substantially and that investments in logistics have been brought forward. Profitability is satisfactory, although it is below budget, which is partly due to an increase in the costs for training and overtime: “The engines stutter a bit when you try to accelerate at such a fast pace”.

“It is really a fight”

The clothing trade describes the economic situation as “extremely bad” and profitability as the worst in a long time. They report that sales have declined by 50-70 per cent during the period March-April in relation to the comparable period last year. “Sales have been completely wiped out”. One boutique chain that also has online trading observes that the latter has increased substantially, although not enough to compensate from the losses in the shops. In some suburbs of Stockholm, however, there has been an increase in sales in boutiques. One hypermarket has problems in now receiving clothing that had been ordered prior to the crisis, which meant its stocks were far too large in relation to demand. This puts a strain on liquidity and will lead to a decline in the value of the stock, as fashion quickly becomes outdated. Assessments of when they will return to “something like” normal are for

“in 2021”, or “the second half of 2022”. The production stop in China caused only marginal disruptions to goods deliveries, as most the sales so far were produced prior to the outbreak of the coronavirus there. Now instead there are disruptions to goods flows from other countries in Asia (Bangladesh, India and Sri Lanka). The supply shocks have paradoxically been good for them, as demand is so weak.

Representatives of clothing companies and **sport shops** believe that it will take several years before they are back to a situation similar to that before the corona pandemic. However, the economic situation for companies is expected to be better in six months, although it will still be poorer than normal. One reason is that sport shops usually do well during recessions, as people invest in themselves and begin exercising if they are at home or lose their jobs. But they assess that the risks are considerable: “The risks are immense. “The whole of society is on hold”. The retail trade also highlights the fact that rental terms for premises are at levels that they cannot manage.

The furniture trade and parts of the electronics trade consider that sales have shown a good development. Electronics retailers who largely sell to households have benefited from increased work from home, but believe that the economic situation will be poorer in six months' time. Electronics retailers who largely sell to other companies say they have been “hard hit by the lockdown” but they are expecting a better economic situation in six months' time. An e-commerce company that sells furniture believes that the company may be in a better situation in six months' time, even if the situation is poorer for society in general. Changes in purchasing behaviour mean that more people are shopping online, and an increasing number of bankruptcies means that competition is declining.

“The banks are happy to lend money to companies that already have money”

Large manufacturing companies with good credit ratings appear to be getting the **financing** they need, and together with the state-owned Swedish Export Credits Guarantee Board they have often been able to secure credit lines with the banks. Respondents say that the Riksbank's activities have contributed to stabilising the credit market, but at the same time they think that it is still fragile and that “one needs to keep one's eyes on the ball”. At the same time, the situation for the larger companies is not entirely clear; large companies with low credit ratings are not finding it as easy to obtain financing on favourable terms, and say that further measures are needed by the authorities. Large companies also express concern over small and medium-sized enterprises' capacity to obtain funding. One company executive said that he “is not sure that these companies are finding it so easy to get loans” and “that is what I am concerned about”.

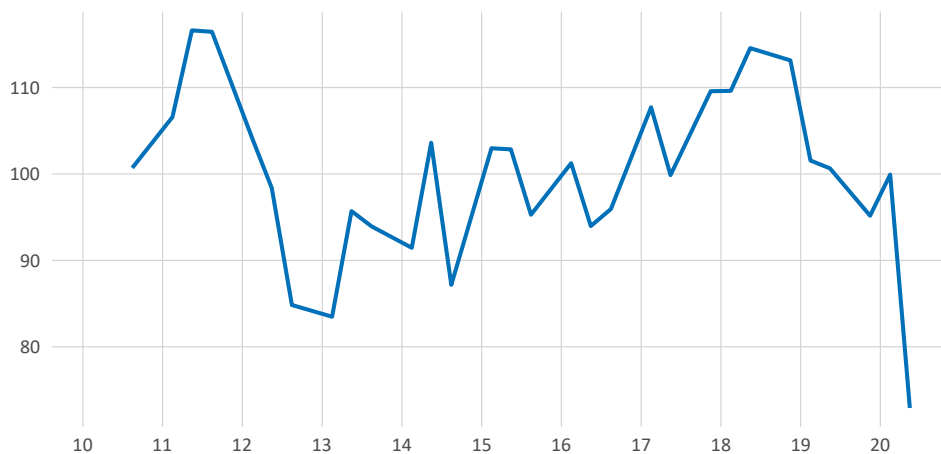
Access to external financing is also described as difficult by companies in the retail trade. One representative of the retail trade said that even before the corona pandemic the banks had a watchful eye on them, and “now with corona the discussion is on a whole new level”.

“This is a crisis of volumes, not prices”

Reduced demand puts pressure on companies to lower their prices. When sales volumes fall, there is actually a need to raise prices, but companies believe that this will be difficult, as the demand for their products has fallen significantly. Comments such as “It’s a buyer’s market” describe the feelings expressed by many companies. The stiff price competition resulting from the fall in demand is visible in most branches. The non-durables sector and the food industry have not been hit by the crisis and envisage relatively stable prices during the second quarter of this year, but in general, the other companies are expecting sale prices to fall (see Figure 5).

Diagram 5. How do you intend to change your sale prices in the current quarter?

Weighted index figures



Note. All companies. Construction industry refers to tender prices. The weighted index figures show a standardised value (mean value = 100 and standard deviation = 10) of the net figures for the companies responding to the question of whether sale prices will be raised or lowered during the current quarter.

About the Riksbank's Business Survey

The Riksbank's Business Survey aims to reflect developments in prices and economic activity in the manufacturing, construction and trade sectors and in parts of the service sector. As only a few players account for a very large part of the Swedish business sector, relatively few interviews can provide information about a large part of the sector. Many of the interviewed companies also provide information about other parts of the business sector through their contacts with, for example, small and medium-sized enterprises.

The survey is conducted by personnel from the Riksbank who visit the companies for approximately one hour. The interviews are, as a rule, conducted with members of the company's management. The discussions give the companies an opportunity to develop their answers and the interviewer the chance to ask more detailed follow-up questions. From time to time, specific questions are asked about current issues in monetary policy.

Approximately 30 companies are interviewed in the survey in February and about 45 companies in May and November. Over 300 companies have taken part in the survey since it was started in 2007.

The figures in the report present the companies' responses weighted in terms of the respective companies' number of employees in Sweden. The indices in the figures capture upturns and downturns in the pattern of responses well. These responses are then combined with the companies' reflections during the interviews. The May 2020 Business Survey presents the results of telephone interviews with 62 companies, which were held between 6 May and 11 May. Qualitative information from telephone interviews with representatives of various trade associations during the period concerned has also been used when compiling the report.

A more detailed description of the survey can be found on the Riksbank's website: Hokkanen, Melin and Nilson (2012), "The Riksbank's Business Survey – a quick indicator of economic activity", Sveriges Riksbank Economic Review 2012:3.

http://archive.riksbank.se/Documents/Rapporter/POV/2012/rap_pov_artikel_3_121017_eng.pdf



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