Near 'cliff's edge,' Credit Suisse not seen as systemic risk

By JAMEY KEATEN and PAUL WISEMAN

GENEVA (AP) — Longtime troubles at Credit Suisse came to a head this week with a record stock plunge that spread fears of a banking crisis jumping from the U.S. to Europe. But the problems have been building for years at Switzerland's second-largest bank, ranging from bad bets on hedge funds to a spying scandal involving rival lender UBS.

Experts say the upheaval is largely a byproduct of Credit Suisse's troubles in recent years — making it look relatively vulnerable — and investor worries about the health of Western banks in general following the collapse of Silicon Valley Bank in the United States.

Shares of Credit Suisse sank over 30% Wednesday after its biggest shareholder — the Saudi National Bank — announced it would not provide more money to the Swiss lender. Hours later, Switzerland's central bank agreed to lend Credit Suisse up to 50 billion francs ($54 billion) to shore up its finances. The stock rebounded.

On Friday, shares dropped 8% to close at 1.86 francs ($2) on the Swiss exchange. The stock has seen a long downward slide: It traded at more than 80 francs in 2007.

Eswar Prasad, a Cornell University economist, said Credit Suisse has become "an important bellwether of fragilities in the global banking system" and if it failed, it could dampen confidence in the banking system and spur further central bank intervention.

"The Swiss National Bank has in effect pulled Credit Suisse back from the cliff's edge and is likely to have done enough to stabilize the situation with the massive liquidity infusion," said Prasad, who studies the global financial system. "The wild card is whether steps taken so far by the Federal Reserve and Swiss National Bank will contain the conflagration or if it spreads further, which could engender significant additional turmoil."

The Saudi bank's chairman acknowledged surprise at the fallout from his comments but said he was "optimistic" that Credit Suisse would "go back to being what it is" — a bank with a storied legacy dating back more than a century and a half.

"I think the markets are very skittish, and they are looking for stories or things that validate concern," Saudi National Bank Chairman Ammar al-Khudairy told CNBC on Thursday.

He called Credit Suisse's private wealth management, domestic Swiss banking and asset management divisions "stable, long-term consistent businesses" and that the Swiss bank was "working on shedding the other, more-volatile business."

In the wake of reforms enacted after the 2008 financial crisis, Credit Suisse is among the 30 financial institutions known as globally systemically important banks, which have stricter scrutiny and higher capital requirements.

Credit Suisse was founded as "Schweizerische Kreditanstalt" in 1856 by industrialist Alfred Escher to finance the development of Switzerland's complex rail network cutting through the Alps.

At the time, it was a high-risk, loss-making industry. Historians say a penchant for risk and innovation permeates through the corporate culture even today.

By 1977, Credit Suisse was at the center of a banking scandal known as the "Chiasso Affair," which led the bank to lose nearly 1.4 billion francs in illegal dealings by a branch in Italian-speaking Switzerland with fugitive funds from Italy.

The "internationalization" of Credit Suisse — focusing more on the United States and adopting an "Anglo-Saxon" culture — led to "identity problems" starting in the 1980s, when it began rising from a midsized European bank into a global player, Tobias Straumann, an economic historian at the University of Zurich, said in the Neue Zuericher Zeitung newspaper Friday.

"(Swiss bankers) simply couldn't cope with this American investment bank culture, with its focus on risk and high profits," he said. "The combination of Anglo-Saxon investment banking and Swiss asset management did not work in the long run."

The "end of banking secrecy" in Switzerland — which long helped guarantee large financial reserves for Credit Suisse — in recent years has had an important effect by denting its wealth management business, he added.

Other Western countries pressured Switzerland to tighten its laws to prevent wealthy tax cheats and others from hiding their money in Swiss banks.

More recently, the issues at Credit Suisse have been mostly about poor corporate governance, questionable staffing decisions and excessively risky investments.

In 2020, CEO Tidjane Thiam resigned after an external investigation found the bank's chief operating officer had ordered an operation to spy on several former executives, including former wealth management chief Iqbal Khan, who had joined Zurich rival UBS.

Two years later, his replacement — longtime Credit Suisse veteran Thomas Gottstein — resigned after the bank posted a quarterly loss of 1.6 billion francs.

Credit Suisse even found itself in Swiss court, getting fined last June for failing to prevent money laundering by a Bulgarian crime ring 15 years earlier. The case partly involved an unidentified wrestler accused of trafficking tons of cocaine through "mules" from South America to Europe and laundering the profits.

The bank last fall announced settlements worth hundreds of millions of dollars with authorities in the U.S. over mortgage-backed securities that were behind the 2008 financial crisis and in France over a tax fraud case.

Credit Suisse is “in trouble because it’s been in trouble for a really long time. It has a whole host of other challenges that everyone’s focusing on now because of bank wobbles in the U.S.,” said Megan Greene, chief economist at the Kroll Institute.

That’s different than Silicon Valley Bank, which was hit by rising interest rates. The Swiss lender is “full of high-quality assets” but faced a liquidity crisis, and the “playbook” for dealing with that is central bank intervention, she said.

“This is not 2008 all over again,” Greene said. “But the overreactions that we’ve seen in the market have been eerily reminiscent of 2008. That has gotten everybody’s Spidey-sense tingling.”

She said she was worried, “but rationally speaking, there isn’t a reason to think that a banking crisis is inevitable. It’s just that markets aren’t always rational.”

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Wiseman reported from Washington. AP reporter Frank Jordans in Berlin contributed to this report.