Expert Insights

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Why Did Credit Suisse Fail… and What Does it Mean for Swiss Banks?

By Jamie Vrijhof-Droese

It was a crown jewel in Switzerland's economy… one of the country's largest and most prestigious financial institutions.

Founded in 1856, Credit Suisse survived two World Wars and countless regional and global economic crises.

Then, in mid-March this year, it abruptly collapsed and was sold off to its great rival, UBS, in a frantic weekend deal negotiated by Swiss government regulators.

In the international media, the stunning demise of Credit Suisse is often mentioned alongside the collapse of Silicon Valley Bank and several other recent banking failures in the U.S.

But the causes of Credit Suisse's collapse are largely unique…

It's a story of greed, corruption, and mismanagement on a startling scale. And the question now is, what does it mean for Switzerland and the country's reputation as the global leader in wealth management?

What Happened to Credit Suisse?

Credit Suisse, in many ways, built modern Switzerland.

The company's founder, Alfred Escher, was a wealthy financier who in the mid-19th century successfully argued for a private, rather than state-run, railway system. Escher set up Credit Suisse to finance this private national railroad.

Over the following decades, Credit Suisse grew into one of the country's most powerful institutions. It participated in the development of the Swiss currency system, and helped fund the creation of the national electrical grid and the integration of Switzerland's railway into the European rail system.

These milestones opened Switzerland up for international trade and transformed it into a modern, industrial economy.

For much of its history, Credit Suisse was the definition of a Swiss bank—cautious, meticulous, safe, boring. Then, in 1988, something changed.

That year, Credit Suisse took a controlling interest in the investment bank First Boston, and it started to move toward American-style investment banking. It sought bigger profits… and took bigger risks to achieve them.

A pattern of poor decision-making and corporate mismanagement began to emerge.

In 2013, Credit Suisse made a deal to develop Mozambique's fishing industry. It was a disaster. Hundreds of millions went missing. The bank was embroiled in bribery allegations and in the end, Mozambique was left not with a fishing industry, but with a currency and debt crisis.

In 2020, Credit Suisse's CEO resigned over another scandal in which the bank spied on its former head of wealth management. And last year, a former bank employee received a prison sentence for helping a Bulgarian cocaine cartel launder its money.

Since 2000, Credit Suisse has been fined a startling $11.4 billion by regulators. That's more than three times the $3.2 billion that UBS paid to acquire the bank.

As a consequence of these repeated, severe PR crises, Credit Suisse slowly lost its credibility among investors.

In October last year, concerns first emerged that Credit Suisse could even collapse. The bank was able to move forward at that time by attracting new investment from the Saudi National Bank, but it lost about a quarter of its local assets.

Then, six months later, a banking crisis emerged in the U.S. as Silicon Valley Bank failed…

The U.S. bank collapsed because it failed to account for the rapid rise in interest rates.

In little more than a year, the U.S. Federal Reserve pushed interest rates to 5% from 0.25% in an effort to tackle inflation. With new bonds offering such vastly higher rates, the value of older bonds started to collapse.

SVB had lots of older bonds on its books… bonds that it had to start selling at a loss to cover customer withdrawals. Word got out and it caused a bank run. SVB collapsed.

Credit Suisse did not have this bond problem. But the collapse of SVB made investors nervous. They started looking around to see where the next shoe might drop.

Given its recent troubles, the focus turned to Credit Suisse…

When its main investor, the Saudi National Bank, announced that it would not increase its stake in the bank, the share price plummeted, falling almost 30% in an extremely short period of time. Eventually the situation became so dire that the bank could not find a way forward by itself.

The Swiss government was forced to intervene and broker the sale to UBS.

What Does This Mean for Switzerland?

The collapse of Credit Suisse is undoubtedly a sad day for the Swiss financial industry. The bank is one of the biggest employers in Zurich and a huge taxpayer.

It's currently unclear what UBS will do with the bank. Significant changes are likely.

However, when you look into the Credit Suisse story, it's clear this is not related to a wider problem in the Swiss financial sector. This was a problem centered on poor decision-making and mismanagement at one particular bank over an extended period of time.

In the wider context, the Swiss government and regulators were quick to resolve the situation. A sale was immediately brokered, meaning there will not be any financial losses to the bank's clients.

Indeed, Swiss regulators have stressed that thanks to the takeover deal, it will be possible to "continue all the business activities of both banks with no restrictions or interruption."

So, if there is a lesson to learn from this story, it is the importance of careful selecting your bank. At my wealth-management firm WHVP, which focused on serving U.S.-based clients, we evaluate banks based on three main criteria:

- What is the bank's expertise and experience when it comes to U.S. clients? Is the U.S. market strategically relevant to them? Is the bank able to prepare U.S. tax statements in English, etc.?
- WHVP checks the balance sheet to make sure that the bank has enough liquidity, does not take high risks, and has good corporate governance. Our preference is for family-run banks that are at least partially still owned by the founding family. We believe this presents good conditions for long-term and stable management of the bank with good risk management.
- WHVP checks if the employees share our values and those of the clients. We conduct initial personal interviews with the relevant teams and decision-makers to ensure that the business philosophy, work attitude, core values, etc. are in line with ours.

Based on this process, WHVP has never used Credit Suisse as a custodian bank and has never recommended the bank to clients.

In many ways, Credit Suisse was the outlier, not the norm, in the Swiss financial services industry. Its problem was that it had begun operating like a major U.S. investment bank, by embracing high-risk strategies in an effort to maximize profits.

So, if there is a repetition of the Credit Suisse collapse, it is far more likely to occur in the U.S. than in Switzerland.

Ultimately, Switzerland remains one of the safest jurisdictions in the world when it comes to wealth management.

The country manages $2.6 trillion in international assets according to a 2021 Deloitte study, making it the world's largest financial center ahead of Britain and even the U.S.

The country's long banking tradition and major structural advantages—including its well-managed public finances, strong and stable currency, and very low levels of debt—mean the largest proportion of global investors will continue to choose to have their money managed in Switzerland.