



Collapse of Credit Suisse

Description

Theme:

- In mid-March 2023, the second-largest bank in Switzerland collapsed and was bought by UBS for \$3.3 billion. Credit Suisse is a multinational financial services company based in Switzerland, with operations in over 50 countries. The company is known for its expertise in private banking and is a trusted advisor to high-net-worth individuals and families. The collapse of Credit Suisse is a significant event for the global financial system.

Causes:

- Over the past two decades, Credit Suisse had been weakened by a number of scandals.
- The scandals at Credit Suisse are truly international in scope, involving everything from money laundering for Bulgarian drug traffickers and Japanese gangs to bribery payments in Mozambique, tax evasion in the US, employee surveillance in Switzerland, secret dealings with African dictators, and jobs-for-business deals with Chinese officials in Hong Kong.
- Credit Suisse and its employees have been investigated, fined, made to pay settlements, and even imprisoned for various money laundering, corruption, corporate espionage scandals and tax evasion.
- The bank also made a series of risky investments and business practices that did not pay returns back to the bank.
- In 2021, Credit Suisse faced significant losses due to the collapses of Archegos and Greensill, which it had provided financing to. The bank's risk management practices were criticised, and it was revealed that Credit Suisse had ignored warning signs and allowed Archegos to take on too much risk.
- As a result of the various scandals and failures, Credit Suisse faced significant legal and reimbursement costs, which further weakened its financial position. The bank was forced to raise capital and cut dividends to address its issues.
- Suisse experienced a turnover in leadership, with Antonio Horta-Osorio being brought in to address the bank's culture, but ultimately resigning in early 2022 after breaching COVID-19

rules twice. The bank has struggled to find stable leadership, which has further compounded its problems.

How did it collapse?

- The scandals that Credit Suisse had been embroiled in for the past two decades made the bank appear increasingly risky to investors.
- On October 2022, a journalist made a tweet claiming that a major investment bank was “on the brink.” Investors assumed that the bank in question was Credit Suisse, and this led to deposit withdrawals of over \$100 billion and a decline in its share price.
- The bank disclosed that it has discovered “material weaknesses” in its 2021 and 2022 financial reporting on March 14. This sparked worries that there may be another scandal, severely harming the bank’s standing and financial viability.
- The chair of Saudi National Bank, Credit Suisse’s largest shareholder, subsequently ruled out further investment, which only served to exacerbate the situation.
- The combination of scandals, financial weaknesses, and a loss of investor confidence led to Credit Suisse’s failure.
- The Swiss regulator, FINMA, was aware of the risks involved in Credit Suisse’s association with Greensill Capital but didn’t act on time. Moreover, the regulator has been criticised for its lack of transparency and accountability, which has undermined public trust in the regulatory system and raised questions about its ability to effectively regulate the banking sector.

Effects:

- Credit Suisse’s collapse had a significant impact on the Swiss economy. The bank was the second-largest bank and one of Switzerland’s largest employers and contributed significantly to the country’s GDP. The failure of the bank led to a loss of jobs and a decrease in economic activity.
- Credit Suisse was investing heavily in the tech industry, and its collapse will negatively affect the tech industry, particularly fintech companies that were working with Credit Suisse.
- The collapse of Credit Suisse will affect the real estate market, as the bank had a significant presence in real estate investment and development.
- Credit Suisse’s collapse also had a negative impact on investor confidence. The bank’s scandals and subsequent collapse led to a loss of trust among investors, not only in Credit Suisse but in the banking industry as a whole.
- Credit Suisse’s collapse raised concerns about the stability of the global financial system. The bank was considered a “too big to fail” institution, and its collapse will have had a ripple effect on other financial institutions.
- The collapse of Credit Suisse is not expected to have a significant direct impact on India’s banking sector or economy. However, the failure of Credit Suisse has created ripple effects throughout the global financial system, which can have some indirect effects on India as well.

Way forward:

- The collapse of Credit Suisse has raised questions about the effectiveness of the existing regulatory system and the need for more comprehensive reforms to address the root causes of regulatory failures. These reforms may include the establishment of more robust regulatory frameworks, stronger penalties for regulatory violations, and greater public scrutiny of the regulatory process.
- The collapse of Credit Suisse also highlights the need for better coordination between regulators and international financial institutions.
- Credit Suisse's collapse underscores the need for stronger banking regulation and oversight. The failure of regulators to effectively oversee the bank highlights the need for greater transparency, accountability, and more robust regulatory frameworks.

Conclusion:

The collapse of Credit Suisse Bank serves as a strong reminder of the risks associated with excessive risk-taking and inadequate care in the banking industry. The bank relied heavily on complex financial products and failed to manage risks or behave ethically, resulting in significant losses, reputational damage, and legal issues. This unfortunate incident underscores the need for robust regulatory frameworks and effective oversight of financial institutions. In India, regulators must review and strengthen their regulatory frameworks to prevent similar types of incidents.

Photo by [Karolina Grabowska](#)

Your Turn...

What's your take on the collapse of Credit Suisse? Express your point of view through the comment section below. And subscribe to our blog to read answers to the trending GD topics.

References:

- [Why did Credit Suisse fail and what does it mean for banking regulation?](#)
 - [The inside story of Credit Suisse's Collapse, by Credit Suisse](#)
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