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# “Berne will probably still need to keep the new banking colossus on an even keel.”

The end came for banking stalwart Credit Suisse 167 years after its founding, when the government forced UBS to take over its ailing competitor. Economic historian Tobias Straumann on Switzerland and its big banks, on wishful thinking in Berne – and on the question of whether our small country still needs an international banking giant at all.

INTERVIEW: SUSANNE WENGER

**Swiss Review: Tobias Straumann, does the loss of Credit Suisse with its long history mark a tipping or turning point for Switzerland?**

Tobias Straumann: Well, it is certainly a milestone. Credit Suisse (CS) was Switzerland's oldest big bank still in existence. But its demise is not a huge turning point as such. Big banks were

already failing back in the 1990s. Switzerland had five big banks around 30 years ago. Now there is one. The 2008 global financial crisis and ensuing government bailout of Switzerland's biggest bank UBS were of much greater significance. So was the end of banking secrecy for foreign clients.

**From rescuing UBS to forcing it to acquire CS, the state has had to bail**

**out Swiss big banks twice in the last 15 years – in a country that prides itself on its free-market principles. How does that make sense?**

Switzerland is not as market oriented as you may think. This country has many state-owned or pseudo state-owned enterprises. You have the cantonal banks for a start – these are also public-sector entities. Moreover, in my view government bailouts of big banks

## 1856

### Bank for the railways

The liberal politician and businessman Alfred Escher (photo) founds Schweizerische Kreditanstalt (SKA) in Zurich with the help of his peers. SKA, the forerunner of Credit Suisse, quickly becomes Switzerland's biggest merchant bank and helps to fund the expansion of the Swiss national railway.



Photo: ETH-Bibliothek, Bildarchiv

## 1934

### Banking secrecy enshrined in law

Parliament approves legislation ensuring banking secrecy for bank clients in Switzerland. This is a contentious issue at home and abroad, but Berne fiercely defends banking secrecy for a long time. Amid growing international pressure over tax evasion,



Switzerland begins to phase out banking secrecy for foreign clients in 2009.

## 1977

### Ski hats for the people

To boost its image, SKA gives away 800,000 branded woolly hats to the public. These beanies remain a common sight on the ski slopes well into the 1990s, later becoming a cult item. The merch becomes popular again after the demise of Credit Suisse, worth a lot more than the CS share price.



are no longer as shocking as they used to be. Since the 1990s, the vulnerabilities of the highly globalised and liberalised banking system have been in evidence all over the world. Repeated state intervention has become the norm. Indeed, there is no other option, because the alternative would be global financial meltdown. Other countries do not want Switzerland to be a source of contagion for the entire banking system.

**“We overstate the economic importance of the financial centre.”**

**But after the UBS bailout, parliament's too-big-to-fail law was meant to prevent the government and taxpayers from having to take so much financial risk again. Is the fall of Credit Suisse a rude awakening for lawmakers?**

As a historian, I am not too surprised about what happened. In a crisis, you need the mechanisms to be very simple. Not only was the too-big-to-fail law too complicated, it was also untested and a little naive. You have to remember that foreign authorities are always involved and have their own responses. It can take a while before they all agree.

**What can Berne still do, if anything, in the face of the global financial markets?**

I would say that Berne can – and must – still do a lot to keep the banking sector on an even keel. It did a good job with UBS in 2008. The bank was partially nationalised for a time, while the federal government even ended up earning something from the deal. UBS also overhauled its risk culture. In the case of Credit Suisse, Berne believed a merger was the safer option. Time will tell whether it was the right one.



Tobias Straumann, 57, is Professor of Modern History and Economic History at the University of Zurich. His research focuses on financial and monetary history, among other things. Straumann is particularly interested in the interplay between economic crises, institutions, and politics.

**Who or what was primarily responsible for the collapse of CS?**

The management and the Board of Directors. CS had been poorly run for years. But the authorities must also take a good look at themselves. They had known since October 2022 that the bank was in difficulty, yet it still took a long time in March to put together a rescue plan. It all seemed a bit off the cuff, unlike the bailout of UBS. This surprised me. We still don't know enough to pass verdict. A parliamentary inquiry committee has been set up to look into the takeover. However, the bank itself still has a part to play. It should be proactive in producing a

1991

#### **Collapse of a regional bank**

Regional bank, the Spar- und Leihkasse Thun (canton of Berne), goes into liquidation following the bursting of the property bubble. News of Switzerland's first-ever bank run goes around the world. Over 220 million Swiss francs worth of private and corporate assets are lost.



1997

#### **Merger to create UBS**

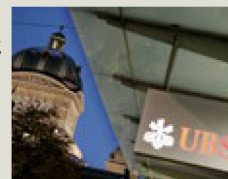
Two of Switzerland's banking giants, Union Bank of Switzerland and Swiss Bank Corporation, merge to create the country's biggest bank UBS. The new company expands more into international finance, an area in which it wants to become a world leader.



2008

#### **State bailout of UBS**

Following the collapse of US bank Lehman Brothers, UBS comes unstuck in the ensuing financial crisis. The federal government and the Swiss National Bank (SNB) hand the big bank a 60-billion-franc lifeline. The bailout succeeds without taxpayers taking a hit.



Photos: Keystone





comprehensive report on what went wrong at CS. It owes Switzerland that much.

**Despite losses and scandals, CS paid exorbitant salaries and bonuses. Some bankers only seem to be driven by greed and are ready to risk everything in their pursuit of money. What happened to the entrepreneurial bank of yesteryear that helped to develop the country's economy?**

CS kept supporting business until the very end, doing a very good job with its corporate lending. It is true that founding father Alfred Escher and his peers invested in infrastructure in the 19th century, but the railways were also a risky business. The early years at Schweizerische Kreditanstalt were turbulent, with railway stock prices going up and down. Bankers earned handsomely when things went well, but their bonuses vanished into thin air when stocks plummeted. That is the difference from today. CS did make mistakes because of greed, but the bank's demise was mainly down to the incompetence of the Board of Directors and management.

**Why this incompetence?**

From the 1990s onwards, the Swiss big banks turned into international busi-

nesses. However, Swiss-managed companies have always had an extremely hard time of it in London and New York, where investment bankers have a completely different mindset. The approach in these English-speaking financial centres sits uncomfortably with Swiss business culture. Furthermore, the Swiss big banks often employed second-rate staff in London and New York, who behaved like mercenaries and were only out to make as much money as they could as quickly as possible.

**UBS took over CS in June and is now a huge bank. Will this story end well?**

Just to give some perspective: the new UBS is smaller than the UBS before the financial crisis – and will probably shrink a bit more. But it is still very big of course, with a balance sheet twice the size of Switzerland's GDP. Will the story end well? I don't know. However, it is highly likely that this new banking giant will also find itself in a predicament and need the government to step in. It is already clear that greater regulation will not solve the problem.

**Politicians are nevertheless calling for greater regulation of systemically relevant banks.**

Banks having more of a buffer, i.e. a greater share of equity, would make

## 2010

### Excessive bonuses at CS

CS CEO Brady Dougan (photo) receives a record bonus of almost 71 million francs in addition to his annual salary of around 19 million francs. The excessive bonuses at CS continue to attract criticism in Switzerland over the following years, but the bank's shareholders keep approving them.



## 2011

### Too-big-to-fail law

Parliament approves a bill from Finance Minister Eveline Widmer-Schlumpf (photo) to impose greater regulation on systemically relevant banks, including UBS and CS. Such banks are "too big to fail", because their failure would damage the economy. Capital requirements are increased, and a bank resolution framework is put in place.



## 2021

### CS loses billions

Risky investments in finance company Greensill and the hedge fund Archegos result in losses running into the billions for Credit Suisse. The Swiss Financial Market Supervisory Authority (FINMA) opens proceedings over Greensill and imposes remedial measures on CS.







sense, I think. But it still wouldn't make UBS secure, we need to realise that. The global financial system is very fragile. CS was struggling, but not so badly off either. It was meeting all the financial regulator's requirements. But all it takes is something to happen, and the contagion begins. Governments can neither predict nor prevent financial crises. All they can do is mitigate them in time and prevent a catastrophic outcome. But it is hard to know when best to intervene.

#### **Can a small country like Switzerland still afford to have a major global bank, given the risk?**

There are advantages to having a big bank on your doorstep offering the full range of services. These advantages would be lost if UBS had to spin off its problematic international operations at the behest of lawmakers, or if it moved its headquarters elsewhere. But you would have more stability. Foreign subsidiaries would take care of certain ar-

**"It is already clear that greater regulation will not solve the problem."**

eas of business – in much the same way that the airline Swiss covers a specific area of the market for its German parent carrier Lufthansa. It would work. The end of banking secrecy did us no harm either, did it? Is Zurich any poorer than it was before? Quite the opposite.

#### **How important was being an international financial hub for Swiss prosperity?**

We overstate the economic importance. The First World War turned Switzerland into an international financial centre, although in 1914, just before the outbreak of hostilities, we were already the richest country on the European continent based on per capita GDP. Industrial activity was the primary driver of that. Industry was highly dynamic and has underpinned Swiss prosperity from the 19th and 20th centuries to the present day. Switzerland only became a financial hub as a result of industrialisation, with wealth management providing a completely new, rich source of income. This has always had its pros and cons from an economic perspective.

#### **What were the drawbacks?**

High wages in the banking sector attracted many highly qualified workers, who were then missed in other, more innovative industries. With the banking sector now being less of a draw, there is more scope for other industries and innovations to thrive again. Zurich is also a very successful insurance hub – a more predictable and stable line of business that suits the Swiss mentality much better, I feel.

## March 2023

### **Emergency takeover by UBS**

The crisis at CS comes to a head. Clients withdraw their assets. On the evening of Sunday 19 March, Finance Minister Karin Keller-Sutter announces UBS's takeover of CS in the presence of the two bank bosses. The federal government pledges 109 billion francs to backstop the emergency sale. The Swiss Sergio Ermotti becomes UBS's new CEO.



## April 2023

### **Initial snub in parliament**

In an extraordinary session, the National Council rejects the CS rescue deal. But its decision is largely symbolic. The Council of States votes in favour. The debate reignites on whether lawmakers should do more to keep banks in check. The National Council adopts motions to ban executive bonuses and introduce higher equity ratio requirements.



## June 2023

### **Inquiry into the collapse of CS**

The National Council and Council of States set up a Parliamentary Investigation Committee (PlnC), their most powerful control body. Led by the Centre Party Council of States member Isabelle Chassot (photo), the PlnC will this autumn investigate the actions of the Federal Council, the SNB, and FINMA before and during the CS takeover.



Photos Keystone