Banks in turmoil

Credit Suisse Group AG

Credit Suisse: the rise and fall of the bank that built modern Switzerland

How a national institution grew from local roots to a global force before a series of scandals sparked its fall from grace

Owen Walker and **Stephen Morris** in London MARCH 24 2023

Outside Zurich's central station a statue of Alfred Escher looks proudly down Bahnhofstrasse, one of the world's most expensive shopping streets, to Paradeplatz, the heart of the city's financial district.

Trains still trundle along the Swiss rail network that the 19th-century industrialist pioneered — but the bank he founded 167 years ago to finance its development is soon to be subsumed.

Credit Suisse was rescued from near-bankruptcy last weekend by local rival UBS in a takeover hastily brokered by the government, sending shockwaves throughout Switzerland and global financial markets.

For more than a century and a half, Credit Suisse stood as a symbol of Swiss financial power, stability and prestige. But its fall from grace in recent years has underscored the fragility of its reputation, tarnished by a series of self-inflicted scandals.

"It is shocking to lose a 167-year-old bank in 72 hours," said Oswald Grübel, a former chief executive of both Credit Suisse and UBS, who added that the lender's decline began after the financial crisis, from where it "went down and down and down".

John Mack, another former Credit Suisse chief executive who went on to run Morgan Stanley, has a blunter assessment of the reasons for its fall: "Their performance says it all."

Rise: The bank that transformed 'Europe's forgotten backwater'

Industrialist Alfred Escher set up Schweizerische Kreditanstalt, which was later rebranded as Credit Suisse, in Zurich in 1856 © Sepia Times/UIG/Getty Images

Credit Suisse was born out of Escher's determination to open up a country he lamented was "Europe's forgotten backwater" by developing a railway network across the Alpine nation that would link northern and southern Europe.

Building it required huge amounts of capital and he did not want to rely on foreign lenders, which demanded influence over the infrastructure projects they funded. So in 1856 he set up Schweizerische Kreditanstalt, which would later be rebranded as Credit Suisse. The bank's original abbreviation, SKA, still adorns its palatial sandstone headquarters that dominate Paradeplatz.

"The Swiss success story in the 19th century is unimaginable without Credit Suisse. The magic word is railway," said Joseph Jung, the bank's former official historian and author of a book on Escher called *Rise, Power, Tragedy* — a title that could equally fit the bank he founded.

For the next century, Credit Suisse was at the centre of Switzerland's economic growth, from helping develop its currency to financing its electrical grid. It became the go-to bank for the country's growing middle class, before expanding in Europe and opening its first New York branch in 1940.

The second world war provided the bank with both an opportunity and its first taste of international ignominy.

Credit Suisse played a leading role in financing the reconstruction efforts across Europe following the conflict, although it was also accused by Holocaust survivors of blocking access to their deceased relatives' accounts. The bank and other Swiss lenders settled a class-action lawsuit over the matter for $1.25bn in 1998.

Lenders acquired by Credit Suisse were also found to have accounts linked to Nazi party officials — and for the rest of the bank's existence it would be dogged by accusations of turning a blind eye to nefarious activities of some of its clients.

In the 1960s British politicians coined the phrase "the gnomes of Zurich" to describe Swiss bankers squirrelling away pots of gold in underground caverns. For decades the country's financiers wore the term as a badge of honour, working in an industry that prided itself on its secrecy.

Credit Suisse itself built a gilt-panelled vault 18ft below the level of the nearby Lake Zurich that holds 3,500 safes for its customers.

It was not until 1978, when it struck a deal to partner with US investment bank First Boston, that Credit Suisse truly entered the global stage. Through a series of increasingly aggressive acquisitions it built up its presence in Zurich, London and New York — and became entrenched in the "bulge bracket" of global investment banks.

Risky culture: How Credit Suisse lost its DNA

Credit Suisse First Boston traders sell bonds over the phone in Manhattan © Mark Peterson/Corbis/Getty Images

It was at this point that the bank began to lose its way, according to Vincent Kaufmann, chief executive of Ethos Foundation, who traces much of the bank's eventual risk management problems to its embrace of investment banking.

"Once the bank got into capital markets and trading, it started to lose its DNA and the mentality changed," said Kaufmann, whose foundation represents Swiss pension funds and institutional investors that own up to 5 per cent of Credit Suisse.

First Boston had a more buccaneering approach to banking, with exorbitant rewards on offer for the biggest risk takers. A host of influential bankers and investors found their feet at the business, from Bruce Wasserstein and Joseph Perella, who went on to form their own boutique firm, to Richard Handler, now chief executive of Jefferies.

Among other alumni is Larry Fink, the chair and CEO of BlackRock, who left First Boston in 1986 after his team made a $100mn loss on an incorrect interest rate prediction.

"There was always a cultural split between the Swiss side and the Anglo-American side. At times I thought that was productive," said a First Boston veteran, who added the Swiss process-driven approach was complemented during times of crises by the tendency of their US and UK counterparts to challenge received wisdom.

In London in the 1980s, Credit Suisse played an influential role in the development of Canary Wharf as an alternative financial centre to the Square Mile. The idea for the new centre originated from a plan by Credit Suisse First Boston chair Michael von Clemm, who wanted to build an administrative centre on the much cheaper site.

The bank's One Cabot Square UK head office was one of the first high-rises to be built in what has since become the skyscraper-strewn Docklands.

By 1990, Credit Suisse had bought a controlling stake in First Boston after the US business lost millions of dollars on the collapse of the junk bond market. First Boston's high-risk culture pervaded through Credit Suisse's investment bank for the next three decades.

Even so, Credit Suisse fared better than most during the financial crisis. Unlike UBS, it avoided a state bailout and had much more manageable subprime losses than US rivals.

However, it did rely on big investments from two Middle Eastern investors, the Olayan family of Saudi Arabia and the Qatar Investment Authority, which are still among its biggest shareholders.

"When I was on the board, it was UBS that was in a crisis," said David Syz, a former Swiss state secretary for economic affairs who served as a Credit Suisse director between 2006 and 2013. "We were quite happy that we had escaped the whole thing. But part of it, I suppose, was down to luck."

Crises: Fraud, scandals and fallouts

Credit Suisse was forced to close a $10bn group of funds tied to specialist finance firm Greensill Capital in 2021 © FT montage/Bloomberg/AFP/Getty

Several current and former Credit Suisse executives and directors who spoke to the Financial Times said they believed the fact the bank survived the financial crisis relatively unscathed sowed the seeds for its eventual failure.

"With hindsight, management thought it was justifying their business model and they did not need to change," said a former director who was not on the board at the time.

While other banks were forced to clean up their act and shrink their balance sheets in the years following the crash, Credit Suisse put off dealing with legacy problems and was more willing to take risks.

Its final years as an independent business have been marked by a series of scandals and heavy losses, as it lurched from one crisis to the next.

The bank's struggles over this period have been pinned on various people. But the two blamed most often are Urs Rohner — an international hurdler-turned-lawyer who chaired the bank between 2011 and 2021 when its shares lost 75 per cent of their value — and Romeo Cerutti, the bank's general counsel for 13 years up to 2022.

"There was one person in this organisation through this whole period of rot: chairman Urs Rohner," said David Herro, chief investment officer of Harris Associates, a longtime investor in the bank that sold its entire stake this month. "But the board was not independent and strong enough to challenge him."

Rohner did not respond to a request to comment, while Cerutti declined.

In the decade that followed the financial crisis, Credit Suisse brushed up with regulators over a series of financial scandals that for a long time had seemed de rigueur for global banks.

It was entangled in US legal battles over subprime mortgages, had a minor role in the Malaysian 1MDB scandal and pleaded guilty to helping American citizens file fake tax returns.

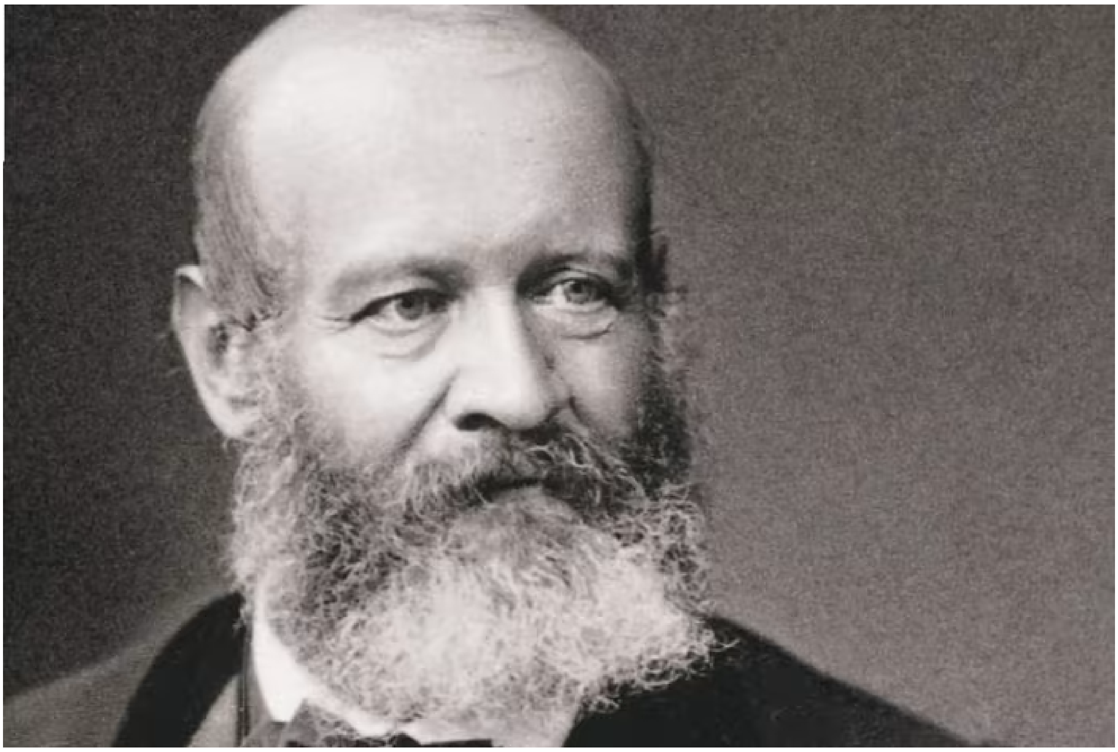
In one case, Credit Suisse bankers organised $1.3bn of loans for Mozambique — one of the world's poorest countries — to develop a tuna fishing industry. But much of the money was swallowed up in kickbacks for local officials and bankers involved in the deal.

In another, private banker Patrice Lescaudron defrauded some of Credit Suisse's richest and most politically sensitive clients — including the billionaire former prime minister of Georgia — for more than a decade, using the ill-gotten gains to fund a lavish lifestyle of Rolex watches, Chanel jewellery and sports cars.

Rise and fall of Credit Suisse

1856: FOUNDING FATHER

Industrialist and politician Alfred Escher wanted to modernise and elevate the Swiss economy by improving trade with Europe. He establishes Schweizerische Kreditanstalt, the forerunner to today's Credit Suisse, to help finance a new railway system connecting Switzerland to the trade ports of Europe. The bank will play a pivotal role in Switzerland, helping to establish a single currency and the country's electrical grid.



Escher wanted to modernise and elevate the Swiss economy by improving trade with Europe

1934: SWISS BANKING LAW

A flood of private wealth flows into Switzerland following the first world war after the country's Banking Law of 1934 makes it a crime to disclose information on the activity of clients without their consent or an accepted criminal complaint. Switzerland's banking industry becomes synonymous with secrecy, which helps boost the country's presence on the global financial stage but has also been associated with scandal and ill-gotten gains.

1988: FIRST BOSTON ACQUISITION

Credit Suisse buys a 44% stake in US investment bank First Boston after the New York-based boutique gets into difficulty from the collapse of the junk bond market. It later acquires a controlling stake in 1990, helping catapult Credit Suisse into a global investment banking powerhouse to rival Wall Street titans such as Goldman Sachs.

2012-2016: TUNA BOND SCANDAL

Credit Suisse bankers organise $1.3bn in loans for Mozambique — one of the world's poorest countries — to develop a tuna fishing industry. But much of the money is swallowed up in kickbacks for local officials and bankers. In 2021 the Swiss bank pays $475mn in US and UK fines, but more damaging was the cost to Mozambique's people, estimated at $400 per citizen — the country's entire gross domestic product in 2016.

FEB 2020: SPYING SCANDAL

French-Ivorian Tidjane Thiam is ousted as chief executive after a corporate espionage scandal threatens to destabilise the Swiss banking industry. The Swiss regulator later finds the bank had 'serious organisational shortcomings' and that 'statements made by the bank to the public and to Finma subsequently proved to be partially incomplete or even inaccurate'.

2021: GREENSILL AND ARCHEGOS

Credit Suisse is forced to close $10bn of funds tied to collapsed specialist finance firm Greensill Capital in which it had persuaded hundreds of its wealthiest clients to invest. The Greensill scandal is followed within weeks by the collapse of family office Archegos Capital, which leaves Credit Suisse nursing further losses of $5.5bn.

JAN 2022: HORTA-OSÓRIO'S COVID BREACHES

António Horta-Osório resigns as Credit Suisse chair after an investigation found he had breached UK Covid rules on a trip to London to watch the Wimbledon men's tennis final the previous summer. It is later revealed that he also attended the final of football's European Championship at Wembley on the same day.

2023: LAST DAYS

The end comes with a controversial deal orchestrated by regulators over a frantic weekend. UBS buys the whole of Credit Suisse for SFr3bn, about SFr0.76 a share, a fraction of its tangible book value. Shareholders are denied a vote on the arrangement and the owners of $17bn of bonds are wiped out before common equity holders — reversing the capital hierarchy and upsetting market participants.

Last days for an independent Credit Suisse

Intraday share price, from close on Mar 9 2023 (SFr)

FINANCIAL TIMES

Source: Refinitiv

Each time one of these cases came up, Credit Suisse chose to fight the claims rather than settle, which stored up trouble further down the line.

By 2015 it had enlisted the highly regarded former Prudential chief Tidjane Thiam as CEO to help shake up the bank, repositioning it from investment banking under his predecessor, Brady Dougan, to its roots in wealth management.

But within a few years, Thiam fell out spectacularly with his ultra-ambitious head of wealth management, Iqbal Khan, who had bought a house right next door to his boss on the shores of Lake Zurich.

A neighbourly dispute over a construction project and blocked views of the lake escalated, prompting Khan to defect to UBS. But before he joined, Khan and his family were chased through the normally sedate Zurich streets by private investigators hired by Credit Suisse over concerns he was poaching staff and clients.

When it was later revealed that there were other incidents of corporate espionage, Thiam's time at Credit Suisse was up and he was ousted in early 2020.

Facing oblivion

Credit Suisse chair Axel Lehmann, left, and his UBS counterpart Colm Kelleher, second right, speak to Swiss finance minister Karin Keller-Sutter and President Alain Berset after takeover talks last weekend © Fabrice Coffrini/AFP/Getty Images

Next the bank turned to longtime executive Thomas Gottstein to steer the bank out of the crisis. But within a year, the wheels fell off spectacularly.

In March 2021, Credit Suisse was forced to close a $10bn group of funds tied to specialist finance firm Greensill Capital, in which 1,000 of its wealthiest clients had been persuaded to invest on the promise of attractive returns for next to no risk.

Smooth-talking former watermelon farmer Lex Greensill, who enlisted ex-UK prime minister David Cameron as an adviser, used the money in the funds to buy so-called receivables, a form of corporate invoice.

But many turned sour, and Credit Suisse is in the middle of a fraught and expensive operation to reclaim the funds for its clients through insurance claims and lawsuits that are expected to continue for years.

A few weeks later Credit Suisse was hit by a $5.5bn loss on the collapse of family office Archegos Capital — the biggest trading loss in its history. An internal report into the bank's failings later identified a "fundamental failure of management and controls" in Credit Suisse's investment bank and a "lackadaisical attitude towards risk".

In the immediate aftermath of the two crises, António Horta-Osório replaced Rohner as chair. The former Lloyds Banking Group chief executive promised to de-risk the lender, tackle its cultural deficiencies and trim back the investment bank.

But before his plans could be put into motion, Horta-Osório was also gone. Nine months after joining the board, he fell out with board members over several issues including his breach of Covid-19 quarantine restrictions to attend both the Wimbledon men's singles tennis final and the final of football's European Championships in London.

Among the first tasks for his successor, former UBS executive Axel Lehmann, was to deal with the fallout from Credit Suisse becoming the first Swiss bank to be charged with criminal offences in the country's history, in a case related to its role in laundering dirty money for a group of former Bulgarian wrestlers who turned to cocaine smuggling.

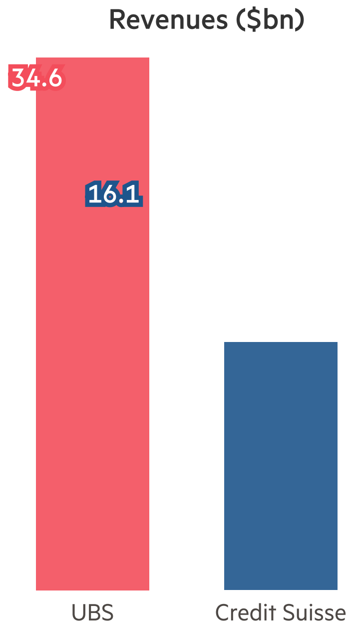
Although the incidents dated back more than a decade, it was yet another reminder of the bank's laissez-faire approach to risk management and the case — with gory details of assassinations and kidnappings — was the last thing Credit Suisse wanted to be associated with.

Next up, a consortium of media outlets reported on a leaked cache of documents detailing the accounts of 30,000 Credit Suisse clients, some dating back several decades.

Among the clients were family members of one-time Egyptian president Hosni Mubarak, the former president of Kazakhstan and Ronald Li Fook, the former chair of the Hong Kong stock exchange who was imprisoned for taking bribes.

A comparison of UBS and Credit Suisse before historic takeover

As at Dec 2022



By summer 2022, Gottstein was gone and replaced by another former UBS executive — the phlegmatic Swiss-German Ulrich Körner. Lehmann, Körner and the rest of the Credit Suisse board spent the next three months devising a new, more urgent strategy to arrest the bank's fortunes.

Under the plan, much of the investment bank would be spun off in a contentious deal with former director Michael Klein, while the bank raised $4bn from mainly Middle Eastern investors to pay for a huge restructuring that would result in 9,000 job cuts.

But by the time the new strategy was delivered in late October, the bank was crumbling under its latest crisis.

This time, social media rumours about its financial health prompted clients to pull more than SFr111bn of assets from their Credit Suisse accounts — equivalent to 8 per cent of its assets under management.

Lehmann would eventually blame the bank's demise on Twitter, but there was still time for more blunders.

At the start of 2023, Finma, the Swiss financial regulator, investigated the accuracy of comments Lehmann made over the scale of the outflows, while the bank was forced to delay publication of its annual report after auditors PwC spotted "material weaknesses" in its internal controls and the US Securities and Exchange Commission demanded more information.

By last week, an off-the-cuff comment by the chair of the Saudi National Bank, by now Credit Suisse's largest shareholder, about refusing to invest any more into the group — combined with jitteriness over the recent collapse of three US banks — was enough to finish the business off.

As clients withdrew $35bn in just three days last week, Swiss authorities demanded Credit Suisse be sold to UBS or face oblivion. The bank's fate was sealed.

"People were in tears both on Sunday and Monday," said one person involved in the negotiations at Credit Suisse's Paradeplatz headquarters over the weekend. "It was quite awful."

As for what happens next, UBS executives are already drawing up detailed plans for which parts of the business they will keep and which they will sell or wind down.

"I get the tradition of Alfred Escher," said one person involved in UBS's deliberations. "But UBS has done the right thing for all that history, that tradition — otherwise it would be completely gone."

Additional reporting by Ivan Levingston in Zurich

Banks in turmoil

The global banking system has been rocked by the collapse of Silicon Valley Bank and Signature Bank and the last minute rescue of Credit Suisse by UBS. Check out the latest analysis and comment here