Credit Suisse Crisis

Why in news?

Over the past few days, the share price of Credit Suisse, one of the most influential banks in the world, has hit an all-time low.

What is Credit Suisse?

- Credit Suisse is a famous investment bank headquartered in Switzerland.
- It’s been around since 1856.
- Credit Suisse Group AG is ranked as the world's 45th largest bank in terms of assets.
- Credit Suisse has assets worth 829.12 billion dollars as per S&P Global rankings of the world's top 100 banks.
- Swiss central bank has designated it one of the country’s global systemically important banks (G-Sib).

What is the problem with Credit Suisse?

- **Greensill issue**- Greensill were the largest non-bank provider of supply chain finance which borrowed large sums of money from outside investors including Credit Suisse.
- In turn, Credit Suisse convinced its customers to deploy large amounts of capital.
- When Greensill went bankrupt, both the bank and its clients suffered in tandem.
- **Archegos Capital fiasco**- Credit Suisse lost 5.5 billion dollars from the collapse of the Archegos Capital Management investment fund.
- **Loss in market value**- Credit Suisse has been losing its market value since the 2008 global financial crisis.
- The share price is witnessing a secular decline.
- The bank's financials turned red in 2021 with a loss of 1.80 billion dollars (163% decline from 2020).
- **Increasing cost of capital**- The bank was forced to pay a higher cost on its borrowing.
- **Credit default swaps (CDS)**- Credit default swaps, a type of investment that serves as insurance against a company defaulting, rose to all-time highs.
- **Involvement in scandals**- The controversies that have the balance sheet of the bank include trading jobs for business in Hong Kong, hiring private detectives to spy on employees.
- It is also said to be involved in laundering money for a criminal organisation in Bulgaria, and facilitating corrupt loans in Mozambique.
- There has been speculations if Credit Suisse is about to collapse, much like Lehman Brothers, an iconic American investment bank, did in 2008.

What is Credit Suisse doing to come out of the crisis?

- **Strengthening-** The bank is strengthening its wealth management business and transforming its investment banking division.
- **Core equity capital ratio** - The portion of capital made up of core assets, a key marker of financial strength, stands at 13.5% as of June 2022.
- **Liquidity coverage ratio**- Credit Suisse’s liquidity coverage ratio was among the best in class at 191%.
- Banks are more tightly regulated than in 2008 and have more capital on hand to manage risk.
- The analysts consider that the risk of a Lehman-style event is very less.

Should India be concerned?

- A global financial crisis is always a concern but because Credit Suisse's India operations are limited, the threat to the Indian banking system is not grave.
- Credit Suisse AG has an Indian entity which entered India in 1997 when the East Asian currency crisis was in full swing.
- Credit Suisse AG has Indian operations under the branch model and not as a wholly-owned subsidiary.
- The bank is relatively small as compared to other European banks in India.
- Foreign banks' share of the pie is small in India with a market share of less than 4-5% in loans and advances.
- Credit Suisse's capital adequacy ratio in India is 34.62%, which is far higher than the regulatory requirement of 9%.
- The Indian banking system is also quite resilient, with both banks and non-banks sitting on comfortable equity and liquidity.

References

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Quick facts

- **Global systemically important banks (G-Sib)-** It is a bank whose systemic risk profile is deemed to be of such importance that the bank’s failure would trigger a wider financial crisis and threaten the global economy.
- The Basel Committee has developed a formula for determining which banks are G-Sibs, the criteria including size, interconnectedness and complexity.

- **Credit default swap (CDS)**- It is a financial derivative that allows an investor to swap or offset their credit risk with that of another investor.
- To swap the risk of default, the lender buys a CDS from another investor who agrees to reimburse them if the borrower defaults.
- **Liquidity coverage ratio-** It is the portion of cash and other assets that can be quickly accessed in a crisis.
- **Core equity capital ratio-** It is the portion of capital made up of core assets which is calculated against the risk-weighted assets or loans of a bank.
- A core equity capital ratio of over 8% is considered good in the market.
- **Capital Adequacy Ratio (CAR)-** It is the ratio of a bank's capital in relation to its risk weighted assets and current liabilities.