

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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2. <https://www.businesstoday.in/latest/economy/story/is-credit-suisse-crisis-a-threat-for-in-dian-banking-stock-market-348946-2022-10-04>
3. <https://finshots.in/archive/will-credit-suisse-trigger-another-global-financial-crisis/>
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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.

