

Credit Suisse Crisis

Why in news?

Recently UBS bank agreed to buy Credit Suisse bank that involved in fraud and forgery and collapsed eventually.

What is Credit Suisse?

- Credit Suisse is a famous investment bank headquartered in Switzerland.
- It's been around since 1856.
- Swiss central bank has designated it one of the country's global systemically important banks (G-Sib).
- Credit Suisse is the 12th largest foreign bank in India and it owns assets worth Rs 20,000 crore.

Global systemically important banks (G-Sib) 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.

What led to the Credit Suisse crisis?

Causes

- **Fallen share price** -Since the beginning of 2022, Credit Suisse's share price has fallen close to 60%
- **Credit default swaps (CDS)** -The spreads on credit default swaps (CDS) on Credit Suisse debt have spiked to a 14-year high — the highest since the global financial crisis of 2008.
- **Risky bets** -Credit Suisse has made several risky bets and ended up losing a lot of investor money.
- **Fading investor's confidence** -the falling share price eroded investor confidence, and has made raising fresh capital costlier.

Credit Default Swaps (CDS) is an insurance instrument. If an investor who has lent money to a firm (say Credit Suisse) is unsure about the firm's ability to repay, the investor can buy a CDS on Credit Suisse's bond.

Issues

- The biggest loser in the crisis are AT1 bond holders.

What is Additional Tier 1 (AT1) bonds?

- AT1 bonds are also known as *“contingent convertibles,”* or *“CoCos”*.
- They are a type of unsecured, perpetual bonds that banks issue to improve their core capital base.
- It was introduced in the aftermath of the 2008 global financial crisis.
- AT1 are a risky bet — if a lender gets into trouble, AT1 bonds can be quickly *converted into equity or written down* completely.
- They have *higher risk* and AT1s offer a *higher yield* than most other bonds.
- They are long-term and *do not carry any maturity date*.
- AT1 bonds are *mandatory under Basel III norms*.

What are the impacts on India?

- The crisis may have some impact on the *Indian information Technology Industry, markets and startups*.
- The startups receiving funds from Silicon valley bank may face funding issues.
- India has implemented Basel-III norms for the banking system.
- Under this system, banks have to maintain liquidity coverage ratio, which was actually missing from the SVB case and to some extends even in the case of Credit Suisse
- AT1 may contribute to a higher cost of capital for banks, including Indian lenders

Credit Suisse is not being seen as a direct threat in India as it owns just 0.1% of assets in the Indian banking system.

What are the differences between European and US crisis?

European crisis	US crisis
<ul style="list-style-type: none">• European crisis is credit Suisse crisis• Triggering factor -Credit Suisse was partly a victim of bond market losses, but multiple other factors were at play in its downfall• A poor governance record and chequered investment decision-making, which saw the bank lurching from scandal to scandal over much of the last decade.	<ul style="list-style-type: none">• US crisis include Silicon Valley Bank (SVB) and Signature Bank crisis• Triggering factor -Over 90% of deposits at Silicon Valley Bank (SVB) and Signature Bank were uninsured, and thereby prone to bank runs.• These banks were also invested heavily in long-term government bonds — and when interest rates rose, the value of their bond portfolios declined

What are the measures taken to resolve the crisis?

- The Swiss government and regulators in a bid to contain the global financial market panic brokered the deal between UBS and credit Suisse.

Related links - [Silicon Valley Bank and Signature Bank Crisis](#), [Yes Bank Crisis](#), [Credit Suisse Crisis](#)

References

1. [The Indian Express | Credit Suisse](#)
2. [The Indian Express | AT1 Bonds](#)

