CREDIT SUISSE: BANKING ON TROUBLE

Case overview

Iqbal Khan swore he had seen that car before. It was just a fleeting glimpse, out of the corner of his eye, as he dropped his son off at football training. It had already been several streets and still it lurked a few cars behind. He picked up speed to lose the car. There was no mistaking it now; the car, and the three men inside it, were tailing him. He floored the accelerator but his pursuers did not let up, hot on his tail as the two vehicles tore through the old town of Zurich, Switzerland. He screeched to a sudden halt and leapt out of the car. Whipping out his phone, he snapped shots of the tailing car's license plate. One of the men stepped out of the car and ran over, demanding that he hand over his phone. When the man tried to snatch it from him, Khan shouted for the police, and the three men escaped into the streets.

Khan was the former head of Credit Suisse's wealth management division and was victim of an espionage scandal that sullied Credit Suisse's reputation. The media was in an uproar over the 'culture of observance' at Credit Suisse and the chaos only intensified when it was revealed that another former executive had also been spied on. As the company reeled from the aftermath of the scandal, its reputation took a further beating when it was caught in the collapse of Archegos Capital Management and Greensill Capital. It was also implicated, albeit less significantly, in the Luckin Coffee and Wirecard scandals.

The objective of this case study is to facilitate a discussion of issues such as corporate culture; ethics; board structure and responsibilities; diversity; crisis management; corporate espionage; and risk management.

A Swiss story

Founded in 1856, Credit Suisse AG (Credit Suisse) is a financial services company serving clients through three main regional segments – the Swiss Universal Bank, International Wealth Management, and Asia Pacific.[1] It offers diversified financial services ranging from private banking solutions to discretionary asset and risk management. Credit Suisse has gained a reputation as a firm with strong global investment banking capabilities and has established itself in its home market of Switzerland.[2]

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However, following the 2008 global financial crisis, Credit Suisse's share price has declined more than 90%.[3] The bank has since made painstaking progress, with heavy cost cutting and restructuring, to achieve more stable financials today. More recently, Credit Suisse reported a 75% increase in profits in the first quarter of 2020 to US$1.34 billion, which was its "highest quarterly results in five years".[4]

Surprising the doubters

"We all deal with the same yield curve, the same equity markets, the same volatility. Yet people were acting as if I had landed at the bank from planet Mars. Saying that it was risky for Credit Suisse to appoint a non-banker felt to me like a cheap shot."

– Tidjane Thiam, CEO of Credit Suisse[5]

Tidjane Thiam was appointed the Chief Executive Officer (CEO) of Credit Suisse in March 2015 after being the Group CEO of Prudential plc. (Prudential) since 2007. He had a plan to scale up Credit Suisse's private banking and wealth management operations in Asia, Eastern Europe, Latin America, and Africa.[6]

Initially, many both inside and outside the bank doubted Thiam's ability to lead Credit Suisse. His background in insurance at Prudential led others to assume that he would not be able to understand the complexity in the banking industry. However, Thiam was hardly a stranger to financial markets.[7]

After taking the helm, Thiam mapped out a three-year restructuring plan for Credit Suisse that was launched at the beginning of 2016, redirecting the bank's focus from riskier, capital-intensive investment banking to wealth management and emerging markets.[8] Despite sustaining losses in 2016 and 2017 due to restructuring costs, legal settlements and U.S. corporate tax changes, Credit Suisse's profits increased steadily from 2015, supported by reduced volatility of revenue streams and operating costs. In 2018, the bank reported its first annual net profit since 2014, beating analysts' expectations.[9] It continued to do well in 2019, achieving a cost-to-income ratio of 77.6% – its best since 2010.[10] Thiam was awarded Banker of the Year by Euromoney in 2018.[11] Chairman Urs Rohner credited Thiam as the reason that "Credit Suisse is standing on a very solid foundation and has returned successfully to profit."[12]

Khan versus Thiam

Thiam's stellar performance came with high expectations that not many employees were able to meet. Two bankers came through amidst Thiam's efforts to break Credit Suisse from its past. One was finance chief, David Mathers, and the other was Iqbal Khan. Mathers succeeded in winding down under-perfoming assets within record time. Khan, who was in charge of private banking, was able to reduce costs through disposals in the asset management business and restructuring, and exceeded the targets set.[13]

As Khan and Thiam worked together, they grew closer, and became neighbours in Herrliberg, the “gold coast” of Lake Zurich, when Khan bought the apartment next to Thiam.[14] However, animosity eventually developed between the two due to work on Khan’s property that spanned more than two years, which chipped away at Thiam’s patience. A cocktail party held in January 2019 soon became the talk of the company, as the tension between Khan and Thiam boiled over. Khan and Thiam had a squabble away from the guests, regarding Thiam’s trees which blocked Khan’s view of the lake. The argument escalated and required an intervention from Khan’s wife. Instead of letting it go, Khan complained to Rohner and the Credit Suisse board, widening the split between the two and creating a toxic environment at the bank’s headquarters.[15]

The final straw for Khan came when he was passed over for a promotion while two of his colleagues were promoted to the executive committee.[16] Khan was expecting more recognition and assurances from Thiam regarding his future and role within the company. The personal animosity he felt towards Thiam and a perceived lack of recognition by Credit Suisse drove Khan to leave for cross-town rival UBS.[17] Chairman Rohner’s handling of Khan’s exit from Credit Suisse aggravated the situation. When Khan approached Rohner about leaving Credit Suisse well before his actual departure,[18] he was granted a shorter than usual “gardening leave” of just three months.[19]

On 30 June 2019, Khan was still finishing the second quarter as the head of Credit Suisse’s international wealth arm. The next day, he officially handed in his resignation to Thiam and revealed the arrangements for his departure. The communication of his departure as fait accompli infuriated Thiam.[20] Credit Suisse announced Khan’s official departure on 1 July 2019.[21]

Spy who followed me

Following Khan’s departure, it was reported that Credit Suisse Chief Operating Officer (COO) Pierre-Olivier Bouée, a close deputy of Thiam, had appointed private security firm Investigo GmbH (Investigo) to follow and track the movements of Khan during the three month “gardening leave”.[22,23] In addition to following Khan’s car, private investigators from Investigo also followed him on foot on multiple occasions. They used the encrypted messenger service Threema for communication purposes, which subsequently made it impossible for Homburger, the law firm that investigated the spying scandal on behalf of Credit Suisse, to discover the full extent of Investigo’s covert surveillance.[24]

News of the spying incident broke at the end of September 2019. The Credit Suisse board announced that Bouée had been motivated by the “misguided notion” that Khan would try to poach clients as well as employees from Credit Suisse. Bouée assumed full responsibility for the matter and resigned from his position with immediate effect on 1 October 2019.[25]

Credit Suisse conceded that Khan and Thiam had “a dispute, a heated discussion”. Nevertheless, Chairman Rohner rejected any claims about Thiam’s possible involvement and said that there was “zero evidence” that Thiam had known about the spying incident despite the personal animosity between the two men. Rohner’s assertion was corroborated by Homburger’s investigation which “did not identify any indication that the chief executive had approved the observation of Iqbal Khan nor that he was aware of it prior to 18 September 2019, after the observation had been aborted”.[26]

Prior to the conclusion of Homburger’s investigation, Credit Suisse’s largest shareholder, Harris Associates, had publicly called on the board not to dismiss any executive over the incident. Harris Associates’ Deputy Chairman, David Herro, said: “These are humans; people aren’t flawless. They don’t make perfect decisions every time. And this is why, unless laws have been broken, this doesn’t seem like a case for anyone losing their job.”[27]

In December 2019, it was revealed that Credit Suisse was involved in yet another spying case targeting Peter Goerke, the former Chief Human Resources Officer. Credit Suisse admitted that private detectives were hired to follow Goerke for several days in February 2019 after Goerke had been taken off the executive team and relegated to the role of a senior advisor. The bank placed the blame on Bouée, claiming that the former COO acted on his own accord without any involvement from Thiam.[28]

The Swiss Financial Market Supervisory Authority (FINMA), which is responsible for enforcing financial regulations in Switzerland, was drawn into the incident involving Goerke.[29] However, it was reported that FINMA was not bothered by the fact that there was surveillance involved, which is legal in Switzerland. Observations are allowed for competitive intelligence or to protect the company’s interest. However, what concerned FINMA was the fact that the messages involving the surveillance were encrypted and deleted.[30,31] Enforcement proceedings by FINMA are still ongoing as of July 2021.[32]

On 25 July 2021, it was reported that Credit Suisse has reached an out-of-court settlement with Khan over allegations of spying.[33]

Board of directors

Swiss company law is mainly based on the Swiss Code of Obligations. Another source of rules for listed companies is the Swiss Ordinance against Excessive Compensation in Listed Companies.[34] Other relevant regulations include the Directive on Information relating to Corporate Governance[35] – which requires companies to publish a corporate governance section in their annual reports – and the Swiss Code of Best Practice for Corporate Governance[36] which adopts a ‘comply-or-explain’ approach.[37]

Credit Suisse adopts a two-tier governance structure with a separate board of directors and executive board.[38] In this system, the board of directors is tasked with the ultimate direction and strategy of the company as well as the oversight over the executive management. Swiss law does not entitle employees to a representation on the board of directors.[39] The company's articles can provide for such a representation, but this is not the case for Credit Suisse.[40] The roles of the Chairman and the CEO are separate, with Rohner as Chairman and Thiam as CEO. Rohner chaired the board of directors while Thiam led the executive board.[41]

Swiss law also does not require directors to have any particular knowledge or qualifications and there are also no gender or diversity requirements.[42] Companies are free to incorporate such clauses into their articles of association but there are no such specifications in the case of Credit Suisse.[43] Figure 1 shows the profile of the Credit Suisse board in 2019.

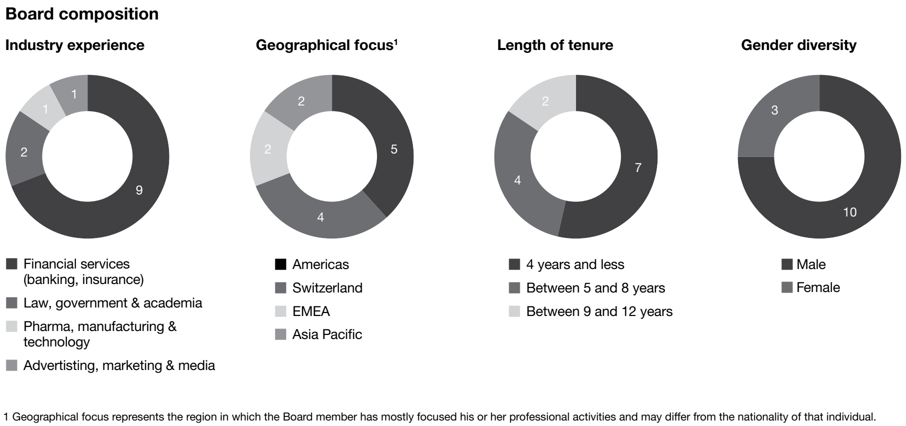

Figure 1: Composition of Credit Suisse's board of directors in 2019[44]

In 2019, the Credit Suisse board had 13 directors who were all deemed to be independent. The independence of the board members is assessed annually by the Governance and Nominations Committee, using the independence criteria of the SIX Swiss Exchange Directive, FINMA, the Swiss Code of Best Practice for Corporate Governance and the rules of the New York Stock Exchange and the NASDAQ. Performance of the board is also assessed annually against responsibilities and objectives, including any special focus objectives for the following year.[45]

The board members had backgrounds in areas such as finance, senior management experience in financial services, government and academia. The directors included nationals from Switzerland, Americas, Asia Pacific and EMEA (Europe, Middle East and Africa). The board is committed to maintaining a good gender balance over the long term, having guidelines for representation of each gender on the board of directors and executive board of at least 30% and 20% respectively.[46]

Under Swiss law, the Annual General Meeting (AGM) must be held within six months of the end of the fiscal year, and the notice of the AGM must be published in the Swiss Official Gazette of Commerce at least 20 days prior. In 2019, the Credit Suisse board held seven meetings in person and nine additional meetings with all having over 85% attendance. In addition, the board held a two and a half day strategy session. Board members are elected at the AGM by shareholders individually for a period of one year and are eligible for re-election but have a maximum tenure of 12 years, with a special request required to extend for a maximum of three additional years. In the 2019 annual report, it was disclosed that Chairman Rohner had served for the maximum standard term limit of 12 years as of 2020 and has informed the board that he would not stand for re-election at the 2021 AGM.[47]

Boardroom battle

"I serve at the pleasure of the board, and if they decide they want to make a change, it's my duty to make that happen. I am doing that with a clear conscience."

– Tidjane Thiam, CEO of Credit Suisse[48]

The second spying case and investigations by FINMA further undermined Credit Suisse's reputation and placed even greater pressure on Thiam to resign.[49] The scandal also strained the relationship between Rohner and Thiam.[50]

Although Rohner said that he would not be standing for re-election at the 2021 AGM, he changed his mind a few months before that AGM and said he planned to extend his tenure. This led to unhappiness as several of Credit Suisse's top bankers had called for Rohner to step down rather than Thiam. The announcement led Blackrock – the world's largest asset manager and Credit Suisse's fifth largest shareholder – to reject Rohner's suggestion. This was a major blow to Rohner as Blackrock was one of his key supporters in the power struggle against Thiam. Blackrock had previously offered conditional support in Chairman Rohner's tussle with Thiam, provided Rohner resigned in 2021.[51,52]

A number of shareholders publicly declared their support for Thiam, including Silchester International Investors Inc. (Silchester), which owned a 3.26% stake in Credit Suisse. Silchester released a statement saying that it was not aware of any reason why Rohner and other board members were not giving Thiam their full support, and hence felt that Rohner should resign before his planned retirement date. U.S. hedge fund Eminence Capital (Eminence) went one step further and wrote to Credit Suisse's non-executive directors to warn them against pursuing a "personal agenda with respect to the CEO rather than acting in a responsible fiduciary way".[53]

Herro, from Harris Associates, which owned a 8.4% stake in the bank,[54] said that the board should remove Rohner if he still refused to show support for the CEO. He further stated that he would take matters into his own hands otherwise.[55] Herro supported Thiam as he felt that Thiam had done a great job in replenishing Credit Suisse's capital and transforming the bank into a more focused wealth manager, and that the surveillance scandal should be considered a small issue.[56] He further stated that he saw "no reason to change a successful CEO as he has not been implicated in any wrongdoing".[57] Eminence, which owned an approximately 1%

stake,[58] felt that the lack of support for Thiam would have a harmful impact on shareholder interest. Eminence called for the board to publicly reaffirm its support for Thiam. It said it would not hesitate to pursue legal action to hold Rohner and the board accountable if its requests were not complied with.[59]

Compensation

Credit Suisse's Compensation Committee is chaired by an independent director and comprises solely of independent directors.[60] In Credit Suisse's 2019 annual report, Compensation Committee Chairman Kai S. Nargolwala specifically addressed the spying incidents which he termed as "observation events". He asserted that Credit Suisse's independent investigation found former COO Bouée to be chiefly responsible for the observation events and that no other key management personnel was involved. Upon his resignation, Bouée forfeited all his outstanding deferred compensation awards. Thiam also accepted accountability for the events and had his 2019 non-financial short-term incentives (STI) score reduced to 50% from 100% a year before.[61]

In total, CEO Thiam received approximately 15% lower compensation in 2019 compared to 2018. The reduction was mainly due to the lower achievement of STI financial performance targets, a 50% score for non-financial STI, and a lower fair value of the 2019 long-term incentives (LTI) opportunity compared with the prior year LTI.[62]

The key elements of the compensation framework included both fixed and variable compensation. Base salary is based on relevant skills, qualifications, experience, responsibilities and external market factors. Pension and benefits are consistent with local market practices. For variable compensation, 2019 STI was based on equal weightage (of 33.3% each) given to adjusted income before taxes, return on tangible shareholders' equity, and non-financial criteria. In determining the 2019 LTI, equal weightage (33.3%) was given to the three-year average return on tangible equity, three-year average tangible book value per share, as well as the relative total shareholder return.[64]

With regard to variable compensation awarded, approximately 54% would be deferred. The 2019 annual report also stated that Credit Suisse neither has "golden parachute" agreements nor any other predetermined termination agreements for employees. There are also no special severance provisions to executive board members beyond the regular compensation awarded during the notice period.[65]

Thiam takes the fall

On 6 February 2020, Thiam finally resigned as CEO. The board unanimously accepted his resignation. Thiam had previously expressed his desire to stay on but was unable to subdue Rohner in an internal power struggle without the backing of the board despite the support of major shareholders. The board also unanimously decided to support Rohner to complete his full term until April 2021.[66]

Following Thiam's resignation, Credit Suisse's share price fell from US$13.06 on 7 February 2020 to a low of US$6.67 on 16 March 2020.[67] Herro did not hold back in his comments on Thiam's resignation, calling out the "poor decision-making by the board of directors" and reiterating Thiam's contribution in turning Credit Suisse around.[68]

Rohner commented that during Thiam's term, the bank "saw a deterioration in terms of trust, reputation and credibility among all [its] stakeholders".[69] Others praised Thiam's contributions to Credit Suisse's performance.[70] In FY2019, Credit Suisse achieved a 69% growth year-on-year in terms of net income. Two other key banking performance metrics – Group net new assets and assets under management – also increased from 2018.[71]

Was Thiam a victim?

"To be very frank, it seems like envy from competitors or perhaps something else given that Mr. Thiam looks a little bit different than the typical Swiss banker. Either one of these two rationales behind these attacks against him, to me are extremely distasteful."

– David Herro, portfolio manager at Harris Associates[72]

Though Thiam produced stellar results for Credit Suisse, as the sole black CEO of a large bank in a predominantly white industry and city,[73] his tenure within the Swiss bank was not smooth sailing. During his term, the first few years of restructuring required the bank to issue new shares which brought down its share price, drawing ire and disapproval.[74] Some board members criticised him for the lack of growth in the bank's Chinese arm. Furthermore, he was often viewed as an outsider in Zurich. His personality did not sit well with the Zurich public, and he received scathing, racially charged comments from bloggers and news sites – one called him a "fruits salesman" and asked him to "go home, fool!".[75] A shareholder even insinuated that he hailed from "third world" origins.[76]

Thiam was brought into Credit Suisse to improve its profitability – which he did, as he successfully stabilised the company's profits by strengthening its wealth management arm. However, he confessed to some of his close associates that he felt the board wanted him to leave since he had finished his task, a phenomenon commonly known as the "glass cliff".[77]

The racial undercurrents were present outside work as well. When he was invited to Rohner's private 60th birthday party, Thiam found himself the only black guest and watched in disbelief as a black entertainer was called onstage to dance and sweep to the music, dressed as a janitor. Thiam left the room with his partner and another couple, only to return to Rohner's friends in the midst of a performance, donned in afro wigs.[78] The bank apologised for the incident and cited "a total mischaracterisation of the evening", saying that "there was never any intention to cause offense" and that they were "sorry for any offense caused".[79]

Thiam's last news conference at the bank's headquarters was his swan song. "Every second, I've done the best I could," he said. "I am who I am. I cannot change who I am. It is the essence of injustice to hold against somebody what they are."[80]

A new team takes the helm

Thiam was replaced by a Swiss national, Thomas Gottstein, who was head of Credit Suisse's Swiss unit.[81] Meanwhile, it was reported that Rohner agreed to step down in 2021,[82] in line with the maximum term limit of 12 years. In what was seen as a surprise, the bank picked Antonio Horta-Osorio as the new Chairman succeeding Rohner. Horta-Osorio, who has dual Portuguese and British citizenship, is the first non-Swiss person to be appointed as Credit Suisse Chairman. A retail banking veteran, his position prior to taking on the role as Credit Suisse Chairman was the CEO of Lloyds Banking Group Plc.[83]

Swiss avalanche

Unfortunately, a new team at the helm seemed to bring a new set of troubles. In 2021, Credit Suisse was sued by a pension fund which claimed that investors in the bank were misled. Material defects in client companies and inadequate risk policies and oversight were allegedly concealed from investors. The bank was accused of allowing high-risk clients to take up excessive leverage, thereby exposing itself to billions of dollars in potential losses. Two such clients were U.K. fund Greensill Capital (Greensill), and U.S. investment fund, Archegos Capital Management (Archegos).[84]

The asset management team of Credit Suisse managed US$10 billion in funds that Greensill packaged based on financing it provided to companies. However, many of these companies were either not rated or had very low credit ratings. Such financing allowed these highly levered companies to hide additional borrowings with minimal accounting disclosure. Swiss regulators had previously warned the bank about the client, ordering it to set aside more capital to cover potential losses arising from companies which would default on their payments.[85] Moreover, Credit Suisse was allegedly also aware that Greensill was under investigation by the German banking regulators in July 2020.[86]

Further, two months before entering into business with Greensill, the Asian risk management team of Credit Suisse had put Greensill on a watchlist. However, according to reports, these red flags were repeatedly dismissed by the bank's leadership in Zurich, London, and Singapore. Credit Suisse continued to market the Greensill funds and went on to approve another US$160 million loan to the company. In October 2020, Lara Warner, the Chief Risk and Compliance Officer, was reported to have overruled the risk managers who predicted a default in its loan to Greensill. Warner went on to remove around 20 senior risk managers from the team.[87]

The risk management of Credit Suisse was apparently further hampered by bureaucracy. The head of the bank's Asian arm, Helman Sitohang, was responsible for many of the bank's lucrative clients. He had a strong relationship with SoftBank Group Corp. (Softbank), a significant backer of Greensill. His "salesman" nature made him extremely "risk-agnostic" and his immense support for the founder of Greensill prevented Credit Suisse from breaking ties with the company.[88]

In March 2021, Greensill lost its credit insurance coverage from Tokio Marine,[89] which refused to renew cover for the loans Greensill was making.[90] Credit Suisse also began winding down its US$10 billion group of supply chain finance funds over valuation concerns on 5 March 2021.[91] Greensill filed for insolvency on 8 March 2021.[92] In relation to the collapse of Greensill, Credit Suisse recognised US$2.3 billion worth of defaulted loans in its Greensill funds.[93]

More bad news soon came in the form of Archegos, where things went south when owner Bill Hwang's biggest wagers moved against him.[94] Hwang worked for hedge fund powerhouse Tiger Management Corp. before running his own fund, Tiger Asia Management LLC (Tiger Asia) in the 2000s. In 2012, the U.S. Securities and Exchange Commission accused Tiger Asia of insider trading and manipulation in two Chinese bank stocks. Hwang allegedly received confidential information about pending share offerings from the underwriting banks and used the insider information to make US$16.7 million in illicit profits.[95,96] Hwang was also banned from securities trading in Hong Kong for four years from 2014 due to market misconduct.[97]

Hwang started his own family office fund, Archegos in 2013.[98] At Archegos' peak, his wealth amounted to approximately US$30 billion. Hwang had built his stockpicking wagers and magnified his positions through Credit Suisse with huge, borrowed sums.[99] The bank allegedly used opaque derivatives to help Archegos place big wagers on risky companies such as ViacomCBS without being required to disclose them to regulators.[100] As Hwang's swap accounts progressively churned out cash, he accumulated additional funds to invest and increase leverage.[101]

In April 2021, some of Archego's portfolio stocks experienced a substantial dip in share price, triggering margin loan calls from lender banks. Archegos eventually defaulted on margin calls, and the lenders were forced to sell off huge chunks of its investments to recoup their money. The stock fire sale amounted to almost US$30 billion.[102] Credit Suisse was the worst hit of several global banks,[103] ending up with a loss of US$4.7 billion after it was stuck on negotiating the prices and could not sell off its investments in time. The impact of this was so significant that it led to the bank announcing an expected US$960 million pre-tax loss for its first quarter of 2021.[104]

Remedial actions

If not for the Archegos and Greensill debacles, Credit Suisse would have reported the strongest quarterly financial performance in a decade.[105] The Credit Suisse asset management division was left reeling from the Greensill collapse. The Archegos saga was the final nail to the coffin. Credit Suisse's investment banking head, Brian Chin, and Chief Risk and Compliance Officer Warner were dismissed from the bank, along with several other executives involved in the two cases.[106] Warner's predecessor, Joachim Oechslin was reinstated as the Interim Chief Risk Officer for Credit Suisse.[107]

In the aftermath of the two debacles, Credit Suisse made reductions to its bonus pool accruals,[108] to the tune of hundreds of millions of dollars. Credit Suisse also cancelled its share buy-back programme.[109]

The bank's asset management and investment banking divisions were overhauled, with many personnel changes.[110] To further address the risk management issues, it launched two independent investigations, led by third party experts, into both its investment banking and asset management operations.[111]

Credit Suisse shares lost nearly 25% of their value over a period of two months. The dividend declared was reduced to 0.10 CHF (US$0.11) per share for 2020, from the proposed 0.29 CHF (US$0.31).[112] Analysts and investors remained concerned about the Group's steps to boost capital and the upcoming quarterly earnings.[113]

Was the crisis expected, yet again?

Despite the warnings from the 2008 global financial crisis, hidden risks from opaque financial transactions have managed to destroy the reputation of a blue-chip bank, harm shareholders and risk careers, putting question marks over the financial regulation reforms post-crisis. Credit Suisse engaged in strategies which were difficult to comprehend and had escaped proper regulatory supervision.[114]

In hindsight, Credit Suisse had enough capital to fulfil regulatory requirements, and there was no warning sign alluding to any danger of an impending crisis. However, regulations for excessive risk taking were seen to be inadequate. Thomas Minder, a member of the Swiss Ständerat, said that the regulatory reforms after the 2008 global financial crisis did not address many root causes of the crisis, including outsized bonuses that encouraged excessive risk-taking by bank executives. Credit Suisse had repeatedly been accused of overcompensating its executives, with the top 1,000 executives having received bonuses worth US$1 billion.[115]

Reforms by central banks and bank supervisors include raising capital requirements, forcing lenders to invest more of their own money in transactions. With the prevailing market, it was increasingly difficult for banks to earn money through interest margins, and thus banks have been induced to take excessive risk, leading to lax risk management.[116]

The decline in the quality of risk management of Credit Suisse was not sudden. In 2020, Warner changed many reporting lines in the bank. She shifted several market risk functions to report to the head of front office technology, instead of keeping it within the independent central risk team. With this new model in place, "risk lost its independence" in Credit Suisse.[117]

Another apparent reason for Credit Suisse's poor risk management was the "co-mingling of its lending, asset management, and private wealth management functions".[118] The lack of division and independence materially reduced the bank's ability to accurately assess and manage its risk exposure to high-risk clients.[119]

Additionally, it was reported that Credit Suisse promoted salesmen and technocrats at the expense of promoting risk expertise and trading acumen. A former executive claimed this to result in "a dulling of senses" at the bank.[120]

Other misadventures

Being a global bank, the risk of being implicated in global scandals will undoubtedly be higher than for less international banks. However, it seems Credit Suisse found itself embroiled in a greater number of scandals compared to other global banks.

Luckin Coffee

Luckin Coffee Inc. (Luckin Coffee) is a coffee chain which was launched in China and became a unicorn in a short period of time. Its speedy growth from the initial funding stage to launching an initial public offering was achieved within two years, with the underwriters being Credit Suisse and Morgan Stanley.[121]

Shortly after it was listed, a shortseller's report led to the unravelling of major fraud in the company.[122] It was unveiled that Luckin Coffee had been falsifying the books over almost a year from April 2019. More than US$310 million of retail sales over this period were fabricated. Numerous other issues relating to the company's Chairman, its business model and its corporate governance were raised in the shortseller's report. The company's valuation plummeted from US$12.7 billion to US$731.5 million,[123] and its share price fell from a peak of US$50 to less than US$3.[124]

Following this accounting scandal, Credit Suisse had to bear a five-fold increase in the loan-loss provisions for the region. It set aside US$100 million to provide for the potential default of Luckin Coffee. Credit Suisse had lent millions of dollars of money to Luckin Coffee's Chairman Lu and was one of the biggest creditors for the loans defaulted by Luckin Coffee.[125]

Wirecard

Credit Suisse was also publicly criticised for several deals it arranged for another key Asian client, Masayoshi Son's SoftBank. In late 2019, Credit Suisse bankers helped Wirecard AG (Wirecard) sell US$1 billion worth of convertible bonds that Softbank had agreed to buy.[126,127] This was apparently done to establish a strategic partnership with Softbank. The deal was closed by September 2019 and helped stabilise Wirecard's volatile share price. Wirecard was already facing allegations of accounting fraud at that time.[128]

After helping sell the convertible bonds to Softbank, Credit Suisse helped Softbank cut its exposure.[129] It packaged the convertible bonds for resale to third party investors. However, in June 2020, Wirecard's stock crashed after news broke that its auditor could not account for more than US$2 billion in cash on the company's balance sheet. The convertible bonds fell to just 12% of their face value, causing huge losses to the investors, including European private banks which bought them.[130]

Although the financial losses recorded by Softbank and Credit Suisse were limited due to an insignificant exposure to the Wirecard bonds, Wirecard's collapse rebounded on many institutions that had once helped the company to establish its presence in Europe's technology scene.[131]

Is it really over?

The recent scandals that Credit Suisse found itself in – from the spying scandal to the collapse of Archegos and Greensill, and its involvement in the Luckin Coffee and Wirecard scandals – have raised issues about its corporate culture, risk management and corporate governance.

The recent scandals involving Archegos and Greensill occurred under the watch of the new Chairman and CEO. Even if they may not be totally culpable due to the recent timing of their appointments, there lies the question of whether they were at least partly responsible. After all, the current CEO, Gottstein, had said it was the right time to "capture growth opportunities" and this was seen as a signal for the bank to capitalise on the market's rally after the initial shock of the COVID-19 pandemic.[132] After Thiam stepped down as CEO, Gottstein also expanded the role of Warner to include oversight of the newly combined global risk and compliance division. Warner had reportedly pushed for risk and compliance to be "more commercial" and "aligned" with front office traders and dealmakers.[133]

While there have been some board changes in the embattled bank, the board has remained largely intact. Has Credit Suisse done enough to make sure that history does not repeat again…and again?

Discussion questions

1. What are the key contributing factors to the problems that Credit Suisse has found itself in? Rank them from most to least significant and explain.
2. Thiam stood out partly because he was the only CEO of African descent among major banks worldwide. Do you believe he should have been fired over the spying scandal or was there more than meets the eye? How can companies ensure robust diversity and inclusion policies are in place and effectively implemented?
3. Critically evaluate the board structure of Credit Suisse at the time of the spying scandal and today. Are there any improvements you would suggest?
4. Do you believe that the directors at Credit Suisse adequately discharged their duties and responsibilities in relation to the spying scandal and other major problems that the bank has found itself in? Explain.
5. Credit Suisse's share price declined sharply after the resignation of Thiam was announced. Was this indicative of a mistake on the part of the board of directors? To what extent should shareholder value dictate board decisions? Discuss how companies should handle situations where a CEO is delivering good financial performance but has faced ethically ambiguous issues.
6. Comment on how poor risk management has contributed to the problems at Credit Suisse. Identify the bank's risk management weaknesses based on the information given in the case.

Endnotes

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