Opinion **Lex**

Credit Suisse: investment bank is bad bedfellow for wealth unit

Clients pulled SFr61.2bn ($68.6bn) of assets from Credit Suisse in the first quarter

UBS must integrate its rival skilfully to make the most of a low purchase price © REUTERS

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Boa constrictors are adapted to swallow large prey. Banks are not. The discomfort of UBS — bounced into acquiring Credit Suisse by Swiss officialdom — will be worsened by deposit flight from its struggling counterpart.

Clients pulled SFr61.2bn ($68.6bn) of assets from Credit Suisse in the first quarter, compared with SFr110.5bn in the fourth quarter of 2022.

This supplies a new insight and highlights an old truism. The insight is that wealth management assets are not innately sticky, despite claims to the contrary. Over two reporting quarters, customers who lost faith in Credit Suisse withdrew assets equivalent to over a fifth of the total held by the wealth management division.

The truism is that bosses' reassurances are worth little in a crisis. In December, Credit Suisse chair Axel Lehman said customer outflows had "completely flattened out" and "basically stopped". That claim now appears delusional.

Swiss financial regulators must, however have been more worried about the Bank's eroding cash deposit base. This fell by a dismaying SFr205bn to SFr166bn over the two quarters, pointing to the possibility of bankruptcy.

That has evidently been averted by Swiss state intervention, leaving stabilisation of Credit Suisse's wealth management division as the main task for UBS boss Sergio Ermotti.

A big slice of its assets and revenues must be gone for good. Nearly 300 Credit Suisse relationship managers, 14 per cent year on year, have already left. Adjusted for one-offs, wealth management in the past eight quarters made up 30 per cent of total revenues, according to Jefferies data.

UBS must integrate its rival skilfully to make the most of a low purchase price of $3.25bn. Restructuring and litigation will be costly. JPMorgan bought Bear Stearns cheaply for $1.2bn during the financial crisis of 2008. Boss Jamie Dimon moaned as recently as 2015 that 70 per cent of some $19bn in lawsuits against JPMorgan related to its smaller rival.

The uncertainty overshadowing wealth management gives Ermotti an added incentive to make heavy cuts to Credit Suisse's dicey investment bank. At Credit Suisse, revenues from the division nearly equalled those of wealth management.

There is no comparison otherwise. In normal conditions, earnings from wealth management are predictable, earnings from investment banking are not. Credit Suisse's problem went beyond this: the antics of its investment bank destroyed the trust of many wealth clients, and that of depositors to boot.

Credit Suisse investment bankers considering external job offers should not expect Ermotti to fight too hard to keep them.

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