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Opinion Banks

SVB's collapse was one thing, Credit Suisse's quite another

If a run on a liquid, well-capitalised bank is possible, it could happen to anyone

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The 1996 slasher movie *Scream* sets out three rules to survive a horror movie: you can never have sex, you can never drink or do drugs and you can never, under any circumstances, say "I'll be right back". Among recent bank failures, Silvergate did the deed, Signature Bank got wasted on its parents' Tia Maria and Silicon Valley Bank did both before popping outside to check the strange noise in the garden. Having all committed obvious banking sins, all were duly punished.

International bankers and regulators, observing the recent fiasco in US banking, are scornful. "Poor management, poor supervision, poor regulation. The Fed has acknowledged as much," one told me recently. They are not unduly worried about the same thing happening on their patch. But there is one collapse the banking community takes differently; one that has everyone worried, because it casts doubt on the fundamentals of financial regulation. The failure of Credit Suisse really is a horror story.

What happened to Silicon Valley Bank — the most symbolic of this round of US bank failures — is well understood. It is a tale as old as banking. SVB gathered billions of dollars in uninsured, short-term deposits from start-up companies. It invested them in highly rated, long-term securities. Interest rates went up. The value of the long-term securities went down. Depositors realised and demanded their money back. Borrow short, lend long, see you in hell. The only wonder is how sophisticated people let it happen. Silvergate, Signature and First Republic are variations on the theme, with added crypto.

Credit Suisse — forcibly sold to UBS, its fierce local rival, a week after Silicon Valley Bank's trip to banking Valhalla — was different. Yes, the Swiss lender got involved with all sorts of questionable characters, from Lex Greensill, the financier of hypothetical invoices, to Bill Hwang of Archegos, who was as long and wrong as any trader in recent history. Yes, it needed painful changes to its business model, with profitability under strain for some years to come. But Credit Suisse did not make a mad bet on interest rates. There was no read-across from SVB. It had a solid balance sheet and a valuable core business franchise. In horror movie terms, Credit Suisse might not be the heroine, but it was a clumsy best friend who had followed the rules and done nothing to tempt the killer's attention.

Yet even though events in the US offered no new information about the state of Credit Suisse, the Zurich bank's depositors still ran, which is what has got every thoughtful banker and regulator in the world looking over their shoulder. The post-2009 banking settlement involved high levels of capital, to protect against losses, and rules on liquidity, to deal with sudden demands for cash. Silicon Valley Bank did dumb stuff and its depositors were at risk. But if Credit Suisse can suffer a run even though it was liquid and well capitalised, then the same thing can happen to any other bank, anywhere, at any time.

The bank runs in March and April were unusually fast. Silicon Valley Bank lost 25 per cent of its deposits in a day and was due to lose another 62 per cent the next day, if it did not close. Silvergate and First Republic lost half their deposits in a couple of weeks. Several factors have been put forward to explain this — new technology making it easy to withdraw electronically; the presence of large, uninsured corporate depositors; and the spread of rumour and misinformation on social media — but none is wholly satisfactory.

According to Jonathan Rose, a historian at the Federal Reserve Bank of Chicago, rapid electronic withdrawals were an issue as early as the run on Continental Illinois in 1984. Rose quotes an account by regulator Irvine Sprague, who wrote that the banking halls were quiet, but in the back office "the employees knew what was happening as withdrawal order after order moved on the wire, bleeding Continental to death". Perhaps ultra-rich clients moving cash on their mobile phones helped to kill Credit Suisse, but this cannot be the whole story.

Banks with large volumes of uninsured deposits are not new either, notes Rose. Only 6 per cent of SVB's deposits were insured, which is very low, but comparable with 15 per cent at Continental Illinois. Most of Credit Suisse's private banking deposits were outside insurance, but they always have been. The concentration of deposits from the tech industry at SVB, Silvergate and Signature was somewhat unusual, but that did not apply to Credit Suisse at all.

Social media is one new force in a banking crisis. Facebook began in 2004 and Twitter in 2006, but they were not yet global and all pervasive during the 2008-09 financial crisis. Social media connections clearly fuelled the run on SVB, but a crucial topic for regulators to understand is how Credit Suisse's private banking clients around the world got the message to flee. What if, in the future, a similar run starts based on complete falsehoods about a solvent bank?

Ultimately, the question Credit Suisse raises is whether any amount of capital and liquidity can make a risk-taking bank safe, boosting the case for narrow banking or wider access to central bank money. The momentum of innovation is already in that direction and it truly would be a horror story for commercial banks. As the heroine in *Scream* plaintively asks: "Why can't I be in a Meg Ryan movie?"

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Letters in response to this article:

Credit Suisse story shows dangers of social media / From Milo Brett, London N15, UK

Bagehot had much to say on the caution of bankers / From Alex J Pollock, Senior Fellow, Mises Institute, AL, US

US intervention was Credit Suisse's dagger to the heart / From KC Korfmann, Herrliberg, Switzerland

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