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Swiss banks learn Lehman lessons

What lessons have Swiss banks learnt from the collapse of Lehman Brothers a year ago? (Keystone)

The Swiss banking system is reacting faster to last year's devastating collapse of Lehman Brothers than those of other countries, say observers.

A year ago today, Lehman Brothers, one of Wall Street's most revered institutions, went bankrupt at the peak of the financial crisis. The collapse sent shockwaves throughout the world and hastened the global recession.

Any bank that held Lehman Brothers products racked up more losses on top of their worthless subprime paper. They were faced with angry clients claiming that advisors were responsible for selling them failed Lehman investments.

UBS and Credit Suisse were the worst affected banks in Switzerland, but many others were also caught up in the web.

But while banks in the United States are showing signs of returning to the old high risk and reward culture, Swiss institutions appear to be heeding the lessons of the past, according to Amit Goyal, a professor at Lausanne University's banking and finance institute.

"The amount of risk is less than at the heyday of the crisis but I am not sure that they are back to comfortable levels in the US. This lesson is taking an extremely long time to digest," he told swissinfo.ch.

"The Swiss are doing better in that respect by lowering their leverage [debt] levels. Swiss banks have also moved in the right direction regarding their compensation schemes."

Settling law suits

Credit Suisse returned to profitability earlier this year on the back of a safety first approach of reducing risk and increasing capital reserves. UBS is attempting to follow suit but faces a tougher path having racked up greater losses in the first place.

In addition, Credit Suisse – along with other Swiss institutions such as the cantonal banks in Bern and Lucerne – have bent over backwards to repay part of the losses sustained by Lehman Brothers products they sold to clients.

Daniel Fischer, a lawyer who represents many of these clients, said this approach is reaping rewards and is in marked contrast to the behaviour of banks in other countries.

"The reputational fallout from the collapse of Lehman Brothers has been contained in Switzerland," he told swissinfo.ch.

UBS, meanwhile, is facing collective lawsuits in the US concerning the sale of Lehman products to customers.

Regulation

Switzerland's financial regulator, Finma, has not been sitting back during the past year waiting for the banks to solve their own problems.

Swiss banks have always been obliged to set aside more risk capital than global standards with a system known as the "Swiss finish". But Finma has now demanded that the bigger institutions create an even bigger safety net in case things go wrong again.

In addition, the regulator has set new stringent standards for pay and bonuses that come into force at the beginning of next year. These require banks to postpone payment of part of the bonus that would only be given out if long-term stability targets are reached.

Some Swiss observers are still uncomfortable with the prospect of having banks that are "too big to fail" casting a shadow over the economy.

The unlikely trio of watch entrepreneur Nicolas G Hayek, former Justice Minister Christoph Blocher and Christian Levrat, president of the centre-left Social Democratic Party, last week called on large banks to be cut down to size.

But Amit Goyal argued that this would interfere too much with the natural working of the financial market and would be hard to judge.

"How do you downsize a bank – what is the right size? I don't think you should force a bank to sell divisions because they are too risky," he said.

Matthew Allen, swissinfo.ch in Zurich

FINANCIAL CRISIS

LEHMAN BROTHERS COLLAPSE

On September 15, 2008, US investment bank Lehman Brothers collapsed, becoming the biggest bankruptcy in US corporate history.

Like many financial institutions around the world, Lehman had become over-exposed to subprime mortgage investments that had become worthless.

The US government had until that point bailed out other institutions, but drew the line at saving Lehman Brothers with taxpayers' money. But the collapse of such a revered institution sent stock markets crashing even further and froze the financial system as banks stopped lending to each other.

Governments around the world subsequently started bailing out banks and other institutions on a massive scale. In Switzerland, UBS was given an injection of federal funds and was allowed to offload much of its toxic assets.

The administrators of Lehman Brothers' European operations, PricewaterhouseCoopers, said this week that it could take a decade to wind up the failed bank.

In the meantime, the financial industry has recently been criticised for failing to heed the warnings of the past.

The think tank Institute for Public Policy Research said this week that reforms had been "very limited". US President Barack Obama also said that the sector was drifting into complacency, while British Prime Minister Gordon Brown warned that there was "unfinished business" with banks.

Opinion is divided as to whether saving Lehman Brothers would have made a difference to the financial crisis and the subsequent global recession.

LINKS

- Credit Suisse (https://www.credit-suisse.com/ch/en/index.jsp)
- UBS (http://www.ubs.com/)
- Swiss finance ministry (http://www.efd.admin.ch/index.html?lang=en)
- Swiss National Bank (http://www.snb.ch/en)
- Swissworld - economy (http://www.swissworld.org/en/economy/)
- Finma (http://www.finma.ch/e/pages/default.aspx)
- Swiss Bankers Association (http://www.swissbanking.org/en/home.htm)

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