

Consolidation in the 1990s: UBS and Credit Suisse Group — overview and summary

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Anyone who walked from the main station to the lake along the Bahnhofstrasse in 1990 passed the head offices or principal Zurich premises of five banks that Swiss statistics classed as big banks. Eight years later only two of them still existed as independent groups. The Union Bank of Switzerland and the Swiss Bank Corporation had merged into a new UBS, while Credit Suisse had absorbed Bank Leu and the Schweizerische Volksbank, had bought the Winterthur insurance group and had renamed itself Credit Suisse Group. According to the Historical Dictionary of Switzerland, the two surviving groups accounted in 1998 for 67 per cent of the aggregate balance sheet of all banks in Switzerland.¹ No decade since the foundation of the big banks in the second half of the nineteenth century had changed the structure of Swiss banking so radically, and none left a deeper imprint on the financial centre that Zurich represents today.

The consolidation of the 1990s was driven by several forces that reinforced one another. A domestic real-estate and credit crisis destroyed the capital of regional banks, of several cantonal banks and of the weakest of the five big banks. The dismantling of the cartel agreements through which the Swiss Bankers Association had fixed prices and conditions for decades exposed the banks to competition at home. At the same time, the globalisation of capital markets, the rise of derivatives and the dominance of American and British investment banks persuaded the managements in Zurich and Basel that a Swiss universal bank could only survive at the top of the industry if it acquired scale, trading capacity and a presence on Wall Street and in the City of London. Each of these developments had its own chronology. Taken together they explain why the Swiss banking landscape looked so different in 2000 from the way it had looked in 1990.

This chapter follows the process from the landscape of 1990 through the crisis of the early 1990s and the end of the cartel to the strategies of the

three leading institutions. It then examines the merger announced on 8 December 1997, the losses suffered in the collapse of Long-Term Capital Management in 1998 and the large American acquisitions of 2000. A further section considers the governance and remuneration debates that accompanied the transformation of Swiss banks into global investment houses. The final section asks what the decade left to Zurich. Two global banks with head offices at the Paradeplatz, a regulatory regime designed for them and a concentration risk that the Swiss state would have to confront in 2008 and in 2023 form the most visible part of that inheritance. The crises themselves are the subject of later chapters of this Part, to which brief cross-references are made where necessary.

1 Notes

1. Historisches Lexikon der Schweiz (HLS), “Finanzplatz”, section on the late twentieth century, <https://hls-dhs-dss.ch/textes/d/D45549.php>. The article notes that the five big banks of the post-war period had been reduced to two by 1998 and that both expanded abroad, above all in the United States, through the purchase of investment banking houses. ↩

2 Conclusion

The 1990s turned a Swiss banking landscape with five big banks, a dense network of regional and cantonal banks and a system of cartel agreements into a landscape dominated by two global groups. The domestic real-estate crisis weakened the smaller institutions and cost the banks more than CHF 42 billion in write-offs. The failure of the Spar- und Leihkasse Thun in October 1991 showed that bank runs were possible in Switzerland. The Cartel Commission and the Federal Department of Economic Affairs attacked the conventions of the Bankers Association, while the creation of the Swiss Exchange in 1995 modernised the market infrastructure. The big banks used the weakness of their competitors to buy them and the new freedom from cartel rules to seek their future in global markets.

The three leading banks answered the same challenge in different ways. The Kreditanstalt built a holding structure, bought First Boston, Bank Leu and the Volksbank and combined banking with insurance through Winterthur. The Bankverein assembled an Anglo-American investment bank from O'Connor, Brinson, Warburg and Dillon Read. The Bankgesellschaft, the largest and best capitalised of the three, was weakened by Ebner's campaign, by derivatives losses and by the dormant accounts affair. The merger of 8 December 1997 combined its capital with the investment banking platform and the management of the Bankverein. The

LTCM losses of 1998 and the large American acquisitions of 2000 showed both the ambition and the vulnerability of the new groups.

For the Zurich financial centre the decade created the constellation of two global banks at the Paradeplatz that shaped the city for a quarter of a century. It brought international talent, global reach and a new culture of performance to Zurich. It also created a concentration of risk that the Swiss state has had to manage ever since. The rescue of UBS in 2008, the collapse of Credit Suisse in 2023 and the reforms that followed are the later chapters of a story that began with the consolidation of the 1990s.

3 In five sentences

1. Around 1990 Switzerland had five big banks, of which the Union Bank of Switzerland, the Swiss Bank Corporation and the Schweizerische Kreditanstalt were international institutions while the Schweizerische Volksbank and Bank Leu were mainly domestic.
2. The real-estate crisis of the early 1990s, symbolised by the closure of the Spar- und Leihkasse Thun on 3 October 1991, cost the banks more than CHF 42 billion in write-offs and halved the number of regional banks, while the attack on the cartel conventions opened the domestic market to competition.
3. The Kreditanstalt created CS Holding in 1989, took over Bank Leu in 1990 and the Volksbank in 1993, renamed itself Credit Suisse Group and acquired Winterthur in 1997, whereas the Bankverein built an Anglo-American investment bank from O'Connor, Brinson, S.G. Warburg and Dillon Read.
4. The merger of the Bankgesellschaft and the Bankverein announced on 8 December 1997 created the new UBS under Bankverein management, after which the LTCM losses of 1998 and the acquisitions of PaineWebber and DLJ in 2000 tied both Zurich banks closely to American markets.
5. The decade left Zurich two global banks at the Paradeplatz, a new culture of shareholder value and high pay, and a concentration risk that set the stage for the crises of 2008 and 2023.

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