RAPID AND BRUTAL

Since the inglorious demise of one of the two major Swiss banks, the once proud Credit Suisse, the global financial community has been enriched by an important experience: the modern, globally effective bank run. It contrasts hugely with the almost tranquil images of long queues in front of venerable bank buildings in London as creditors tried to save what was left of their assets in cash. The modern bank run takes place invisibly in the electronic-virtual sphere. It has neither open-counter hours nor banknote logistics, and makes no material distinction between account balances – which are indeed at risk – and privileged deposit holdings. The modern bank run is radical and takes place within a very brief timespan thanks to social media and other means of communication. A few days are enough to empty a bank and render its continued existence unthinkable.

The problem of the radicality and speed of the modern bank run remains. Rumours would presumably be enough to shake even solid banks to their foundations. The global financial system remains latently unstable post-CS.

It hit the undoubtedly right institution. At the latest since the bad news about the Greensill conglomerate, it was clear that the many previous promises of business-political rectification were smoke and mirrors. Credit Suisse's risk premiums could hardly be controlled any longer, and it was foreseeable that even minor shocks in the banking system would have serious repercussions for the embattled bank.

But everyone, first and foremost the recently appointed new Credit Suisse management, but also the supervisory authority Finma and the Swiss National Bank as lender of last resort, had completely underestimated the speed of a modern bank run. Foreign banks and authorities were equally shocked, especially in the USA, where the banking crisis of 2023 had originated. In view of the impending CS catastrophe, there were fears of a global financial crisis with multiple victims among banks that certainly deserved to survive. There was probably no alternative to this unique CS rescue, involving the far healthier UBS and under the strict orders of Swiss Finance Minister Keller-Sutter.

However, the problem of the radicality and speed of the modern bank run remains. For rumours would presumably be enough to shake even solid banks to their foundations. Two or three unfavourable comments on business conduct and the balance sheet, a few minor personal scandals, high management salaries... The global financial system remains latently unstable post-CS; new crises can hit anyone and everyone. This represents a challenge to central bankers and regulators – what is needed is a new architecture adapted to the dramatically lower information and transaction costs.

At the moment, all I see is the following: either we find ways to geographically or materially contain a banking problem (“containment”), or we must delineate a sharper separation between central bank money and the commercial money created by the banks. Payment transactions and ordinary savings would then have to be reserved for secure “full money banks”, all the rest for a banking community beyond state guarantees and too-big-to-fail ideas (“segregation”).

At least one thing is certain: until that happens, the financial system and thus the banks will remain at risk.

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