Banking in a More Transparent World

An Interview with Oswald J. Grübel,
Chief Executive Officer, Credit Suisse Group, Zurich

Oswald J. Grübel

EDITORS' NOTE *Oswald J. Grübel is the Chief Executive Officer of Credit Suisse Group and of Credit Suisse. He was CEO of Credit Suisse Financial Services from July 2002 to July 2004 and Co-CEO of Credit Suisse Group from January 2003 until July 2004. Mr. Grübel was a member of the Credit Suisse Group Executive Board between 1997 and 2001 and rejoined the Board in July 2002.*

COMPANY BRIEF *Credit Suisse Group (www.credit-suisse.com), which has been in business for more than 150 years, is one of the world's leading financial services firms. Active in more than 50 countries, it employs approximately 43,000 people. Its operations are divided into three major business segments: investment banking, private banking, and asset management. The investment banking segment, formerly known as Credit Suisse First Boston (CSFB), operates from nearly 60 locations in 26 countries. Its asset management offices are located in 18 countries. And its private banking segment provides comprehensive advice, services and products tailored to 600,000 high-net-worth clients worldwide. The three business segments have accounted for some of the more storied financial transactions of the past 50 years. The company (NYSE: CS; Swiss: CSGN) also offers retail banking in Switzerland through more than 200 branches. For Fiscal 2005, Credit Suisse Group reported assets under management of $1,015 billion and net income of $4.7 billion.*

Banking has changed. It's no longer only old wealth. Now you have new family-owned companies, and you have high-net-worth, very sophisticated Asian entrepreneurs. Bearing in mind these changes, where will growth for the global banking industry come from over the next few years?

Our intelligence suggests that global financial activity in the period ahead will be vigorous, particularly in areas like Asia, South America, Eastern Europe and the former Soviet Union. The commodity boom of the last few years and the resulting surge in energy demand and rise in energy prices created enormous wealth. Underlying all that was the speedup in globalization driven by the revolution in information and communication technology and the transfer of this technology worldwide. As long as this trend continues, enormous wealth will be created for a lot of people.

The changes in today's global economy provide tremendous opportunities for those nimble enough to take advantage of them. There always will be a few who get a bigger share of the cake, but the benefits will still be widespread. For example, 10 years ago, if you wanted to drive around Beijing, you had problems getting through all the bicycles. It could take hours to get from one end of the city to the other. Today it still takes you hours, but now it's because of the cars. So globalization is a big factor there in generating a high standard of living.

In the last 10 years, China created about 250 million jobs, almost entirely as the result of globalization. But now that the Chinese have better lives, they need more energy to go to the next level. As they do that, they will use more raw materials. That explains the commodity boom.

In Brazil, the people and the business community have gone through very difficult times. They are capable of coping with anything. I expect major growth there.

And these are just a few examples.

What makes Credit Suisse different than other banks?

We want to be the best, and we are taking every step to achieve that position. It's presumptuous to claim that we are already best in class in all our fields of activity. But we are steadily pursuing our goal of becoming the world's premier bank in the businesses in which we are active, such as investment banking, private banking, and asset management.

In order to achieve that, you have to understand your business and put the client at the center. You make the client's interests paramount. We are constantly innovating to meet our clients' demands. We are constantly researching trends to see where they are headed in the future and interpreting them for our clients.

You have to be decisive in this business. We drive our people to think that way. We aim to understand our business better than anybody else, and we seek to offer our clients what they want today and anticipate what they might want tomorrow. If we make a wrong decision, we move to correct it quickly and decisively.

Focus, speed, determination – these are the hallmarks of our bank.

You have put together a business model that combines investment banking, private banking, and asset management. Is this different from other banks?

Yes. Normally, banks of our size have a big proportion of retail business. We decided a couple of years ago that we wanted to concentrate internationally on investment banking, private banking, and asset management because we understand these businesses better than anyone else. Also, we think future global investors will need and indeed require their banks to give them access to comprehensive and interconnected expertise in all three fields.

In fact, these three areas are converging, and so we find that we are able to bring talent and thinking from each one to the other two in a range of ways that creates better results for our clients. That's why we win substantial business today – because we are in a unique position to offer our clients this all-inclusive expertise.

When you became Chief Executive, you started a plan to continually bring the bank up to date. What will Credit Suisse look like in the future? What is your end goal as CEO?

The goal for any bank is to create value for clients. When you do that successfully, you also increase value for your shareholders. In the case of Credit Suisse, we will achieve these twin goals with our evolving business model.

There are some enormous banks out there that keep doing acquisition after acquisition in order to grow. But shareholders are saying, "Now wait a minute! We don't need you to be any bigger. We want our share price to go up." So that is our prime objective – not creating the biggest company in the world, but the best, the one that provides more value to both its shareholders and its clients.

I believe there is still a big discrepancy in the banking world between what investors think management should be doing and what management thinks it should be doing for those investors. I would argue that it's relatively easy, in today's world, to create a bank that makes $5 billion or $10 billion a quarter. As long as you use your shares as currency and keep buying other banks, you get bigger. But your share price doesn't go anywhere. So yes, you can say; "I'm the biggest bank in the world." But what investors want is for a bank to grow organically and to do it better than anybody else. That kind of growth is ultimately fueled by demand from satisfied clients. Over time, they get a higher valuation. And that's exactly the vision Credit Suisse has and the strategy we are pursuing.

How do you manage the risks of doing business in emerging markets?

Today's communication technology and financial transparency make information more accessible and more accurate, which means that risk management is easier than ever before.

Now, when it comes to the emerging markets, the equities there are actually improving. They are growing out of their low levels and getting better every year. In the industrialized world, however, it is just the opposite. There is actually more credit risk there. Look at what is happening in the U.S. auto industry where the equity ratings dropped rapidly in a very short period. Generally, I would say I'm less worried about risk management in the emerging markets than in the industrialized world.

In what way?

Altogether, the emerging markets have trade surpluses equaling $700 billion, while the Western industrialized world has large trade deficits. And that probably won't change in the foreseeable future because the technological developments and technology transfer of the last decade have enabled companies to rapidly shift the production of goods to places where they can be made more cheaply and efficiently. Today, you can build a factory with the latest technology in China or in India relatively quickly.

This makes a big difference. If the global economy keeps growing, I think that in just a few years' time, the so-called emerging markets won't be called "emerging" anymore.

Do you see difficulties ahead for the industrialized nations?

It differs from country to country. In Europe, you have some countries that made social promises they simply cannot keep. I think we will witness some significant changes in that regard; so that perhaps state-funded pensions and social security funds will eventually move into the private environment. A development, by the way, that will provide opportunities for our business.

What about the United States? Will there be unrest? And how could that affect the rest of the world?

I don't think there will be political unrest in the United States, but there will be future administrations with different views on the U.S.'s global policy. I don't think there will be financial unrest either. Normally the United States adjusts its deficit through its currency, and I think that will continue.

How can banks increase their price-to-earnings ratios?

That is the $64,000 question, and that's what we all try to do. At the moment, banks are being run inexpensively. Five or six years ago, operating costs were maybe twice as high as today. One can speculate that the reason is that investors doubt the sustainability of the earnings and wonder where growth will come from.

We think growth will continue as globalization does. Also, if you analyze bank earnings over the last few years, you will notice that a big part of it came out of trading operations, and trading results normally have a very low valuation.

So you're optimistic in general.

Yes, I am very optimistic, especially about the next five years. In that period, I think we will see higher valuations for banks.

Transparency makes life more competitive, but it also creates more volume and a much larger universe of interested buyers and sellers.

Private equity firms and hedge funds are becoming stronger competitors with banks. What competitive advantages do banks have?

First, hedge funds and private equity funds need banks. They can't get along without us, not yet. And it's unlikely that they will be able to get along without us in the future, because their principle is based on leverage, and they have to get the leverage somewhere. At the moment, the banks' biggest fees are coming from private equity companies and hedge funds. So I don't think we'll be in competition.

How has increased transparency changed your business?

Transparency makes life more competitive, but it also creates more volume and a much larger universe of interested buyers and sellers. And that, in the end, creates bigger revenue pools. Even with the additional regulatory costs we have incurred in the past few years, banks are producing record results. So I'm not so much worried about the revenues. Transparency brought a lot of changes into our business, and we continue to use that transparency to open new revenue channels.

Swiss private banking has always been looked at as highly conservative, but innovation is still supposed to be at the heart of what you do. How is Credit Suisse innovative?

We have focused on being innovative since the late '90s. For example, we were the first bank to introduce a variety of investment products to our private banking clients. We have created an open platform that gives our clients access to a broad range of products from third parties. And we were the first bank to offer asset and liability management to our private banking clients. Asset liability management involves managing a client's assets according to the liabilities he will have for the rest of his life.

These are things we can do because of new information and communications technology. Just 10 years ago, we couldn't do what we do now. This technological evolution, by the way, is one of the most fascinating aspects of our business. Just imagine: when I started in the business some 40 years ago, I was a bond trader, and we didn't even have calculators.

What advice would you give to young people who want to go into the financial field? What do they need to do to succeed in a globalized economy?

I think the banking and finance business in general offers great opportunities for success. But the entrance requirements for young people going into the business today are much higher than they were 10 years ago. You have to have a feel for the markets. It's not just understanding business procedures – anybody can learn that. What you need to develop is that feeling for markets – knowing when things are changing and when public opinion is starting to shift.

I would say our business is at least 75 percent about the future. It's certainly not about the past, and it's not even very much about today. We have to keep making decisions about the future.

What frustrates you the most?

I'm impatient. So for somebody like me, things are always going too slowly. As you get older, you want to get things done ever more quickly.

You got into the banking business as a young trader and became successful at a young age. How did you do that?

I was always very interested in the business, especially in markets. Markets are made up of people, and people make the decisions. So you have to keep asking why they made those decisions and try to understand how they'll decide next time. What interests me most is the human aspect of the business, the psychology of decision making. Why, for example, do people at certain times do things that are not necessarily logical, to say the least?

Is trust the bottom line in banking?

Yes. Today you can earn trust if you have the right capital ratios and the right numbers – and if you can show the bank is safe. Ten or 20 years ago, the business was less transparent, so the clients had to rely primarily on their faith in the company's management. But nowadays, because of transparency, trust is above all based on facts and figures and performance. ●