Credit Suisse: Focused on Execution and Normalization

On 30 November 2017, Credit Suisse held an investor day to provide an update on where the group stands two years into its three-year restructuring plan. The message was upbeat, with the management team credibly presenting how the businesses were moving ahead to achieve 2018 targets. Credit Suisse's Issuer Rating is A+, with a Stable Outlook.

Restructuring yields results

In October 2015, Credit Suisse detailed its strategy to be a leading wealth manager with strong investment banking capabilities. Along the way, market conditions were not always supportive and various targets were revised, but overall the group's credit profile has improved. The group's solvency metrics have strengthened via capital increases and retained earnings. As of 3Q 2017, the group's look-through CET1 and Tier 1 leverage ratios were 13.2% and 5.2%, respectively, up from 10.2% and 3.9%% in 3Q 2015. Further, the business has been de-risked and refocused, compliance and controls have been bolstered and the Strategic Resolution Unit (SRU) which contains primarily legacy investment banking assets has been significantly reduced (RWAs down 70%).

Focused on execution; normalization in sight

The 2018 targets for the various business units were confirmed, with management highlighting the progress over the last two years and providing color on the means and opportunities to achieve the targets. However, as the Asia-Pacific wealth management business is expected to achieve the original 2018 target in 2017, the adjusted pre-tax income target has now been raised to CHF 0.85bn from CHF 0.7bn.

Meanwhile, with the SRU winding down more quickly, the estimated pre-tax loss for 2019 has been reduced to about USD 0.5bn from USD 0.8bn. The wind-down of the SRU is expected to be completed by end-2018 with residual operations and assets being re-absorbed into the group from 2019 onwards.

Looking ahead

Management believes that the group is heading towards a more normalized state – one where return targets can be set. The group announced a ROTE target of 10-11% for 2019 and 11-12% for 2020 (9M 2017: 4.1%), implying combined net income generation of about CHF 9-10bn over the two years. Management expects to use about 20% of the cumulative capital generated to invest in the business, another 30% to provide a buffer for the impact of Basel III reforms and other contingencies, and to return 50% to shareholders.

Credit Suisse also lowered its 2017 cost guidance to about CHF 18bn from less than CHF 18.5bn and targets to reduce this to less than CHF 17bn in 2018. The CEO explained that the group has been in catch-up mode and that from 2019, the group will need to continue improving efficiency by 2-3% per year to remain competitive.

Of particular interest was the presentation by the Chief Compliance and Regulatory Affairs Officer who reports directly to the CEO and is a member of the Executive Board (appointed in November 2015). Along with the rising risk and cost of regulatory compliance, the group sees even faster growing "hidden costs" such as added business controls, regulatory inquiries with investigations, data consumption and provisioning. Management believes these risks and costs need to be strategically addressed. The group has established an advanced data and technology platform which is globally standardized, always on, provides multi-risk factor-based surveillance and allows for high speed implementation. Some of the features include a single client view, external monitoring of clients and predictive transaction monitoring alerts.

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