Credit Suisse to penalise franc deposits

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By James Shotter in Zurich, Alice Ross and Daniel Schäfer in London

Credit Suisse's banking clients are to be charged for parking their cash with the Swiss bank after it announced plans to introduce negative rates on short-term deposits held by financial institutions in Swiss francs.

Swiss banks have been trying to stem inflows from investors seeking a haven from the eurozone crisis since the low interest rates put in place by the central bank make it hard for lenders to find ways to invest deposits profitably.

Tougher leverage requirements from the Swiss regulator are also pushing Swiss banks to reduce their balance sheets. Credit Suisse is aiming to cut its balance sheet by SFr130bn to less than SFr900bn over the next year, and said that this cocktail of factors had prompted it to impose the charges on other financial institutions with which it deals.

UBS, Credit Suisse's main domestic rival, has been charging clients a temporary excess balance fee on cash clearing accounts above a certain threshold since August 2011, and analysts predicted that the tactics could be more widely adopted.

"Swiss banks are being swamped with haven flows, and in a low interest rate environment it is very hard for them to find a way to invest those deposits profitably. I wouldn't be surprised if other banks took similar steps," said Rainer Skierka, an analyst at Bank Sarasin.

The news caused a sharp sell-off in the Swiss franc, which suffered its largest intraday move in more than three months as investors speculated that inflows into Swiss cash accounts could be stemmed. The euro rose more than 0.3 per cent to SFr1.2096, its strongest level since October.

Credit Suisse notified its banking clients of the move via Swift, a payments company, warning that it had decided to start applying negative credit rates on cash clearing accounts "above a certain threshold" from 10 December.

"We invite our customers to keep cash balances as low as possible to avoid negative credit charges," the bank said.

Pressure on Swiss banks from haven inflows has recently been intense, and Credit Suisse's core customer deposits exceeded loans it has granted by 23 per cent at the end of September, according to its third-quarter report.

However, currency analysts said that the move by Credit Suisse might not dampen interest in Swiss franc deposits over the medium term.

Valentin Marinov, foreign currency strategist at Citigroup in London, said that investors could reallocate their money to other Swiss banks that were not charging negative rates.

He wrote in a note to clients: "Negative rates on cash balances need not be a deterrent for investors fearing currency losses following a potential escalation of the debt crisis."