FINANCIAL MARKET

Economics professor Thorsten Hens criticizes communication strategy in the CS crisis

Economics professor Thorsten Hens, who deals with the influence of psychological factors on the financial centers, criticizes the Swiss "too big to fail" regulation and the communication strategy of the authorities in the CS crisis.

03/21/2023 06:30

Thorsten Hens teaches as a full professor at the University of Zurich and is a member of the Board of Directors of the Institute for Banking and Finance.
Source: ZVG

Economics professor Thorsten Hens says that a bank run can only be stopped by a "communicative bang". "When the Federal Council and Parliament designed the 'too big to fail' regulation, they completely

underestimated that customers and investors would not pay attention to legal finesse during a bank run," explains the expert in the field of behavioral economics at the University of Zurich in an interview with the "Neue Zürcher Zeitung" on Tuesday.
Of course, the regulation provided that in the event of a bank collapse, the authorities would save the systemically important Swiss business and wind up or sell the international part. "But bank customers who have an account in Switzerland don't make such fine distinctions. They withdraw their money."

The Federal Council and Parliament did not understand the psychology of the markets when designing the regulation. "It was a mistake to assume that the markets were rational in times of crisis."

The economic expert also criticizes the communication strategy of the authorities in the crisis situation. "A bank run can only be stopped by a communicative bang." The authorities had informed "much too specifically" in the past week. The liquidity support from the National Bank would not have been enough by far.

"A member of the Federal Council or the President of the National Bank should have stood up and said: CS is 'too big to fail'. We will do everything we can to save CS. The deposits are safe," emphasizes economics professor Hens. A short sentence would have been enough.

"Just like Mario Draghi, the former President of the European Central Bank, did in 2012 during the euro crisis. He said at the time that the ECB would do everything possible to contain the crisis. 'Whatever it takes', that worked, speaks today one from the 'Draghi effect'". Such a statement would also have been needed in the case of CS.

(AWP)