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SWISS BANKING.

By Mr. J. Wilfling, of the Statistical Department of the Union Bank of Switzerland.

The high standard of Swiss banking is, in the first place, closely connected with the remarkable development of Swiss economic life ever since roughly the middle of the last century. The extension of the complex network of railways and electrical supply, then the electrification of the railways, and generally speaking the upsurge of Swiss industry, which works to a large extent for exports, affected and were affected by the increasing importance of Swiss banking. As Switzerland is a country which is poor in raw materials, and into the bargain in an unfavourable position for importing raw materials, Swiss industry needs, for the manufacture of high-priced Swiss export goods, not only highly-skilled workers but the investment of a great deal of capital in particularly expensive machine-plant. This is true of the textile branch, particularly the machine industry, which has acquired increasing importance in the last few decades, the electrotechnical and the chemical industry.

The considerable capital which first had to be invested in the foundation and extension of Swiss industry had accumulated in the centuries in which the tough, industrious and extremely economical people was spared the horrors of European wars and major internal revolutions. The Confederation succeeded, for example, in keeping out of the Thirty Years War (1618-1648) which devastated Germany; the Napoleonic conflicts did not hit Switzerland to any serious extent, neither did the minor political structural changes of an internal nature in the 19th century have a lasting effect on the Swiss national fortune. The victorious progress of technical science and with it the international revival of economic life during the 19th century contributed substantially to the growth of the national fortune of Switzerland. A particularly happy circumstance for this country of "eternal neutrality" in many respects was that the European routes from North to South and from West to East intersect on Swiss territory. Five international railway lines lead from Switzerland to France, namely via Geneva, Vallorbe, Pontarlier, Delle and Basle; the main routes to Germany are via Basle, Schaffhouse and Constance; those to Austria and from there on to Hungary and the Balkans are via St. Margrethen and Buchs; the way to Italy from Switzerland leads over the Alps, either by the Simplon or the St. Gothard massif or the Bernina, which connects the Engadine to Upper Italy. Therefore Switzerland plays a certain, if only modest, intermediary role not only in spiritual but also in material respects, quite apart from the fact that in this small country the great European cultures meet and interlock quite naturally. The economic intermediary activity of Switzerland is moreover founded on a sound legal structure with an independent jurisdiction.

After the above statements, it will hardly cause surprise that the banking statistics for 1944 should reveal 379 banks with a total of 3,500 branches (head offices, branch establishments, agencies, deposit offices, collecting offices). As Switzerland has at present about 4.4 million inhabitants, this represents about one banking office per 1,260 people, a ratio to be found in no other country in the world. The postal cheque office with its many branches and approximately 185,000

holders of accounts is not included in the above figures, nor the seventy-six private banking concerns in Switzerland.

It is quite natural that the nature of the individual banks should be widely different in Switzerland, according to the particular district and functions of each bank. We find in the middle of 1946, disregarding the central bank of issue, the Swiss National Bank, five large banks (or commercial banks) with a balance sum of 5,945 million Swiss francs, 27 Cantonal banks with a balance sum of 8,833 million, 220 local, medium-sized and small banks with roughly 4,000 million, two Raffeißen agricultural loan associations with 670 million (at the end of 1944) and 115 savings banks with a balance sum of 1,735 million Swiss francs (at the end of 1944). The total number of savings books (not counting deposit books, which partly contain savings) was at the end of 1944 4,321,360 with total deposits of 6.4 milliard francs or approximately Sfrs. 1,484 per savings book. For purposes of comparison it may be recalled that the population of Switzerland is about 4.4 million.

This remarkable thriftiness of the Swiss nation is based, not least of all, on the sound financial system of the country. The Swiss franc, the gold value of which is at present 0.20535 gr. fine, has remained stable for many decades past. Its devaluation in 1936, at the same time as that of the Dutch gulden, was the last in the great international currency devaluation movement following the world economic crisis of the "thirties" after the gold value of the pound and dollar had been reduced already many years before. The Swiss National Bank, which is not a purely State

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institute but engages in mixed economic operations in the management of which private economic circles also have a say, has achieved manifest success with its policy. Its gold and foreign currency holdings amounted in the middle of 1944 to 4,970 million francs.

Part of the gold influx deriving from Swiss exports does not go to the bank of issue but is taken over by the State, so that the Confederation on its part showed gold holdings of 1,170 million francs in the middle of 1946. The note circulation of the National Bank amounted in the middle of 1946 to 3,617 million francs and the remaining obligations falling due from day to day, mainly bank funds, represented 1,212 million francs. As compared with these main items in the balance of the Swiss National Bank, the other items play only a subsidiary part. Attention must be drawn to the fact that in Switzerland there is practically no State indebtedness with the bank of issue, which is at present no doubt unique among all banks of issue throughout the world. Moreover, owing to the liquid funds at present held by the private banks and trade and industry alike, there is no private indebtedness to any considerable extent with the bank of issue. The high note circulation, which no doubt comprises considerable amounts of hoarded notes, has so far been prevented by the State price control from exercising any decisive influence on the price trend in Switzerland.

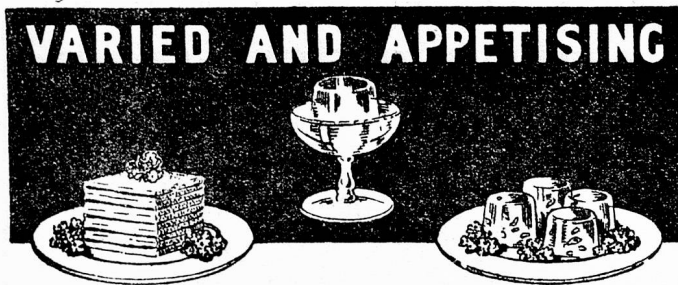
International money traffic with Switzerland remained free in principle right through the war; only with those countries which restricted the movement of

their currencies of their own accord did Switzerland have to come to corresponding contractual agreements. Since the end of the war there has been a remarkable decentralization of foreign payment operations in Switzerland, the private banks having resumed to an increasing extent direct payment channels with foreign countries, whereas the State-controlled Swiss Clearing Office exercises in many cases only supervisory functions.

Turning to the other individual groups of banks in Switzerland we find that savings banks, local banks, medium-sized and small banks — that is, including the land mortgage bank — are predominantly of a local character. Their activities are limited to a narrow scope, giving them the possibility of examining all risks in detail.

The Cantonal banks are typical of the Swiss banking system. As their name implies, they exercise their functions chiefly in that particular Canton in which they are domiciled. With one single exception, they are State banks in the sense that their capital is advanced or guaranteed by the State. They have no branch offices at all outside their Canton. Their task consists, in the majority of cases, in the operation of urban and agricultural mortgage loan business. Nevertheless they have in certain parts a substantial share in trade, industrial and commercial loan operations. They partly acquire their funds (as do quite a number of other banks) by issuing so-called cash certificates or cash bonds. They are made out for a round sum and yield a constant rate of interest for a fixed period ranging from one to five years.

As opposed to the above groups of banks we have the so-called large banks or commercial banks, as they are called, not merely of local or Cantonal but of international importance. In Switzerland they are not limited to a restricted field of operation but, in the interest of a wise spread of risks, they have extended their branch offices and other branch establishments over the whole country; in those places where they have no branch establishment they are represented by correspondents. The main field of the large Swiss banks lies in domestic operations. Especially by the financing of Swiss imports and exports they have long secured a foothold in international banking. In this connection it may be mentioned that Swiss foreign trade, calculated per head of the population, was second only to that of Belgium in pre-war times, which headed the list of all countries. In the course of the years a number of Swiss industrial and commercial firms have settled abroad and Swiss banks have, of course, financed their operations. Consequently Swiss banks have acquired an appreciable share of Swiss transit trade and also of international acceptance credit and letter of credit operations, which are independent of the Swiss important and export trade. Her relative wealth of capital enabled Switzerland to acquire substantial holdings of securities abroad,



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which again permitted Swiss banks to consolidate their international connections. This gradually led to further extensions of operations and the intensification of international relations, especially in the times and wake of the great currency and financial confusion which swept through Europe and still farther afield during the first world war and after.

The Swiss commercial banks have the right to call themselves large banks not only in view of the worldwide scope of their operations. As opposed to the other banks which have specialized on one particular line, their business scope is, as already mentioned, universal. In this sense they can be compared with foreign international banks. Apart from regular banking operations, national and international money transactions and credit business, in which, as mentioned above, the international acceptance credit business plays an important part, they are no less active in stock exchange business, not only in the purchase and sale of national and international stocks as far as this is possible at present with the restrictive legislation of the individual countries, but also in the safekeeping and management of securities. These banks are moreover in a leading position in Swiss issuing operations. They have, of course, their own departments for financial studies and legal matters.

It speaks well for the vitality and sound management of the large Swiss banks that they have survived unshaken the great crisis which have swept through different parts of the banking world time and again since 1929. Only one institute had to be liquidated owing to the crisis. In 1945 the Union Bank of Switzerland took over the transferable assets of the Banque Federale S.A. and its corresponding liabilities. The large banks, which had shown a balance sum of 8.5 milliard francs in 1930, paid in the following years more than four milliard francs to their clients without any further formality. Since 1935, in which year the large banks showed a balance sum of only 4.2 milliard francs, this sum has risen again, though with fluctuations. In the middle of 1946 it again attained the level of 5,945 million. A substantial part of the liabilities was constituted by cheque accounts and sight creditors representing 2,737 million francs and bank creditors totalling 535 million, whereas the long-term forward deal creditors, savings investments and cash bonds amounted in all to 1,823 million francs. With regard to the assets, the cash, banks and bills (mainly treasury bills) totalled up to 2,229 million francs, current account debtors represented 1,464 million and the

security holdings (chiefly Federal bonds) showed 1,286 million francs.

The large Swiss banks are still well provided with liquid funds, greatly in excess of the strict requirements made by the Swiss Banking Law of 1935. This banking law, which does not affect the banker's secret and in no way interferes with the relations of the banks with their clients, contains certain provisions regarding liquid funds and control which, if it were indeed necessary, afford additional security to bank clients.

The war-years have to a certain extent restricted the international activities of Swiss banks. The economic relations between the belligerent countries were broken off and international financial transactions were for the most part subject to the control of the hostile parties. Nevertheless Swiss banks were able to secure part of the international business open to them. It is gratifying to observe that since the end of the war the Swiss banks have succeeded, in spite of all existing obstacles, in engaging once again on a large scale in international payment and credit operations.

(*Swiss Industry and Trade.*)

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