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# A LOOK AT OUR BANKS

*Much has been written about the Swiss Banks' tradition of secrecy and indeed a great many requests that the banks should reveal their secrets have been made, often by police and other authorities outside Switzerland. The following article by Federal Councillor Mr. Georges-André Chevallaz will help clarify much of the mystique. The article is reproduced, with thanks, from the Autumn edition of Prospects which is published by The Swiss Bank Corporation.*

The association between Switzerland and banking is nothing new: at the end of the 18th century the Bernese treasury was chock-full of claims on foreign borrowers – a fact used to justify the French invasion of 1798. The bankers of Basle, Zürich, Geneva and St. Gall played a key role in European business, be it in their financing of government budgets, or shipping, or overseas trade.

This tradition and the wealth of experience it provides, along with our country's internal stability, active trade policy and political neutrality, explain the steady development of Switzerland's international vocation in banking and the importance of banking to the nation's economy. The aggregate assets of the banks have gone up from Sw.Fr. 21,000 million in 1945 to Sw.Fr. 260,000 million in 1974, while the Confederation's budget – for instance – went up by a smaller factor of six in the same period, and prices only doubled.

If the Swiss economy has taken advantage of bank credit to a greater extent than have other economies – aided of course by favourable interest rates – Swiss banks are also prominently involved in public and private sector financing beyond the country's borders. Some observers think our country is too active for its size, in fact, and their annoyance explains the periodic sniping at the "gnomes of Zürich", the caustic allusions to a bank secrecy which is neither unique, absolute, nor outside the jurisdiction of the courts, and the ongoing saga of the numbered accounts which, if they are to serve as a guarantee of discretion, cannot be hidden behind a veil of total and intolerable obscurity.

Our banks' national and international roles and the national responsibility involved call for a double vigilance – a rigorous attitude by the banks themselves for the sake of their own good names, and the provisions which the law can make for an economy conducted in such a way as to serve the general interest and maintain the depositor's essential confidence in the credit system.

This is why the problem of bank legislation and state supervision of the banks has become something of a constant in Swiss politics. In 1960/61, the necessity for a revision of the bank law was denied; it was deemed sufficient in 1961 to give the banking regulations a thorough overhaul. The Federal law on mutual funds followed in 1966, after years of preparation, regulating this new vehicle for the deliberate collection and professional management of third-party funds, and putting it under the authority of the Federal Banking Commission. The following year saw revision of the bank law get under way.

1968 brought an initially frustrated attempt to use credit restrictions and control over new issues to regulate the banking system's capacity to create money. Almost at the same time, the Federal Council and Parliament had to take action to ward off the dangers of the growing presence of foreign banks, which led to a Federal decree of 21st March,

1969 instituting a permit system for banks in foreign hands. The revised law of 11th March, 1971 was aimed at extending the supervision of banks to all finance companies which publicly solicited outside funds, and at making it harder to set up a banking establishment, reinforcing supervision, affording better protection of savers and bringing the special arrangements for foreign banks into the main body of the law. A year later, the regulations concerning the banks were thoroughly revised, particularly the stipulations on liquidity, capital resources, the risks of outsized credits to certain clients, and the handling of fiduciary business. Even before that the Federal Council had issued new and notably stiffer regulations on foreign mutual funds.

The setback received by efforts to have the instruments necessary to any effective monetary policy firmly anchored in law, again meant resorting to urgent decrees in 1971/72 – as in 1964. Based on the urgent Federal decree of 8th October, 1971 on the protection of the currency, and that of 20th December, 1972 on credit matters, a number of edicts were issued with the aim of curbing monetary and credit expansion and avoiding the inflationary creation of money. Among these were the decree on investment and interest payments on foreign funds, the minimum reserve requirements, the limitation of credits and the regulation of new issues, and the restrictions on personal credit and hire-purchase.

Doubts as to the adequacy of bank supervision were aroused by several bank failures as well as the sometimes substantial losses incurred by banks through imprudent forward dealings in foreign exchange. The Federal Council ordered a study group to review the banking legislation and to organise the supervision of the banks. The first fruits of this were the Federal Council decisions of 14th January, 1976 which came into force on 1st April, with four main aims:

#### 1. Reinforcing the bank auditors:

The outside auditors fulfil a legal requirement, but do so on the basis of a private

order from the bank concerned. As a private business, the auditing firm has to maintain its orders and thus has to be particularly wary regarding its independence. Whereas the banking regulations of 1972 already stipulated that a bank's outside auditors could not come from a company controlled by the bank itself, the new regulations specify that the outside auditing firm's commission income from the bank and the bank's associated companies cannot amount to more than 10 per cent of the auditing firm's total. This is to ensure that the auditing firm's existence will not be threatened by the loss of the client. In addition, the bank's choice of outside auditors has to be cleared by the Federal Banking Commission. The auditors are also obliged now to conduct intermediate audits, and their filing of more frequent reports with the Federal Banking Commission is a way of deepening the contact between the supervisory authorities and the private auditing companies.

#### 2. Reinforcing the Banking Commission's Secretariat:

The Swiss approach to overseeing the banks – with an auxiliary commission headed by specialists who are independent of the administration – still appears as valid as ever, on the condition that the Secretariat is considerably enlarged and its authority expanded. Hence the naming of a Director and Deputy Director for the Secretariat. The new regulations also make it clear that the Secretariat is independently responsible for preparing and applying the decisions of the Banking Commission. The Federal Council is aware that regulations and the allocation of responsibility are meaningless unless you have the necessary personnel. Accordingly, one of the new Director's main tasks is to build up the Secretariat considerably so that it can carry out its assignment.

#### 3. Co-operation between supervisory and monetary authorities:

In contradistinction to comparable European countries, there was a sharp division in Switzerland up to now between the supervisory authorities protecting creditors and those watching over the currency and the interests of the national economy. It was precisely the immoderate currency speculation witnessed in recent years that provided evidence of the need for reciprocal information and close co-operation between the Swiss National Bank, as the monetary authority, and the Federal Banking Commission.

The seating of a General Manager of the Swiss National Bank on the Banking Commission will strengthen his co-operation, without creating a position of excessive power (which might be the case if the supervision of the banks were transferred to the National Bank).

#### 4. Banking Commission officers:

The Federal Council did not follow up suggestions to put a full-time Chairman at the head of the Banking Commission, believing that a complete and competent Secretariat would be sufficient while a full-scale Executive might detract from the position of the Director.

With bank supervision being adjusted to the growth of the credit institutions and their significance, and the next few years being devoted also to giving the supervision of credit and monetary matters a firm basis in everyday law, there is reason to hope that the hectic legislative activity in this field will give way to a calmer mode of evolution.

Precise legislation, supervision by the Federal authorities, and the reinforcement of the Banking Commission, of course, can only supplement the essential element: a sense of responsibility and support for the national interest on the part of the banks. And this, of course, is also in the banks' own interests. Self-discipline and frank and constructive co-operation with the Swiss National Bank enable us to avoid the irritating use of constraint, or of Inquisition.

#### CALENDAR OF EVENTS – SWITZERLAND

The Swiss National Tourist Office has published a booklet "Summer in Switzerland – Events in 1976 and later", which not only lists some 2,000 music festivals, concerts, exhibitions, trade fairs, local folklore events, language courses and sports fixtures, but also gives information on the many special interest courses organised in Switzerland. Copies are available from SNT0.

#### CHÂTEAU-D'OEX – CHEESE DAIRY

In Château-d'Oex (Canton Vaud), a cheese dairy has recently been opened to visitors. The premises is a beautiful chalet where cheese is made over the heat of a wood fire. In a cosy room, tables and chairs are provided for visitors who wish to take advantage of the oven-fresh bread, biscuits, cheese, wines, beer, tea and an assortment of cakes and gâteaux. The Montreux-Bernese Oberland Railway (MOB) are installing in the chalet a scale model of the railway which is expected to be completed by the beginning of next year.

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#### NEW HOTEL RESERVATIONS SYSTEM FOR SWISSAIR

Instant bookings in about 120 hotels in Switzerland are now available through Swissair's new hotel reservation and information system HORIS. It is an extension of the airline's computerised passenger reservations system PARS, linking a computer at Swissair's Zürich head office with some 50 reservations offices in Switzerland and abroad.

Of the participating hotels about 60 per cent are located in Zürich, Geneva, Lausanne, Berne, Basle and Lucerne, with the remainder distributed throughout Switzerland. In the three airport cities of Basle, Geneva and Zürich rooms reserved will be held by all hotels until 18.00 hours. For passengers arriving on flights after 15.00 hours rooms will be held until three hours after flight arrival. No time limit has been set for arrival at hotels outside these cities.

About 20 per cent of the hotels at present available under HORIS are luxury category, 60 per cent first class and 20 per cent average standard. More hotels are expected to join the new reservations system after the introductory stage. It is hoped that some hotels outside Switzerland will soon be added as well, notably the Swissair associated hotels in the PENTA group.

#### BERNE'S SILVER STAGE

Berne's Atelier Theatre this year celebrates its 25th anniversary. To commemorate its silver jubilee, the Atelier has announced a 1976/77 programme which includes four Swiss premières and a special anniversary production of Heinrich von Kleist's "Der zerbrochene Krug" (The Broken Jug).

This production will star guest artist Arno Görke from West Germany's Cologne Theatre am Dom.

The new season, which opened on 1st September, also includes works by Polish dramatist Slavomir Mrozek, Eugene O'Neill and Edgar Wallace. The 1976/77 season will again include the after-performance public debates, which the Atelier hopes will become an established, regular feature of the theatre's programme.

#### BERNE'S DOUBLE ATTRACTION

Berne's Gewerbemuseum is staging two special exhibitions over the coming weeks. Until 26th September there's an exhibition on "150 Years of the Berne Technical School". Then follows a photographic exhibition from 8th to 24th October, showing the prizewinning entries in a competition organised by Berne's FOTAG photographic shops.

#### MAURICE DE VLAMINCK EXHIBITION

Berne's Kunstmuseum is shown a special exhibition of the works of Maurice de Vlaminck (1876-1958) until 24th October. The exhibits include woodcuts, etchings, lithographs and book illustrations from the extensive de Vlaminck

collection owned exclusively by the Kunstmuseum.

#### SWITZERLAND'S POPULAR PARLIAMENT

The Swiss Parliament is holding its regular three-week autumn session in Berne until 8th October. The two houses are the National Council (200 seats representing the people) and the Council of States (44 seats representing the cantons).

Parliamentary proceedings in Switzerland are open to the public and are becoming an increasingly popular tourist attraction. The parliamentary buildings are also open in between sessions, and there are escorted tours by multi-lingual guides.

#### SWITZERLAND – RAILWAY CONNECTIONS

Free copies of the useful booklet "International Railway Connections" (30th May – 25th September 1976), as well as timetables giving rail services between London and Switzerland, are available from the Swiss National Tourist Office. The booklet also contains TEE services, a selection of car-ferry trains, and information on couchette services to and from Switzerland.

#### NEW DATE FOR ART '77

The next International Art Fair ART '77 will be held in the Rotunda Building of the Swiss Industries Fair in Basle from Thursday, 16th June to Tuesday, 21st June, 1977, inclusive.

The Fair is to be held one week earlier than originally planned in order to prevent it from clashing with the 6th Documenta in Kassel, which will also take place in June 1977. The opportunity to take part consecutively in two major European art events next summer is particularly likely to interest visitors from overseas.

#### THE NEW SAN BERNARDINO EXPRESS

This summer the Swiss postcoach services is operating a fast connection, the San Bernardino Express, between Chur, in Canton Grisons and Bellinzona, in Canton Ticino. As the only stop is at the village of Splügen, the journey takes a bare 2¼ hours.

#### LAKES THUN AND BRIENZ – EVENING LAKE CRUISES

The popular evening lake cruises by modern motor boats with restaurant and dancing are again organised this summer on the lakes of Thun and Brienz, lasting between two and three hours. Details are available from the Swiss National Tourist Office, Swiss Centre, 1 New Coventry Street, London W1V 3HG. Tel. 01-734 1921.

#### FORMER BANKER IS HEAD OF THE INTERNATIONAL RED CROSS

Mr. Alexander Hay, former General Director of the Swiss National Bank, has become President of the Red Cross International Committee.