

## Financing the life sciences and the digital bank

*Dr Alexander Ressos, TEP  
Attorney-at-Law (Switzerland), Solicitor (Hong Kong),  
Solicitor (England & Wales)*

The life sciences cluster of the Basel region is among the most important in the world. Beyond Roche and Novartis it includes Syngenta and Lonza, whose head offices are in Basel, and several hundred biotechnology and medical technology companies, many of them in Allschwil, Pratteln and the city itself. Their financing follows a pattern that differs from that of other industries.<sup>1</sup> Young biotechnology companies have no revenues for many years and few assets that a bank could take as security. They are financed by venture capital, by the corporate venture funds of the large pharmaceutical groups, by public research grants and, once their products reach clinical trials, by public offerings on the stock exchange.

The banks of the region play a supporting role in this chain. They hold the deposits of companies that have raised capital, provide payment and foreign exchange services, and lend to established suppliers and contract manufacturers. The cantonal banks finance laboratory and office buildings, often in cooperation with public bodies that develop innovation parks. Investment banks, most of them headquartered in Zurich or abroad, arrange the stock exchange listings, capital increases and convertible bonds of the listed biotechnology companies.<sup>2</sup> Several listed companies of the region have used convertible bonds, which offer lower interest rates in exchange for a potential conversion into shares. When clinical results disappoint, such bonds can become a heavy burden that has forced some companies to negotiate restructurings with their bondholders.

The private banks and asset managers of Basel contribute through the investment side. They offer their clients funds that invest in pharmaceutical and biotechnology companies, some of them backed by research teams specialised in the sector. Wealthy families whose fortunes derive from the pharmaceutical industry invest in new companies of the cluster, either directly or through family offices and foundations.<sup>3</sup> These

channels connect the wealth accumulated in the old industries of the city with the companies that are expected to replace them.

Digital banking has developed in Basel mainly within the established institutions. Zak at Bank Cler and radicant at the Basellandschaftliche Kantonalbank were the most visible projects. Independent fintech companies are fewer in Basel than in Zurich or in the canton of Zug, where the cluster of blockchain companies known as Crypto Valley has formed. The federal legislator has created a licence with lighter requirements for institutions that accept public deposits of up to a limited amount without investing them in loans, which lowered the barrier to entry for new providers across Switzerland.<sup>4</sup>

Basel's most important contribution to financial innovation comes from its international institutions. The Bank for International Settlements maintains an Innovation Hub, whose head office is in Basel and whose projects on central bank digital currencies, tokenisation and payment systems involve central banks from many countries, including the Swiss National Bank. Part F examines these projects in detail.<sup>5</sup> For the banks and fintech companies of the region, the presence of these projects in their own city offers a rare opportunity to follow the development of the future infrastructure of finance at close range.

## 1 Notes

1. On the life sciences cluster of the Basel region (number of companies, main locations, Switzerland Innovation Park Basel Area in Allschwil), see the publications of Basel Area Business & Innovation and the cantonal economic departments. Figures to be verified. ↩
2. On the role of banks in the financing of life sciences companies in the Basel region (deposits, lending, real estate financing, equity and convertible bond issues on SIX Swiss Exchange), see the publications of the cantonal banks, SIX Swiss Exchange and the Swiss Biotech Association. To be verified. ↩
3. On life sciences investment funds offered by Swiss banks and asset managers and on investments of family offices and foundations in biotechnology companies of the Basel region, see the publications of the institutions concerned. To be verified. ↩
4. On the fintech licence under Art. 1b of the Banking Act, in force since 1 January 2019 (acceptance of public deposits up to CHF 100 million without lending or interest), see the Banking Act (SR 952.0) and the publications of FINMA. To be verified. ↩

5. On the BIS Innovation Hub (established 2019, head office in Basel, centres in several countries including Switzerland) and its projects with the Swiss National Bank (e.g. Project Helvetia), see the publications of the BIS and the SNB. To be verified. ↩

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