

The banking crisis of the 1930s

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The Great Depression hit the Swiss banks hard. The standstill agreements froze their German assets, the collapse of world trade reduced the business of their industrial clients and the depreciation of foreign currencies reduced the value of their foreign assets. On top of this, the withdrawal of deposits by anxious clients strained their liquidity. Between 1930 and 1935, a number of Swiss banks failed or had to be rescued.¹ The Schweizerische Volksbank, a large cooperative bank, had to be rescued by the Confederation in 1933, which subscribed new capital. The Banque d'Escompte Suisse in Geneva failed in 1934. Other banks merged or reduced their activities.

The crisis led to the first federal regulation of banking in Switzerland. Before the 1930s, banks were regulated only by the general rules of the Code of Obligations and by cantonal legislation on savings banks and cantonal banks. The Federal Act on Banks and Savings Banks of 8 November 1934, known as the Banking Act, introduced federal supervision of all banks by a new authority, the Federal Banking Commission, which began operating in 1935. The Act required banks to obtain a licence, to maintain adequate capital and liquidity, to publish accounts and to submit to external audit by recognised audit firms.²

The Swiss model of supervision, which relied on external auditors to examine banks on behalf of the supervisory authority, was a characteristic feature of the system. The Federal Banking Commission was a small authority that did not inspect banks itself but relied on the reports of the audit firms, which were paid by the banks. This dual supervision system, which remained in place until the twenty-first century, has been criticised for its potential conflicts of interest and its limited effectiveness. It was reformed after the financial crisis of 2008 and the creation of FINMA in 2009, which increased the authority's own supervisory capacity while retaining the role of the audit firms.³

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1 Notes

1. On the Swiss banking crisis of the 1930s, including the rescue of the Schweizerische Volksbank (1933) and the failure of the Banque d'Escompte Suisse in Geneva (1934), see the literature on Swiss banking history. To be verified. ↩
2. Federal Act on Banks and Savings Banks of 8 November 1934 (Banking Act, SR 952.0), in force since 1 March 1935; establishment of the Federal Banking Commission (EBK), which was merged into FINMA in 2009. To be verified. ↩
3. On the Swiss dual supervision system (supervisory authority and recognised audit firms) and its reform after the creation of FINMA in 2009, see the publications of FINMA and the literature on Swiss financial supervision. To be verified. ↩

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