

The culture of risk

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The private bankers of Basel developed a culture of risk that reflected their situation. They risked their own fortunes without any lender of last resort to rescue them, so that their reputation was their principal asset. They were therefore conservative: they lent mainly against good collateral, to borrowers they knew, for short periods; they kept large reserves of cash and liquid assets; they avoided speculation; and they diversified their exposures.

This conservatism did not prevent failures. The financial crises of the nineteenth century, among them the crises of 1825, 1836, 1847 and 1857, affected Swiss banks, and several Basel houses failed or were liquidated. The failure of a private bank was a personal catastrophe for its partners, who lost their fortunes and their standing, and a financial catastrophe for its depositors, who might lose their savings. The memory of such failures reinforced the conservatism of the survivors.¹

The culture of risk of the private bankers can be summarised in a few maxims that have been handed down in the Basel and Geneva banking families: never lend to someone you do not know; never lend more than the borrower can repay; never borrow short to lend long; keep your reserves in gold and your affairs in order; and never speculate with other people's money. These maxims anticipate the principles of modern banking regulation: the knowledge of the client, the assessment of creditworthiness, the management of liquidity and maturity mismatch, the maintenance of capital and the separation of client assets from the bank's own positions.

1 Notes

1. On the financial crises of the nineteenth century (1825, 1836/37, 1847, 1857) and their effects on Swiss banks, including failures of Basel houses, see the literature on Swiss banking history. To be verified. ↩

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