

The partnership agreement: governance of a family bank

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The governance of a family bank was defined by the partnership agreement, the contract by which the partners regulated their relationship. The agreement fixed the capital contributions of each partner, the division of profits and losses, the powers of management, the rules for decisions, the admission of new partners, the withdrawal and death of partners and the dissolution of the firm. Since it was the constitution of the bank, its careful drafting was essential to the survival of the firm across generations.¹

The most delicate questions concerned succession. A family bank had to ensure that capable members of the next generation entered the firm, that the capital of retiring or deceased partners could be paid out without endangering the bank, and that conflicts between family branches did not paralyse it. The partnership agreements of the Basel banks contained provisions on the training and admission of young family members, on the gradual transfer of capital and responsibility, and on the buying out of heirs who did not wish to participate. Some banks admitted partners from outside the family when the family could not provide suitable successors. The admission of an outsider as partner was a significant decision that required the confidence of all existing partners.

The succession problem remains the central challenge of family businesses, including the family banks that survive in Basel and Geneva. The modern law of family businesses, the use of shareholders' agreements, family charters and family governance bodies, and the advice of family business specialists address the questions that the partnership agreements of the nineteenth century regulated. The author, as a practitioner in private client work, has seen how the questions that the Basel banking families faced two centuries ago recur in the families that he advises today: how to preserve a family enterprise across generations, how to balance the interests of active

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and passive family members, and how to prepare the next generation for responsibility.

1 Notes

1. On the partnership agreements of Swiss private banks and their provisions on capital, profits, management, succession and dissolution, see the literature on the history of Swiss private banks. To be verified.



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