

## Universal banking and the Swiss model

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The Swiss big banks that emerged in the late nineteenth and early twentieth centuries followed the model of universal banking, in which a single institution performed all banking functions. A universal bank accepted deposits from the public, made loans to individuals and companies, underwrote and placed securities, traded on the stock exchange for its own account and for clients, managed client assets and held shares in industrial companies. The model was common in Germany and Switzerland, while British and American banking separated commercial banking, investment banking and asset management more strictly.<sup>1</sup>

Universal banking had advantages. It allowed banks to offer their clients a full range of services, to diversify their revenues and to build close long-term relationships with industrial companies, which they financed through loans and share issues and supervised through board seats. It also had risks. The combination of deposit-taking and securities underwriting could lead banks to place the securities of their troubled borrowers with their depositors. The holding of industrial shares, for its part, could expose banks to the risks of industry. These risks, which materialised in the banking crises of the 1930s in Germany and Switzerland, would reappear in the crises of the twenty-first century.

The Swiss Bank Corporation in Basel was a typical universal bank. The house bank of the chemical industry of Basel, it had directors on the boards of the chemical companies and placed the shares and bonds of these companies with its clients. It also managed the assets of wealthy individuals and institutions, a business that would become increasingly important in the twentieth century.

## 1 Notes

1. On the Swiss and German model of universal banking compared with the separation of commercial and investment banking in Britain and the United States (Glass-Steagall Act, 1933), see the standard literature on comparative banking. To be verified. ↩

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