

The Geneva private banker: legal form, unlimited liability and the move to the corporation

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In English, private banking describes an activity. In Switzerland, *Privatbankier* describes a legal form. The distinction is regularly missed in conversations with foreign clients, and it has consequences for liability, capital, succession and supervision. This article sets out what the form entails, what it achieves, what it does not achieve, and why the largest Geneva houses abandoned it in 2014.

1 The legal form

Private bankers in the technical sense carry on their bank as a partnership — a general partnership or a limited partnership under the Code of Obligations. The partners are liable for the obligations of the bank without limit, jointly and severally, with their entire private wealth. It is the liability regime, and not the client segment or the marketing, that makes a private banker.

Four consequences follow directly from that, and each shapes how such a house behaves.

- **Decisions are personal.** A partner approving an exposure is approving a claim on his own assets. This concentrates the mind on tail risk in a way that a bonus scheme does not.
- **Capital is constrained.** The base cannot be widened through the market, because new capital means new partners and new partners must assume the liability.
- **Succession is a personal act.** Bringing in a partner is a decision about who will stand behind the house, and it cannot be delegated to a placement agent.
- **Exit is slow.** Residual liability takes years to run off, which is why departures from such houses are planned long in advance.

2 What unlimited liability achieves

The economic argument is straightforward and intuitively strong. A decision-maker who bears the downside personally will take fewer risks than one who bears only the upside. Applied to banking, the argument holds that partnerships will hold more capital, lend more conservatively, and avoid business they do not understand.

The historical evidence is less clear than the argument. A study of the American back office crisis of the 1960s, when the New York Stock Exchange admitted corporations as members in 1953 and publicly held corporations in 1970 — by 1975 nearly half of member firms had incorporated — examined whether partnerships behaved differently under stress. The finding was that partnerships did not survive at higher rates and were no less likely to engage in the practices that imperilled their stability, in particular reliance on risky subordinated customer loans.

The collapse of Barings in 1995 makes the converse point. An old and respected house disappeared within weeks after losses of some 830 million pounds accumulated by a single employee in Singapore were concealed on an error account; ING took over the assets for one pound.

The sober formulation is therefore this: personal liability is no substitute for organisation. It works where it meets effective internal controls and a culture that does not tolerate hidden risk, and it fails where it does not.

3 Why the form persisted so long

If the protective effect is uncertain, why did Geneva keep the form for two centuries? Three reasons, all of them commercial.

The first is signalling. A client entrusting a family fortune to a house wants to know that the people managing it lose if he loses. Unlimited liability communicates that in a single sentence and requires no audit to verify.

The second is governance. A partnership of a few individuals who meet daily needs no elaborate board structure to align interests. Decisions are taken by people who carry them.

The third is confidentiality of ownership. A partnership publishes little about itself. For houses whose clients valued discretion, that was congruent with the product.

4 2014: the break

On 1 January 2014 Lombard Odier and Pictet converted into corporations. Four pressures combined.

Capital requirements. The post-crisis framework raised the quantum and quality of capital banks must hold. Raising capital in a partnership means finding partners willing to assume unlimited liability for a larger balance sheet.

International expansion. Foreign supervisors and counterparties are accustomed to corporate entities with published accounts, identifiable shareholders and a board. A Swiss partnership is an explanatory burden in every new jurisdiction.

Institutional clients. Pension funds and sovereign investors contract with corporations and require audited financial statements and defined governance.

Succession. As the scale of the business grew, the pool of individuals both able and willing to assume unlimited liability narrowed.

The partners remained at the head of the converted houses as shareholders and managing officers. What fell away was the partners' unlimited personal liability for the bank's debts, which survives only in the group parent companies, still partnerships limited by shares — and with it the strongest signal the houses had ever sent.

The Association of Swiss Private Banks now counts seven members: Bordier & Cie, E. Gutzwiller & Cie, Banque Lombard Odier & Cie SA, Mirabaud & Cie SA, the Pictet group, Rahn+Bodmer Co. and Reichmuth & Co.

5 Geography follows legal form

For centuries the houses sat in a few streets between the old town and the Rue de la Corraterie. That concentration had a function: proximity to one another, to the notaries, to the lawyers and to the authorities, in a business conducted by people who met in person.

Today Pictet and BNP Paribas are in Les Acacias, Rothschild on the periphery, and Lombard Odier left the centre in 2025 for a building at Bellevue designed by Herzog and de Meuron. The managing partner explained that the bank had been spread across eight buildings in the city and that the motto had been *One Roof*. The constraint is physical: the city

covers sixteen square kilometres and the historic banking quarter about one hectare, which is too little to consolidate a modern institution.

The move is a fair symbol of the underlying change. A house of partners who walk to one another's offices becomes a group that needs a single floor plate for several hundred people, and the legal form follows the organisation.

6 What to check when the form matters

For an adviser the distinction becomes practical in a handful of situations.

- **Counterparty analysis.** Establish whether the institution is a partnership or a corporation, and if a partnership, who the partners are. Their personal position is part of the credit picture.
- **Claims.** Against a partnership, the partners are liable personally and can be pursued after the partnership assets are exhausted. Against a corporation, the claim stops at the entity absent grounds for piercing.
- **Conversion.** When a house converts, establish how residual liability for obligations incurred before conversion is treated, and over what period.
- **Marketing language.** A foreign institution describing itself as a private bank is describing its client segment. Nothing follows about liability.

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