

The post-war boom and Zurich as an international asset manager

*Dr Alexander Ressos, TEP
Attorney-at-Law (Switzerland), Solicitor (Hong Kong),
Solicitor (England & Wales)*

The growth of the Swiss banking system after 1945 was spectacular even by the standards of the European economic miracle. Youssef Cassis, writing in the Historical Dictionary of Switzerland, gives a sixfold increase in the aggregate balance sheet of all Swiss banks between 1947 and 1971 and an eightfold increase for the big banks. In the same article he places Switzerland, from the 1960s, third among the world's financial centres after London and New York, a rank it held until Tokyo rose in the 1980s.¹ Much of this growth took place in Zurich. The Swiss Bank Corporation had a large branch there, the Swiss Credit Bank and the Union Bank of Switzerland had their head offices in the city, and the private banks, the cantonal bank and the foreign bank subsidiaries that arrived in the 1960s clustered around the Paradeplatz.

The international character of the growth is visible in the balance sheets. According to Cassis, Swiss banks held foreign claims of 9.4 billion francs in 1962, which amounted to 15.8 per cent of their total assets and 29.1 per cent of the assets of the big banks. Ten years later, in 1972, foreign claims had risen to 86.5 billion francs, or 38.6 per cent of total assets and 41.3 per cent for the big banks. On the liabilities side, foreign liabilities rose from 10.8 billion francs in 1962, 17.2 per cent of the total, to 71.7 billion francs in 1972, when they amounted to 32 per cent of all liabilities and no less than 59.4 per cent of the liabilities of the big banks.² Within a single decade, in other words, the big banks became institutions whose balance sheets were funded predominantly from abroad. These figures do not even include the fiduciary deposits and the securities held in custody for clients, which are the core of private wealth management and which appear off the balance sheet.

The article on the financial centre in the same dictionary expresses the development in a second set of figures that captures the asset-management

side more directly. It estimates the assets managed by Swiss banks at roughly 130 per cent of Swiss gross domestic product in 1955, 260 per cent in 1970 and 500 per cent in 1985, rising to more than 1,000 per cent by the middle of the 2000s. In the early 1980s Switzerland is said to have accounted for about ten per cent of world financial flows while representing only about two per cent of world trade. At the beginning of the twenty-first century Swiss institutions administered around a third of the world's cross-border private wealth.³ These numbers are estimates and should be read as orders of magnitude, yet they convey the scale of what happened. In the three decades after the war Switzerland, and within Switzerland above all Zurich and Geneva, became the world's principal custodian of private money that had left its country of origin.

The personnel figures tell the same story from another angle. Swiss banks employed 66,480 people in 1960 and 109,205 in 1995.⁴ Much of that increase took place in Zurich, where the big banks built their administrative centres, securities departments and dealing rooms. The city's built form still bears the mark. The office buildings along the Talstrasse, the Löwenstrasse and the Uraniastrasse, and later the computer and back-office centres on the edge of town, belong to the expansion of these years, as do the underground vaults that the international press liked to describe.

Among the three big banks, the Union Bank of Switzerland (Schweizerische Bankgesellschaft, SBG) was the most aggressive in the domestic market. Peter Püntener's article on the bank records its domestic expansion through new branches and through the takeover of the Eidgenössische Bank in 1945. By 1962 it had become the largest bank in Switzerland. The acquisition of Interhandel in 1966 strengthened its position further. From the mid-1980s it used this domestic base to expand abroad, buying the London brokerage firm Phillips & Drew in 1986.⁵ The Swiss Credit Bank, which later took the name Credit Suisse, had opened its first foreign branch in New York as early as 1940 and became a major gold dealer in the 1960s.⁶ The Swiss Bank Corporation, headquartered in Basel but with its largest business in Zurich, completed the trio. These three institutions acted as a syndicate for most of the large Swiss franc bond issues, for the gold pool of 1968 and for the negotiations with the Swiss National Bank. Their chief executives were among the most influential people in the country.

A portrait of these banks from the outside appeared in the American news magazine *Time* in March 1965, a few months after the sterling crisis. It described Swiss bankers as people who speak sparingly, avoid social

ostentation and keep their money two floors below ground level. According to the magazine, the Swiss banking system held deposits of some 16.6 billion dollars, about one-fifth of them from foreign sources, and nearly half of all deposits were concentrated in five big banks on the Bahnhofstrasse.⁷ Although the figures were rough and the article was written with an eye on its readers' appetite for mystery, it conveys the image that the outside world had formed of Zurich by the middle of the decade.

The growth did not go unregulated. From 1950 onwards the Swiss National Bank repeatedly tried to limit the inflow of foreign funds, which inflated the domestic money supply and pushed the franc towards the upper edge of its band. Lacking statutory powers for most of what it wanted to do, it relied on agreements with the banks. The first such agreement, of 15 June 1950, stopped the payment of interest on foreign deposits. A further "gentleman's agreement" of 18 August 1960 was intended to deter inflows of foreign funds and reduce the existing stock. On 31 March 1964 the SNB and the banks concluded an agreement on foreign funds that the Federal Council declared generally binding on 24 April 1964.⁸ Catherine Schenk, in her study of the origins of the Eurodollar market, notes that the Swiss agreement of mid-1960 committed the banks not to accept short-term foreign currency deposits and prohibited interest payments on such deposits, which is one reason why part of the money that would otherwise have come to Switzerland stayed in London.⁹

These early agreements set a pattern that would last for decades. The Swiss National Bank of the 1950s and 1960s was a small institution with limited legal instruments. It could set its discount rate and deal in foreign exchange, but it had no power to impose minimum reserves or credit ceilings without a special legal basis. What it could do was to persuade the banks, which were few, concentrated and closely connected to the central bank through personal networks, to accept restrictions in their own long-term interest. The gentlemen's agreement thus became a characteristic instrument of Swiss financial governance. It reappears in the 1970s in the currency measures, in 1977 in the banks' agreement on due diligence that the next chapter describes, and in a changed form in the self-regulation of the Swiss Bankers Association that continues to this day.

Taxation also shaped the post-war structure of the market. The federal withholding tax (Verrechnungssteuer), introduced on 1 January 1944 at fifteen per cent, was raised to 25 per cent in 1945, to 27 per cent in 1958, to 30 per cent in 1967 and to its present rate of 35 per cent in 1976. Domestic taxpayers can recover it by declaring the income, whereas foreign investors

can reclaim it only under a double taxation treaty.¹⁰ For foreign clients of Swiss banks, a deposit that paid Swiss-source interest was therefore burdened with a tax that was costly or impossible to recover. The consequence, as section V shows, was the migration of interest-bearing foreign money off the Swiss balance sheet and into the fiduciary deposit.

1 Notes

1. Youssef Cassis et al., “Banken”, in Historisches Lexikon der Schweiz (HLS), version of 17 August 2006, <https://hls-dhs-dss.ch/articles/014061/2006-08-17/>. Cassis is the author of the sections on the period after 1945. ↩
2. Youssef Cassis et al., “Banken”, HLS, section “Die internationale Verflechtung”, <https://hls-dhs-dss.ch/articles/014061/2006-08-17/>. ↩
3. HLS, “Finanzplatz”, <https://hls-dhs-dss.ch/de/articles/045549/2017-09-27/>. The article also records that foreign capital inflows between 1955 and 1975 were so large that they repeatedly led to measures to moderate them. ↩
4. Youssef Cassis et al., “Banken”, HLS, section “Wirtschaft und Banken”, <https://hls-dhs-dss.ch/articles/014061/2006-08-17/>. ↩
5. Peter Püntener, “Schweizerische Bankgesellschaft (SBG)”, in HLS, version of 18 March 2015, <https://hls-dhs-dss.ch/de/articles/041819/2015-03-18/>. ↩
6. FundingUniverse, “Credit Suisse Group History” (company history based on the International Directory of Company Histories), <https://www.fundinguniverse.com/company-histories/credit-suisse-group-history/>, on the opening of the first foreign branch in New York in 1940 and on Credit Suisse becoming a major gold trading house with the emergence of the free gold market in 1968 and the acquisition of the Valcambi refinery. ↩
7. Time, “Switzerland: The Gnomes of Zurich”, 12 March 1965, <https://time.com/archive/6633506/switzerland-the-gnomes-of-zurich/>. ↩
8. Swiss National Bank, “Chronicle of monetary events”, entries of 15 June 1950, 18 August 1960 and 31 March and 24 April 1964, <https://www.snb.ch/en/the-snb/organisation/history/geld-und-waehrungspolitische-chronik>. ↩

9. Catherine R. Schenk, “The Origins of the Eurodollar Market in London: 1955–1963”, *Explorations in Economic History* 35 (1998), https://www.sfu.ca/~poitras/EEH_Eurodollar_98.pdf. ↩
10. HLS, <https://hls-dhs-dss.ch/de/articles/026202/>. The Federal Tax Administration’s historical overview adds that the tax was intended both as a security against evasion by residents and, for foreign recipients, as a final charge; see Eidgenössische Steuerverwaltung, “Steuerarten – Verrechnungssteuer”, <https://www.estv2.admin.ch/jubi/steuerarten-vst-d.htm>. ↩

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