

Evolution and Adaptations of the Swiss Banking System

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1 Introduction

The Swiss banking system has been at the forefront of the global financial system. This report aims to summarize the key points of the lecture given by Thibaud Giddey and present how the Swiss banking system has evolved over time and is still able to adapt to modern challenges.

2 Overview of the Swiss Banking System

The Swiss banking system makes a huge contribution to the national GDP, in 2023 alone, the Swiss Financial Center (which includes both banking and insurance sectors) added 72.3 billion CHF to the economy. The system's resilience is largely attributed to its multimodal services, including traditional banking, stock exchanges or managing cross-border capital. Zürich specializes in wealth management and is home to UBS – the only remaining global bank in Switzerland in 2024. Geneva is known for its private banking, while Zug has become a centre hub for cryptocurrencies as it has been titled "*Crypto Valley*" [6][7]. Cities such as Lugano, Ticino and Basel are also becoming more recognized in the financial world.

3 Historical Evolution

3.1 Banking System

Swiss banking was initially dominated by local banks and has evolved significantly since 1850. Its early growth was driven by private bankers in major cities who invested heavily in foreign public bonds. These gave rise to large commercial banks (focusing on industrial investment) alongside government-backed cantonal banks.

Between 1890 and 1930, two transformative events took place that elevated Switzerland to the international level:

1. The establishment of the Swiss National Bank (SNB) in 1907. This introduced a degree of centralization, forcing small, regional banks to consolidate, since they lost business.
2. The nationalization of private railway companies in 1898 led to significant federal influence, which eventually caused the creation of the Swiss Bankers Association in 1912.

By 1930, local, cantonal and big banks had achieved approximately equal market shares, marking the beginning of a financial crisis, from which it would take 40 years to recover. **All this laid the foundations of the modern banking system.**

3.2 1931 - 1945: The Great Depression

The international banking crisis of 1931 had a severe negative impact on Swiss banks. This eventually led to the **Banking Secrecy Law** introduced in 1934, which made breaching a criminal offence. During WWII, Swiss banks provided financial services to all the powers, offering the Swiss franc as a neutral currency. Although both powers criticized this support later, it led to great financial stability.

3.3 Consolidation after war

Switzerland's decision to help the Axis power financially resulted in a *black-listing* of Swiss products. Under the **Washington Agreement** of 1946, Switzerland paid a huge amount of money to remove this international isolation. After WWII, the golden age of the Swiss financial centre began with exponential growth. By the end of the 1960s, the Swiss banking centre was considered the third largest financial centre globally, after New York and London.

Between 1970 and 2000, Swiss banking went through a period of consolidation. The big banks diversified into insurance (called **bancassurance**) and investment banking. The big banks completely absorbed smaller banks and shifted to retail banking, which led to their significant growth in customer numbers.

4 Modern Challenges

In the face of increased regulations, particularly concerning banking secrecy, the Swiss financial sector has shown remarkable **adaptability**. This can be seen in the shift towards greater transparency and regulatory complaints. The sector is also highly adaptable to technological advances in the form of digital banking and the usage of blockchain technology. In addition, the emergence and recognition of Zug in the crypto world demonstrates the proactive approach of the Swiss banking sector in shaping innovation.

5 My Critical Assessment

5.1 Adaptability

The Swiss banking system has a long history of being a global leader, but especially in recent decades, it has had to adapt to a number of new challenges. For many years, Switzerland was known for its strict banking secrecy laws, which made it a popular place for people to store their money. In recent years, however, increased international pressure and a global movement for greater financial transparency have challenged these secrecy laws. An-

other challenge was the need to adapt to technological developments. Zug (and, most recently, Zürich and its neighbouring municipalities) has become known as the Crypto Valley [6][7], which demonstrates that Swiss banks are seeking ways to remain modern in this fast-paced environment. However, the rise of digital finance has also given rise to new risks, like the potential illegal usage of cryptocurrencies or different cyberattacks.

Swiss banks have, overall, demonstrated strong resilience in keeping up with these challenges. However, the emergence of new regulations and technological innovations indicates the necessity for continued vigilance.

5.2 Money Laundering

As previously stated, the **Banking Secrecy Law** criminalised the share of information about clients, irrespective if they were hiding illegal funds. This provides a natural way for criminals to launder money. In recent years, there have been accidents reported, where major, global Swiss banks (like Credit Suisse [3] or UBS [5]) were linked to hidden account and tax fraud schemes. To address this issue, Switzerland has introduced a new anti-money laundering Act (AMLA) [4] and initiated the sharing of client data with other countries through agreements, including the Automatic Exchange of Information (AEOI) [2] [1]. While these steps are promising, Switzerland still needs to improve in monitoring politically exposed persons and businesses to prevent the concealment of illicit funds.

6 Conclusion

Overall, Swiss banks have shown that they are among the strongest players internationally, but they need to keep adapting to modern challenges and ensure that they don't fall behind in new criminal attempts.

References

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