Switzerland: Schweizerische Volksbank (SVB), 1933[[1]](#footnote-2)

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Yale Program on Financial Stability Case Study

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Abstract

Schweizerische Volksbank (“Swiss People’s Bank”) grew to be the second largest bank in Switzerland by 1930, when its balance sheet peaked at 1.7 billion Swiss francs (CHF) (Baumann 2007, 319; Swiss Federal Council 1933d, 802). Beginning in 1929, non-performing assets weighed on Volksbank’s profitability (Baumann 2007, 345). By 1933, the bank faced losses on CHF 118.5 million in assets, representing approximately 10% of total assets (Baumann 2007, 349–50; Swiss Federal Council 1933d, 813,4). The government provided liquidity in the form of loans and deposits to Volksbank in 1931 and again in 1933 until it could finalize a capital injection (Baumann 2007, 376; Swiss Federal Council 1933a, 5). In 1933, the government determined that Volksbank was too important to the national economy to allow its failure (Swiss Federal Council 1933d, 819–20). As a cooperative bank under Swiss law, Volksbank’s shareholders held shares at par value and had the ability to redeem them at par with sufficient notice, similar to mutual banks in the US. On December 8, 1933, the Swiss federal government issued a decree authorizing the government to subscribe to CHF 100 million (USD 30.3 million) of new cooperative shares (Swiss Government 1933, art. 1). The decree required that the existing shares of the bank should be written down to 50% of their nominal value (Swiss Government 1933, art. 3). January 1947 onwards, Volksbank gradually bought out the government’s CHF 50 million investment, starting with the purchase of CHF 10 million of shares using the bank’s reserves and then purchasing CHF 40 million through a consortium (Swiss Federal Council 1948, 3). Volksbank placed these shares on the market gradually at par (Swiss Federal Council 1948, 3).

**Keywords:** ad hoc capital injection, bail-in, Switzerland, Volksbank

Overview

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| Key Terms | |
| Purpose: To prevent the collapse of an institution whose liquidation would have serious repercussions on other banks, on the country’s credit, and the Swiss currency (Swiss Federal Council 1933a, 2). | |
| Announcement Date | November 11, 1933 (Baumann 2007, 368) | |
| Operational Date | December 19, 1933 (Baumann 2007, FN 1064, pg. 427) | |
| Date of Final Capital Injection | The capital injection was conducted in three tranches with the last one taking place on February 23, 1934 (Baumann 2007, FN 1064, pg. 427) | |
| End Date | During 1948 (Swiss Federal Council 1948, 3) | |
| Legal Authority | A federal decree adopted on December 8, 1933, authorized the capital injection (Swiss Government 1933, 975) | |
| Source(s) of Funding | Federal budget of the Swiss Confederation (Swiss Government 1933, 975) | |
| Administrators | Swiss Federal Council (Swiss Government 1933, art. 7) | |
| Size | CHF 100 million (USD 30.3 million) (Swiss Government 1933, art. 1) | |
| Capital Characteristics | Ordinary shares of cooperative capital (Swiss Federal Council 1933d, 817; Swiss Government 1933, 975) | |
| Bail-in Terms | The nominal value of the cooperative capital was reduced by 50% from CHF 1,000 to CHF 500 | |

This paper describes the ad hoc capital injection provided to Schweizerische Volksbank (“Swiss People’s Bank”) in response to the financial distress in the 1930s.

Volksbank grew to be the second largest bank in Switzerland by 1930, when its balance sheet peaked at CHF 1.7 billion (Baumann 2007, 319, 320). In the post-World War I crisis of 1921-23 it faced losses of over CHF 50 million on loans made to domestic commercial customers (Baumann 2007, 320; Swiss Federal Council 1933d, 806). Instead of immediately writing off the losses, Volksbank tried to generate income to cover them by expanding its foreign lending business (Baumann 2007, 321; Swiss Federal Council 1933d, 806). This strategy appeared to work until 1928 (Baumann 2007, 321; Schweizerisches Bundesarchiv 2023, 1; Swiss Federal Council 1933d, 807). However, beginning in 1929, the increased foreign business led to greater losses due to the onset of the Great Depression, abandonment of the gold standard, and foreign political instability (Baumann 2007, 321; Schweizerisches Bundesarchiv 2023, 1; Swiss Federal Council 1933d, 807). In July 1931, Germany introduced standstill agreements on private debt to foreigners and big Swiss banks, including Volksbank, lost considerable balances (Ehrsam 1985, 86–87). Volksbank lost CHF 70.7 million in balances in Germany, including short-term deposits and long-term investments in bonds and first-class commercial and residential mortgages (Baumann 2007, 422; Ehrsam 1985, 86–87). At the end of September 1931, Volksbank’s board of directors appointed Alfred Hirs, a director from the Swiss National Bank (SNB), to the management board of Volksbank; he ended up staying in the role for a decade (Baumann 2007, 331)

Due to a decline in interest margins on the bank’s lending business, falling income from securities, and growing non-performing assets, the bank’s earnings had deteriorated rapidly by September 1933 (Baumann 2007, 345). While the bank’s cooperative capital had increased slightly from CHF 166 million in 1928 to CHF 186 million in 1933, the total non-performing and near non-performing assets had risen from CHF 30 million to CHF 98 million over the same period (Baumann 2007, 349). The government provided liquidity in the form of loans and deposits to Volksbank in 1931 and again in 1933 to keep the bank afloat (Baumann 2007, 376; Swiss Federal Council 1933a, 5).

On November 29, 1933, the Swiss Federal Council[[3]](#footnote-4) presented a letter to the Federal Assembly of the Swiss Confederation in favor of the capital injection and a draft of the decree authorizing the government’s participation was included in this letter (Baumann 2007, 378; Swiss Federal Council 1933d, 1). On December 8, 1933, a federal decree authorized the Swiss government to subscribe for 200,000 cooperative shares at CHF 500 (Swiss Government 1933, art. 1). This capital injection represented approximately one quarter of Switzerland’s national budget for 1933 (Baumann 2007, 425; UBS 2023, 1). The decree authorizing the capital injection required the bank to write-down the nominal value of the existing shares by 50% (Swiss Government 1933, art. 2).

In January 1937, Volksbank reduced the nominal value of the shares by 50% again (Ehrsam 1985, 101; Swiss Federal Council 1937, 3). The second reduction in the nominal value reduced the government’s investment to CHF 50 million (Ehrsam 1985, 101). Between 1947 and 1948 Volksbank repurchased the government’s shares for CHF 51.4 million, and gradually placed these shares on the market at par (Swiss Federal Council 1948, 2–3). The program therefore cost the government CHF 48.6 million, excluding dividends received (Swiss Federal Council 1948, 2–3).

Figure 1: Timeline detailing federal aid given to Volksbank in the 1930s

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| --- | --- |
| September 1931 | Depositors withdraw their savings from the Zurich branches of the bank in response to rumors that a large Swiss bank was facing payment difficulties. . |
| November-December 1931 | The general management of Volksbank calculates that the bank's balance sheet shrunk by 300 million CHF to 1.4 billion CHF because of withdrawals during the bank run. The bank requests the federal government and the central bank for aid. The Federal Council provides loans of CHF 50 million and CHF 10 million to Volksbank. |
| November 1933 | After news that the federal government was going to provide further aid to Volksbank to restructure its balance sheet leaked, the liquidity requirements of Volksbank increased. Darlehenskasse (EDK) and the SNB provide up to CHF 130 million in liquidity aid was provided the capital injection was completed. The loans require a collateral of high-quality assets such as domestic mortgages. |
| December 8, 1933 | The federal government injects CHF 100 million of fresh capital into Volksbank in exchange for ordinary shares. The government also requires the bank to write down the capital of existing shareholders to 50% of its nominal value. |

Source: Author’s analysis.

Summary Evaluation

The Swiss government’s capital injection in Volksbank has not been studied extensively. A news article published in the Neue Zürcher Zeitung (NZZ) after the capital injection was announced states that it was embarrassed about the depreciation to the cooperative capital of the bank (Baumann 2007, 369). However, the article states that it believed the restructuring would be successful since the slate would be completely wiped clean by writing off all losses and expected risks (Baumann 2007, 369).

Jan Baumann, a former doctoral candidate at the University of Zurich, compared the Volksbank intervention to the discount bank that failed during the same period and noted that the intervention in Volksbank was easier for advocates of the capital injection to justify given Volksbank’s systemic importance (2007, 475). Baumann also states that cooperation between the Federal Council, the SNB, and Volksbank’s management worked well, and although communication to the public was initially negative it was successful overall (2007, 476).

Paul Ehrsam, a Swiss economist, evaluated the program in a book published by the Swiss Federal Banking Commission, Eidgenössische Bankenkommission. He states that it was dangerous to postpone the restructuring of Volksbank for almost two years (1985, 101). However, Ehrsam notes that the strategy to postpone the restructuring was successful and that the authorities acted swiftly and decisively at the end of 1933 (1985, 101). Ehrsam also points out that a prerequisite to the swift decisions in 1933 was that a representative from the Federal Council and SNB, Alfred Hirs, was part of Volksbank’s general management from September 1931 (1985, 101).

Key Design Decisions

1. Purpose: To prevent the collapse of an institution whose liquidation would have serious repercussions on other banks, the country’s credit, and the Swiss currency.

In September 1933, Alfred Hirs calculated that Volksbank’s unrealized losses had grown to CHF 100 million, two-thirds of which stemmed from foreign assets (Baumann 2007, 346, 349). Hirs’ report shows that Volksbank needed financial support urgently and given the size of aid it required it could not come from the mostly retail members of the cooperative or from other banks (Baumann 2007, 352). During a speech to Volksbank’s assembly of delegates on December 2, 1933, Hirs indicated that a simultaneous reduction in assets and liabilities was not viable since Volksbank needed a fresh means of payment and new capital urgently (Baumann 2007, 353–54). Volksbank’s management submitted a formal request for state aid to the Federal Council on October 17, 1933 (Schweizerische Volksbank 1933, 6). The request for state aid laid out the bank’s plan to reduce its cooperative capital by half from CHF 186 million to CHF 93 million and use this reduction to cover realized losses of CHF 56 million of the CHF 100 million in total expected losses (Schweizerische Volksbank 1933, 4–6). The bank also proposed that the federal government would provide CHF 100 million in fresh capital, of which 30 million would be paid in immediately and 70 million would serve as a guarantee fund (Schweizerische Volksbank 1933, 8).

Three experts had written reports that largely agreed with Volksbank’s internal calculation, however, one report stated that Volksbank’s foreign risks were significantly higher than stated by bank management (Baumann 2007, 361–62; Swiss Federal Council 1933d, 810).

The Federal Council’s meeting minutes from October 18, 1933, indicate that almost all members of the council agreed that Volksbank was too important to the Swiss economy and should be provided with aid; however, the exact nature of the aid was not clear (Baumann 2007, 354–56; Swiss Federal Council 1933a, 1). The Council’s members relied on the expert reports and justified the capital injection by saying that it protected Volksbank’s 350,000 depositors, 100,000 cooperative members, and 55,000 debtors (Swiss Federal Council 1933d, 808–9, 819). Volksbank had a unique structure since it was the only large bank in Switzerland that was structured as a cooperative bank and it grew to be the second largest bank in Switzerland by the end of 1930 (Baumann 2007, 319). Its branch network was particularly dense nationwide and it provided primarily small and medium-sized loans and accepted savings deposits from small savers (Baumann 2007, 319). At the end of October 1933, Volksbank had total assets of CHF 1.2 billion (Swiss Federal Council 1933d, 807–8). Given that there were few families in Switzerland who did not have any relationship with Volksbank its failure would have had catastrophic consequences (Baumann 2007, 344; Swiss Federal Council 1933d, 819–20). The final restructuring plan Volksbank submitted in exchange for the CHF 100 million capital injection is shown in Figure 2.

Figure 2: Schweizerische Volksbank's Final Restructuring Plan *(in CHF millions)*

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| --- | --- |
| *Total expected losses* |  |
| Total of final and expected losses | 81.8 |
| Restructuring reserve for jeopardized positions | 11.7 |
| Reserve for exchange rate losses on foreign loans | 25.0 |
| Total Losses | 118.5 |
| *Source of funds to cover expected losses* |  |
| Drawing on 50% write-off of previous share capital | 93.0 |
| Use of open reserves and profit carried forward | 25.5 |
| Total funds used to cover losses | 118.5 |

Source: (Ehrsam 1985, 100; Swiss Federal Council 1933d, 813)

Although aid from other banks was not viable given Volksbank’s structure and size, Finance Minister Musy asked representatives from the Swiss Bank Corporation and Credit Suisse to support Volksbank, so that the Federal Council could tell the Federal Assembly they did everything possible to reduce the Confederation’s participation in the aid (Swiss Federal Council 1933b, 1). Finance Minister Musy’s comments indicate Swiss Bank Corporation and Credit Suisse were unable to participate in the rescue of Volksbank (Baumann 2007, 367).

1. Part of a Package: Schweizerische Volksbank received three rounds of emergency loans and deposits between 1931 and 1933.

On September 28, 1931, after Great Britain abandoned the gold standard, Volksbank faced a deposit run in Zurich that lasted for a few days as depositors withdrew their savings in response to a rumor that it was having payment difficulties, following the failure of a small private bank; depositor pressure increased further when the bank’s Zurich branches restricted withdrawals to 800 francs per depositor (Baumann 2007, 327, 329). Volksbank denied these rumors and issued a survey showing that 121% of its savings bank deposits were covered by first-class securities, after which customer withdrawals declined (Baumann 2007, 327, 329).

On November 1, 1931, Volksbank’s management calculated that the bank’s balance sheet had shrunk by CHF 300 million, as it responded to deposit runs and repayment requests from banks and bondholders (Baumann 2007, 333; Swiss Federal Council 1931a, 1). The bank’s management also calculated that of the remaining CHF 1.4 billion, CHF 300 million in assets were abroad (Swiss Federal Council 1931a, 1). The bank’s management estimated that the total expected credit losses were around CHF 75 million, while it had CHF 46 million in reserves, so it needed to write down about CHF 30 million in share capital to cover all expected losses (Swiss Federal Council 1931a, 1). Volksbank had 600,000 savings accounts in November 1931, and was too important to the Swiss national economy to allow its failure, as the former Finance Minister, Jean-Marie Musy, explained in the Swiss Federal Council (Swiss Federal Council 1931a, 2).

Volksbank asked the federal government and the SNB for aid and received a CHF 50 million loan in November 1931 and an additional CHF 10 million deposit in December 1931[[4]](#footnote-5) (Baumann 2007, 334; Ehrsam 1985, 98; Swiss Federal Council 1931a, 1–2; 1931b, 1). The following month, Volksbank announced that withdrawals had slowed down significantly (Baumann 2007, 334).

Although Volksbank still faced significant unrealized losses, the bank management, Swiss Finance Department, and the SNB Governing Board agreed to postpone the restructuring of the bank to preserve public confidence in the fragile Swiss banking system (Baumann 2007, 336). Realizing those losses would force losses on Volksbank’s cooperative shareholders, who had purchased their shares at par and did not expect to experience losses. Volksbank undertook several measures to return to its core non-commercial domestic business and implemented measures to reduce costs in October 1932, such as reducing salaries and giving older employees early retirement (Baumann 2007, 343). At the end of 1932, Volksbank’s internal calculations suggested that unrealized losses were CHF 73.7 million (Baumann 2007, 340).

Volksbank applied formally for state aid to complete the bank’s restructuring by submitting a request to the Federal Council on October 17, 1933 (Baumann 2007, 354). The Federal Council recognized that this time Volksbank needed more than liquidity support and almost all members of the Federal Council agreed that Volksbank should receive a capital injection from the state (Baumann 2007, 354–55). The Council decided on October 18, 1933, that Volksbank should receive a loan of CHF 10 million and a federal deposit of CHF 30 million as provisional support until the exact details of the capital injection were agreed on (Baumann 2007, 356–57; Swiss Federal Council 1933a, 5). The CHF 10 million loan was granted against promissory notes (Swiss Federal Council 1933a, 5). The deposit of CHF 30 million was awarded against collateral of Swiss promissory notes to industrial companies, after Volksbank submitted a detailed recovery and reorganization plan (Swiss Federal Council 1933a, 5). The CHF 30 million deposit was given at an interest of 4% for a period of one year with the option to repay early (Swiss Federal Council 1933a, 5)

News of Volksbank’s difficulties and bailout had leaked on November 17, 1933, a day before the Council announced the capital injection, and Volksbank’s liquidity drained in the following days as worried depositors withdrew their savings (Baumann 2007, 375; Swiss Federal Council 1933c, 1). The federal loan office, Darlehenskasse der Schweizerischen Eidgenossenschaft (EDK), and the SNB provided emergency loans to bridge payment difficulties until the government’s capital injection was completed (Baumann 2007, 375). In accordance with the federal decree of April 13, 1933, the EDK granted a loan of CHF 30 million against domestic mortgage assets and promised a further CHF 70 million (Baumann 2007, 376). The Governing Board of the SNB also declared its willingness to grant an extraordinary Lombard advance of CHF 20 to 30 million to help Volksbank manage its liquidity as Volksbank faced an outflow of CHF 4 to 5 million every day, for 10 days after the announcement of the federal intervention (Baumann 2007, 376). The SNB granted this loan under extraordinary circumstances against the deposit of bills of exchange that did not otherwise meet its legal requirements (Baumann 2007, 376, FN. 919).

The EDK and SNB were therefore willing to provide up to CHF 130 million in liquidity aid to Volksbank (Baumann 2007, 376). As of December 1933, Volksbank received CHF 71 million in loans from the EDK and SNB, against a collateral of domestic mortgages and deposit of bills of exchange (Baumann 2007, 376–77). Volksbank repaid all of these according to its 1934 financial results (Baumann 2007, 426).

1. Legal Authority: The Swiss legislature on December 8, 1933, authorized the Swiss Confederation to inject CHF 100 million in the cooperative capital of Schweizerische Volksbank.

The Federal Assembly of the Swiss Confederation unanimously authorized the capital injection through a decree issued on December 8, 1933 (Baumann 2007, 395; Swiss Government 1933, 1).

1. Administration: The Swiss Federal Council administered the capital injections.

Volksbank applied for state aid by submitting a request to the Federal Council and the Council decided on all matters regarding aid given to Volksbank (Baumann 2007, 349; Swiss Federal Council 1933a, 1; 1933d, 801). The Federal Council presented a message to the Federal Assembly that included a justification for the intervention and a draft of the decree authorizing the capital injection (Swiss Federal Council 1933d). The Council also considered reports written by Volksbank’s General Director, Alfred Hirs; Nestlé’s former president, Louis Dapples; Schweizerische Kreditanstalt bank’s director, Hermann Kurz; and Cantonal Bank of Bern’s director, Scherz (Swiss Federal Council 1933d, 810). The Federal Council also consulted with the SNB regarding the state intervention (Baumann 2007, 358).

Article 7 of the federal decree issued to authorize the capital injection stated that the Federal Council would be responsible for the program’s implementation (Swiss Government 1933).

1. Governance: The decree authorizing the capital injection required the Federal Council to provide reports to the Federal Assembly.

The decree authorizing the capital injection required the Federal Council to report to the Federal Assembly on measures taken to examine the previous bank management’s criminal and civil liability, and on measures taken to reorganize the bank’s administration (Swiss Government 1933, 976).

1. Communication and Disclosure: Few details remain of the government’s communication strategy, but one source indicates that the Federal Council issued a press release on November 18, 1933, outlining the plan to intervene in Volksbank.

On November 17, 1933, the news about the government’s intention to intervene in the bank had leaked and the NZZ published an article discussing the impending restructuring of Volksbank (Swiss Federal Council 1933c, 1). The next day the Federal Council held a special session to decide on Volksbank’s restructuring plan and published a press release on November 18, 1933, outlining the restructuring plan (Baumann 2007, 368, 420).

The government’s representatives on Volksbank’s board and general management also gave various speeches to Volksbank’s assembly of delegates regarding the federal intervention (Baumann 2007, 353)

1. Treatment of Creditors and Equity Holders: The decree authorizing the capital injection required that the nominal value of the cooperative capital held by existing shareholders be written down by 50%.

Article 3(1) of the decree that authorized the capital injection stated that the nominal value of the cooperative capital of the existing shareholders would be reduced by 50% from CHF 1,000 to CHF 500 (Swiss Government 1933). Article 3(3) of the decree also revoked shareholders’ right to take advance payments from the bank by pledging the capital shares (Swiss Government 1933).

Volksbank’s Articles of Association allowed shareholders—who were all members of the cooperative—to redeem their shares by submitting a notice of termination that took effect at the end of the following year; the bank usually repaid their capital at the end of the fourth financial year following the membership termination (Swiss Federal Council 1933d, 804). Volksbank’s board of directors could postpone the repayment date by an additional two years during a crisis, under the Articles of Association (Swiss Federal Council 1933d, 804). However, Article 3(2) of the decree revoked the right of cooperative members to redeem their shares with retroactive effect and replaced it with a right to transfer shares among cooperative members (Swiss Government 1933).

There were no legally mandated prohibitions on dividend distributions and the bank’s management paid a dividend of 2% for the 1934 financial year (Baumann 2007, 427).

1. Capital Characteristics: The government subscribed to 200,000 ordinary shares through the CHF 100 million capital injection.

The federal government received 200,000 ordinary shares of cooperative capital in Volksbank in exchange for the CHF 100 million capital injection (Swiss Government 1933, art. 1). The SNB initially recommended that the Federal Council should insist on receiving preferred shares, ranking above the existing cooperative shareholders (Baumann 2007, 363). However, the Federal Council was convinced by the expert reports that it should not create two types of capital that would have different responsibilities; they believed such a policy would create further public mistrust, especially after the existing shareholders were already losing half the value of their investment (Baumann 2007, 363–64; Swiss Federal Council 1933d, 817).

Although the bank retained its cooperative structure, Article 3(2) of the act authorizing the capital injection introduced the right of transferability among shareholders (Swiss Government 1933, art. 1,3). This right of transferability gave the cooperative capital some characteristics of regular shares since the existing shareholders could trade these shares at values different than the par value (Swiss Federal Council 1937, 2–3).

Although the government was eligible to receive the same dividend paid to other members of the cooperative, it waived part of the dividend it would have received for the 1934 financial year (Baumann 2007, 426–28). The government accepted a 1.2% dividend for the 1934 financial year on its CHF 100 million of equity instead of the 2% dividend distributed to all other shareholders to ensure other members of the cooperative could receive a more generous dividend and the bank could retain some earnings to continue restructuring (Baumann 2007, 426–28).

1. Size and Source(s) of Funding: The government injected CHF 100 million into Volksbank

The government was authorized to inject CHF 100 million into Volksbank and it injected the entire amount in the following three tranches: (Baumann 2007, FN. 1084, pg. 427; Swiss Government 1933, art. 1).

* December 19, 1933: CHF 30 million (60,000 shares)
* February 1, 1934: CHF 20 million (40,000 shares)
* February 23, 1934: CHF 50 million (100,000 shares)

1. Source(s) of Funding: The Swiss Confederation provided the funds required for the capital injection.

The Federal Assembly authorized the government to inject CHF 100 million into Volksbank, representing approximately 25% of the Swiss federal budget for 1933 (Baumann 2007, 425; Swiss Government 1933, 975).

1. Timing: Volksbank requested the federal government’s participation in its share capital on October 17, 1933, and the government injected the first tranche of capital on December 19, 1933.

Volksbank endured losses of over CHF 50 million on loans made to domestic commercial customers in the early 1920s and the bank expanded its foreign business to compensate for these losses (Schweizerisches Bundesarchiv 2023, 1). This strategy worked until 1928, however, the bank faced greater losses from rising non-performing assets beginning in 1929 (Swiss Federal Council 1933d, 807). The bank requested liquidity aid in November 1931 after facing a bank run, as it calculated that its reserves could not cover all expected losses and it would need to write down share capital by CHF 30 million to cover the expected losses (Baumann 2007, 327, 329; Swiss Federal Council 1931a, 1). Volksbank postponed its restructuring by managing its liquidity until 1933, with the help of the government, after which the bank could no longer postpone its restructuring (Baumann 2007, 336, 351–54).

On October 17, 1933, Volksbank formally requested the government’s participation in its share capital and the decree authorizing the capital injection was issued on December 8, 1933 (Schweizerische Volksbank 1933, 6; Swiss Government 1933, 1). The government injected the first tranche of capital 11 days after it received authorization (Baumann 2007, FN. 1084, pg. 427; Swiss Government 1933, art. 1).

1. Restructuring: The act authorizing the capital injection required Volksbank to restructure its balance sheet.

Volksbank’s shareholders were bailed in as part of the capital injection and lost 50% of the value of their shareholding (Swiss Government 1933).

1. Treatment of Board and Management: Civil and criminal lawsuits were filed against former members of the board of directors and general management.

A condition to the government’s capital injection was that the previous management of the bank should be examined and if necessary civil and criminal charges should be pursued against them (Swiss Government 1933, art. 2). Civil or criminal lawsuits had been filed against five former general managers of Volksbank and the bank filed civil lawsuits against six former board directors who were members of the management committee (Baumann 2007, F. N. 1079, pg. 433). In 1941, Volksbank reported to the Federal Council that they had recovered CHF 845,000 from settlements in these lawsuits (Baumann 2007, 435).

The government also received representation in the delegates’ meetings of the bank and a majority representation on the bank’s board of directors (Swiss Government 1933, art. 2). The Federal Council appointed a former Federal Councilor, Robert Haab, as the president of Volksbank’s board of directors on December 11, 1933 (Baumann 2007, 397, 399). The Federal Council also appointed 10 additional members to represent the federal government in the 21 member board of directors of the bank after the capital injection was authorized (Baumann 2007, 399). The representatives of the government were chosen while keeping a balanced representation of all economic groups, regional areas, and political parties (Baumann 2007, 399). The federal government also appointed the new President of the General Management of Volksbank, J. Alfred Meyer, a former director of the Swiss Bank Corporation (Baumann 2007, 401).

1. Other Conditions: Volksbank had to reduce its expenses and close unnecessary branches.

The Federal Council’s message to the Federal Assembly notes that Volksbank must take various measures to improve its income, by reducing all expenses, closing unnecessary branches, and reducing salaries where possible (Swiss Federal Council 1933d, 818).

1. Regulatory Relief: Research did not indicate any regulatory relief granted to facilitate the injection.

There was no regulatory relief to facilitate the injection.

1. Exit Strategy: The government did not have a predetermined end-date to its participation in Volksbank.

Although the federal government intended to reduce or eliminate its holding in Volksbank, it did not have a predetermined end-date to its participation (Swiss Federal Council 1933d, 818; 1948, 1). Article 4 of the decree authorizing the capital injection stated that the bank would replace the government’s capital if it was in a position to do so and if it was advisable (Swiss Government 1933).

In January 1937, the bank was forced to conduct a second restructuring due to currency losses stemming from its foreign assets (Ehrsam 1985, 101; Swiss Federal Council 1937, 4). It reduced the nominal value of the cooperative capital by 50% again (Ehrsam 1985, 101; Swiss Federal Council 1937, 4). The Federal Council agreed to this second reduction in the nominal value of the share capital to safeguard the interests of all creditors and the nominal value of the government’s investment was now reduced to CHF 50 million (Ehrsam 1985, 101).

In January 1947, the Federal Council decided, at the request of the Volksbank, that CHF 10 million of the federal participation would be purchased by the bank for CHF 10.6 million and existing retail shareholders would have the right to purchase these shares at their nominal value of CHF 10 million, with the bank making up the difference from its reserves (Swiss Federal Council 1948, 2–3). The Federal Council and the bank also decided that share certificates for the remaining CHF 40 million in nominal value would be purchased for CHF 40.8 million and Volksbank would gradually place these on the market at par (Swiss Federal Council 1948, 3). Therefore Volksbank repurchased the government’s shares for CHF 51.4 million between 1947 and 1948, and gradually placed these shares on the market at par (Swiss Federal Council 1948, 2–3). The program cost the government CHF 48.6 million, excluding dividends received (Swiss Federal Council 1948, 2–3). Information regarding how much the government received in dividends over the 15-year holding period is unclear. Records indicate that the government received CHF 1.2 million and CHF 2 million in dividends in 1934 and 1936, respectively (Baumann 2007, 426–28; Swiss Federal Council 1937, 4).

References and Key Program Documents

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Appendix

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1. This case study is part of the Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering ad hoc capital injection programs. Cases are available from the *Journal of Financial Crises* at https://elischolar.library.yale.edu/journal-of-financial-crises/. [↑](#footnote-ref-2)
2. Research Associate, YPFS, Yale School of Management. [↑](#footnote-ref-3)
3. The Federal Council is the executive body of the federal government of the Swiss Confederation. Since 1848, the Federal Council has always been made up of seven councilors who govern Switzerland together (Swiss Federal Council 2023). [↑](#footnote-ref-4)
4. The terms of these transactions are unclear. However, it appears that the CHF 50 million loan in November 1931 was against collateral of mortgage assets and the CHF 10 million deposit carried interest of 4% for a period of six months, with the option to extend for two years (Ehrsam 1985, 98; Swiss Federal Council 1931b, 1). [↑](#footnote-ref-5)