

Swiss Heads Roll: The Demise Of UBS

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After a staggering 10,000 layoffs, Simon English and Nick Goodway find out what went wrong.

Simon English, Nick Goodway | The Independent |
The Interview People

Bankers rocking up to work at the offices of UBS near Liverpool Street in London yesterday weren't exactly expecting a fun day. But they may not have anticipated that their security passes would no longer work, and they would be directed, via an unusual route, to the fourth floor. That's where human resources lives. Bad things happened.

The bank confirmed yesterday that 10,000 jobs are going, of which about 2,000 will be in London. The tale of this storied, once highly respected institution is one of our times. Perhaps the short moral is this: banking and trading don't mix. And old money will eventually beat new. Always.

UBS goes back to 1854 when six private banks based in Basel pooled their resources to form a single Bankverein, which underwrote local and increasingly broader European businesses. Mergers with other banks led to the English-named Swiss Bank Corporation early in the 20th century. The three keys logo symbolised the bank's aims of confidence, security and discretion. It embodied everything the cliché of Swiss banking was meant to be.

On the eastern side of Switzerland, another organisation was developing. Bank in Winterthur, formed in 1862, made a fortune lending to industry, and in particular speculating on cotton during the American Civil War. By the First World War, it had emerged as the Zurich-based Union Bank of Switzerland. During the Second World War, it traded in gold and other assets stolen by the Nazis, but this only came to light in the 1990s.

Union Bank of Switzerland and Swiss Bank Corporation merged in 1998, creating UBS — a powerhouse in Swiss banking, international investment banking and global wealth management.

The job cuts announced yesterday are the biggest axing of investment banking jobs since Lehman Brothers collapsed in 2008. Staff numbers will fall to 54,000, the lowest they have been since the original merger took place.

The bank is ditching a complete arm of its investment bank. From 2016, it will no longer create, trade or make markets in fixed interest products, the very things that brought it to its knees during the financial crisis.

UBS lost €50bn (£40bn) during that crisis, and had to be bailed out by the Swiss government three times. How did it get things so badly wrong? Analysts point back to the SBC and UBS merger. Both banks had been busy during the deregulation of financial

markets in the US, Europe, and what was known as Big Bang in London.

But they had chosen different routes. SBC had bought SG Warburg, which was one of the top three merchant banks in London. It added a Wall Street equivalent, Dillon Read, making SBC one of the most powerful dealmaking banks in the world.

UBS chose a much more conservative route. In Big Bang, it bought Phillips & Drew, one of London's best-known stockbrokers but equally huge fund and wealth manager. It added Deutsche Landesbank and the fund management activities of Chase Manhattan, the US bank. Despite the urge to merge (which some suggested was driven by growing losses on UBS's equity derivative books in 1997), the cultures always clashed. It was said that, after the first shake-out following the deal, seven out of 10 senior managers had come from SBC.

Alongside this was the peculiarly Swiss banking culture. As one City insider puts it: 'UBS has a deeply ingrained, old-fashioned culture where people with any seniority actually think of themselves as superior to the levels below them, thereby dissolving the 'team spirit' culture that is crucial to an effective trading outfit.

'It is only really a very experienced chief dealer operating with a legion of ruthless (and trusted) cohorts in the different divisions of a dealing room that can weed out the rogue traders and cut them off before they do an Adoboli or a Leeson.

Others point out that investment banks like Goldman Sachs encourage and promote young bright staff, and have a top-down management that sees hands-on dealers such as [London's Michael Sherwood rise to the top.

UBS judgement failures first began to show when it became the biggest single loser, at \$950m (£591m), in the collapse of US hedge fund Long-Term Capital Management in 1998.

In 2007, it became the first bank to announce losses made from the US sub-prime crisis. Through its subsidiary Dillon Read Capital Management, it had set up an internal hedge fund investing its own and clients' money in highly geared synthetic financial products

based on the dodgy home and trailer loans that banks made to poor Americans.

The bank made the largest loss in Swiss corporate history in 2008 with net losses of Sfr20bn (£13.3bn).

As the financial crisis mounted, heads rolled — the chief of investment banking, Huw Jenkins, the chief executive, Peter Wuffli, and the chairman, Marcel Ospel. But the latter was replaced by Peter Kurer, the bank's legal counsel, who had little or no banking experience.

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At the same time, UBS became embroiled in a row with the American tax authorities, which demanded it provided details of all 52,000 US citizens who held accounts with the bank. That resulted in a \$780,000 fine in 2009, and huge damage to the reputation of the wealth management division.

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Then last year, the bank's London office was hit by the actions of alleged rogue trader Kweku Adoboli, who ran up losses of \$2.3bn on the bank's secretive Delta desk. He is currently in court but as the story unravelled, it became clear the bank still had huge holes in its supervision and compliance procedures. Chief executive Oswald Grübel initially refused to resign over the episode, but went once it was clear he no longer had the backing of the bank's largest shareholders.

His replacement, Sergio Ermotti, came not just from the Italian side of Switzerland but had also worked for American and Italian banks — but never Swiss ones until his appointment last year.

His radical surgery on the bank, announced yesterday, takes the total number of jobs lost at UBS since the financial crisis to more than 20,000.

But it might just be what is needed to restore UBS to what he wants — unique in the banking industry — less capital and balance-sheet intensive, highly cashflow generative, more focused on serving its clients and capable of maximising value for its employees and shareholders.

In other words, back to being a boring Swiss bank. Perhaps that's the future for more than just UBS.