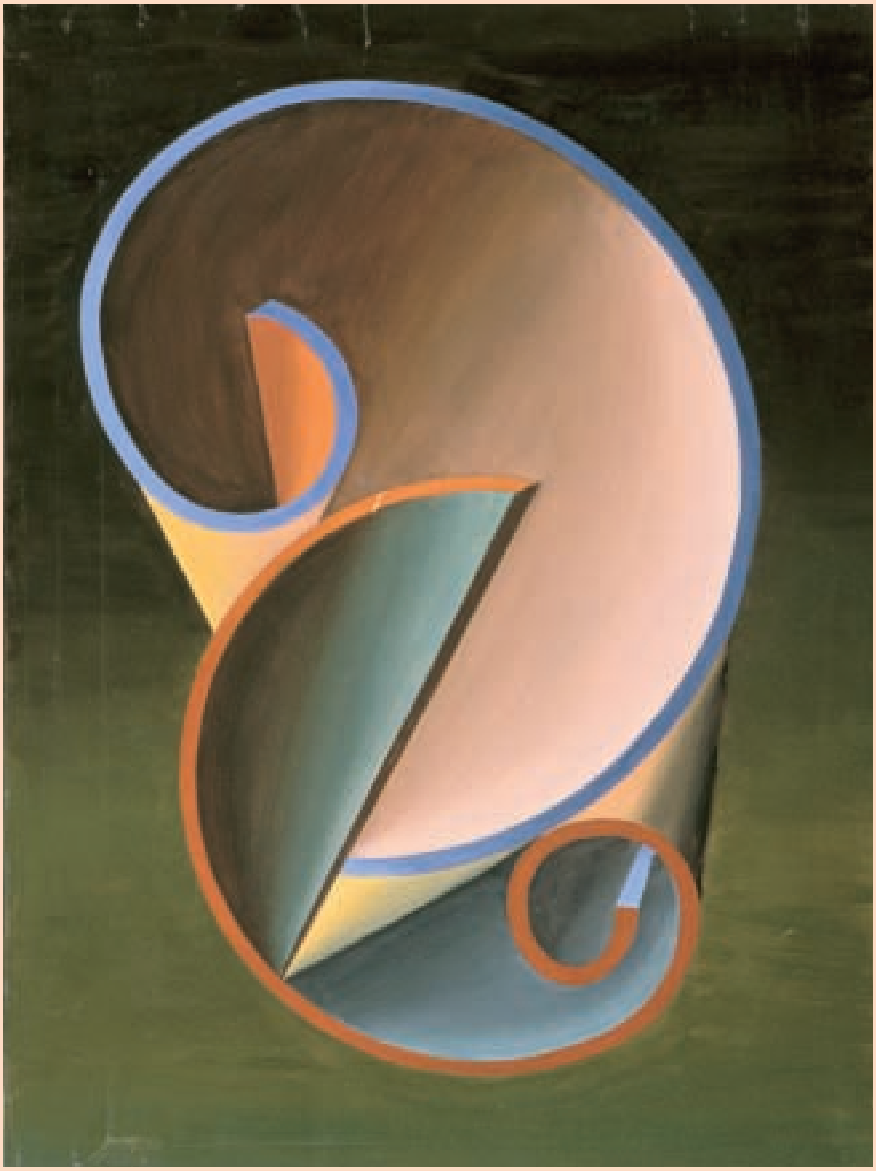


Lucio Loubet

8ème série de la Métamorphose n° 60
(81 x 60 cm)

Part III

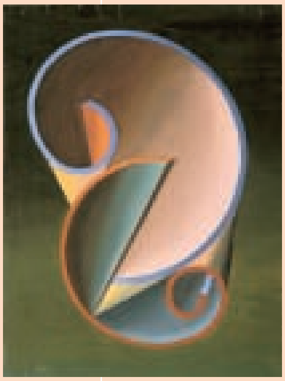
Aligning operations for challenging globalisation

"Our partnership culture and our integrated leadership model is key to implementing our one firm approach based on a common vision and shared values."

Peter A. Wuffli

"In certain arenas we have decided to have one company that works as a shared service for the others and all these units allow AXA to act as a network of organisations, finding ways to use the Group's leverage while maintaining a decentralised environment."

Claude Brunet



"Globalisation, itself, and connected activities [...] create a different systemic risk *than before. I wouldn't necessarily say that this is greater than previously, just different, and it has to be measured with means other than the classical ones"*

Hermann-Josef Lamberti

"Our globalisation strategy is adapted to the characteristics of each of our business lines, taking into account whether our clients need global geographical reach, whether the market is actually 'global,' or not, and what level of economies of scale and synergies are to be expected."

Rembert von Lowis

"Centralisation is both successful and necessary and we feel our operations have benefited immensely from it."

Horst L. Lennertz

"As businesses expand internationally, the ability to secure the necessary business operations so as to optimise performance grows exponentially."

Bernard Nivollet & Christian Gensch

*"*Agility *has become a buzzword, signalling the ability to permanently update business models, operational processes and technical architectures. But* accountability *is as key."*

Bart de Maertelaere & Bertrand Bouteloup

Conducted by Catherine Distler (PROMETHEE), Bernard Nivollet and Karl Anzboeck (Unisys)[1]

Strategic conversation with

Peter A. Wuffli

Group Chief Executive Officer, UBS

Strategic consistency through alignment of corporate values and partnerships

UBS is part of the very exclusive club of banks that can pretend to be global. According to *The Banker*, only 15 banks actually have more than 50% of their assets overseas. Is globalisation a myth in the banking sector?

Peter A. Wuffli: To begin, there are different types of banking businesses and globalisation does not uniformly apply to them all. One area that is truly globalised is investment banking, including corporate finance, and the securities business, covering both equities and fixed income in the primary and secondary markets. Such businesses are dominated by ten or less firms, many of which are American and a handful European – Deutsche Bank, Crédit Suisse and UBS. Within this globally consolidated market, a bank must first reach a critical size to be competitive and it would be incredibly hard for any new competitor to replicate the kind of full-service global model these banks already propose. However, this does not preclude the possibility of niche players and scores of such firms already exist, specializing in either product or geographic

1. This conversation took place in Zurich, on May 17, 2004.

niches. Basically, though, this is a global business where substantial consolidation has already taken place and where we may see somewhat more of it in the near future. In this market, according to our estimates UBS is the fourth largest constituency, possessing nearly 6% of market share.

Wealth and asset management is another type of banking business, which only recently has started to gain momentum in embracing globalisation, due to very strong local elements. Significantly, this sector remains highly fragmented and while UBS is clearly the global leader with $ 1.7 trillion in client assets, we estimate that our market share is only around 2 to 3%, a tough number to pinpoint due to how difficult it is to measure the total size of this market. In some segments, of course, we may have larger shares – 10% say – but overall, it is exceptionally fragmented. Consolidation and globalisation trends here are very slow and could take another 20 years before they reach levels that are comparable to other globally consolidated industries. That said, we see ourselves today as a trendsetter with a truly global business model in wealth and asset management: we are the leader in Europe and Asia, and number four in the US. Such global presence is a competitive advantage and we believe that other banks may over time attempt to replicate it.

The third type of business relates to retail and corporate banking and it is still too early to determine whether or not this segment is truly global. Here, we have witnessed very strong national or regional consolidation forces in the past 20 years with two substantial exceptions, Germany and the US, which are now catching up. There remains a strong case for national, or, for instance in the case of Scandinavia, regional market concentration. But, whether such consolidation will lead to globally integrated retail and corporate banks with effective cross-market synergies remains unclear. Some barriers, particularly in banks' scale and processing areas, will disappear but more fundamental impediments in terms of customer behaviour, language, culture, tax systems, regulation and so on will remain, preventing synergies from being fully exploited.

So, the banking industry is presently experiencing different levels of globalisation. Business models differ per market segment and firm, so globalisation and consolidation do not affect them in the same way.

A couple of years ago, you stated: "We're turning a universal but unfocused bank into a focused organisation." Could you describe which focus you have chosen for UBS?

PAW: This statement was intended to convey the strategy that UBS – and before the merger both predecessor banks Union Bank of Switzerland and

Swiss Bank Corporation – have been pursuing during their corporate transformation process over more than a decade, namely to be focussed on two major global businesses, wealth and asset management, and investment banking and securities, while obviously remaining the leading universal bank in Switzerland.
Thus, UBS would focus on areas that exceed GDP-type of growth due to long-term trends such as globalisation and growth of financial markets, demographics and wealth creation, pension reforms and collective savings, innovation in financial products and risk management techniques, to name just a few. This means that we offer an alternative business model to the one that you could call the global multi-line mega-banking model implemented by firms such as Citigroup or HSBC. Additionally, by betting on financial market intermediation as opposed to banking intermediation we emphasised our strengths. Today we are the market leader in asset management and equities distribution and are also number one in foreign exchange and selected fixed income markets, all of which rely on financial market intermediation.

Is not this alternative business model making it more difficult for UBS to pursue growth through acquisitions, the strategic path that many of its competitors consider as the most efficient one?

PAW: Given our focused ambition and the economies of scale we have today, our development strategy is driven more organically than through M&A. This does not mean that we exclude M&A – we have had five acquisitions in the last 12 months – but our strategy does not rely on our capacity to execute big mergers and acquisitions. Future acquisitions will primarily serve to accelerate growth and will be driven by opportunities, as they emerge, not by necessity to fill an important strategic gap.
Another element of UBS's strategy is our desire to be one firm supported by an integrated leadership culture that is guided by the same goals and values. This affects both our face to the client to whom we want to provide access to all of UBS capabilities and products across geographies, businesses and functions. Internally we want to maximise efficiency by avoiding unnecessary duplication of infrastructure and resources. Our single UBS brand that we implemented in 2003 reflects this strategy.

Are there any big differences between the way UBS implements its acquisition policy and the way your main competitors approach this issue?

PAW: First, we have always retained the best of what we have acquired. Today, the 60 people who comprise our Group Managing Board – an executive body situated just under the Group Executive Board – still include representatives of seven companies that we have combined with over the past decade. I think the fact that we have retained the leadership capabilities of these individuals is one unique element of our consolidation and globalisation process that distinguishes us from our peers.

Second, I would also mention the appropriate balance that we have established between consistency and renewal in the top leadership team. Again, among these 60 figures who sit on the Managing Board, over 80% have six or more years of experience in senior positions with UBS or its predecessor firms. This illustrates a tremendous level of consistency. At the same time, we have had some changes and departures, but I believe these have served primarily to reinvigorate the dynamism of our leadership culture, rather than to burden our business model. In sum, I think that balance is key.

Third, the restructuring that we have witnessed in our industry in the past decade has done little to change our overall strategy. To be sure, strategic consistency is an essential asset that weighs heavily on the minds of our clients and shareholders and greatly influences the firm's overall performance.

Lastly, our partnership culture and our integrated leadership model is key to implementing our one firm approach based on a common vision and shared values. We much prefer partnership to autocratic leadership models, because we feel that the concentration of leadership on a single person is far too dangerous for such a complex, large organisation such as ours. In addition, a partnership culture provides a more appropriate environment to attract and retain today's best leaders.

As you mentioned before, UBS is now a unified brand. How do you position Switzerland *vis-à-vis* this global brand?

PAW: Internally, we have discussed this issue extensively and have decided not to emphasise the 'Swiss-ness' of our brand because it does not constitute an important enough business driver to make it a major aspect of UBS's marketing. This stems largely from client surveys. When customers were asked what they expect the UBS brand to deliver, they repeatedly cited aspects such as client orientation, customised solutions, professional expertise, integrity, the network of a global powerhouse, but only rarely did they mention *Swiss* identity. There are, however, some geographic areas where it does play a role and this is particularly true as our business extends into the Middle East and parts of Asia, but in general, I would not overly emphasise these features. Our smoothly integrated business segments, the quality of advice we provide our clients and the performance of our financial products are simply more important.

Could you describe your governance model? Is it very centralised?

PAW: In accordance with Swiss banking regulations, UBS has a Board of Directors, elected by the General Assembly, and a Group Executive Board (GEB) headed by a Group CEO. The GEB comprises the four Business Group CEOs – the CEO of the Investment Bank, the CEO for Wealth Management and Business Banking, the CEO for the US Wealth Management Business, and the CEO for Global Asset Management – as well as the Group Legal Counsel, the Chief Financial Officer and myself. In essence, the GEB is balanced between four representatives of the individual businesses and three people representing the Corporate Centre. The next layer is what we call the Group Managing Board, which I referred to previously. This Board is a combination of all the teams heading the four businesses of the Group and the Corporate Centre, and it seeks to align corporate values, culture, and partnerships.

So, we combine a mix of centralisation and decentralisation. Physically, non-US wealth management and Swiss retail and corporate businesses are run out of Switzerland, global asset management is led out of London, the investment bank is partly centred in the US and in the UK, and the US wealth management business is run out of New York. As this picture indicates, we are clearly not a top-down hierarchical firm run out of a central headquarter, but rather a global network with very strong strategic and cultural alignment.

When you make an acquisition, are there key functions that you will immediately centralise? For example: auditing, financial controls, and so on?

PAW: Areas that are key to the reputation of our firm as a whole are generally managed centrally or along firm-wide principles. When we look at acquisitions, we have three explicit criteria: one is the strategic fit; the second is the cultural fit in terms of value and 'cultural agenda'; lastly, such an acquisition has to be financially attractive. When we conduct such transactions, meeting these three criteria is our most immediate concern and centralisation issues follow thereafter.

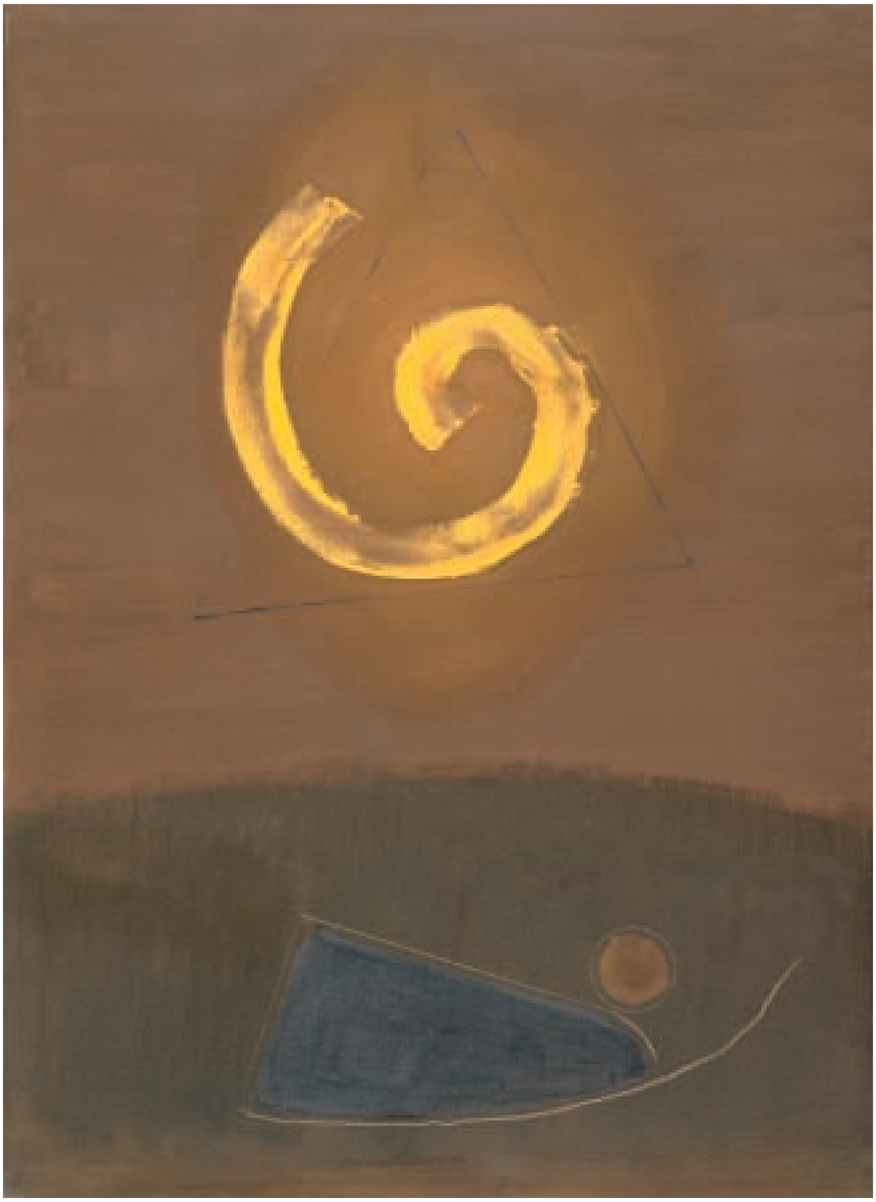
Let us move now from UBS's global to regional strategies to assess the impact of cultural and regulatory contexts. You mentioned previously that UBS is the leading private wealth manager in Asia. Is your presence well established all over the Asian zone?

PAW: Yes, except in Japan, which is an incredibly complicated market with the distinctive characteristic that Japanese private clients mainly invest in savings deposits with banks or the post, and much less in securities. However, if one excludes Japan, we are number one in Asia with a very strong franchise there. Together with Citigroup we are the leaders and grow about twice as fast as the market. Moreover, we are among the top foreign firms in most business sectors with particular strength in equities and an impressive Asian investment banking division that extends into Japan as well. Accordingly, we view Asia as a natural area of growth and seek to benefit from the substantial wealth creation being witnessed there.

Today, the Chinese market is very high on the agenda of most global companies. UBS has been one of the first foreign banks to gain approval under the Qualified Foreign Institutional Investor (QFII) program, a governmental scheme that is part of China's attempt to raise the standard of its capital markets. How do you see the role of UBS in China in the forthcoming years?

PAW: As you said, we were the first foreign institution to be granted the QFII status by the Chinese regulator. This means that we are allowed to provide our clients with direct access to China's domestic equity and debt markets. Indeed, we were not only the first but we were also granted the largest quota – and given the high pick-up, we have already applied for an increase of our quota. Additionally, in China we have made a conscious commitment to research: by year-end 2004, we will cover nearly 40% of the capitalisation of the domestic Chinese equity market. Additionally, we are the leading IPO firm in Hong Kong and have worked considerably with both Hong Kong's government and with the Bank of China, relationships that we feel serve as vital links to Mainland China.

Of course, our presence in Asia is not yet where we feel it should be – or where we would like it to be. I think this stems from the fact that regulatory constraints continue to inhibit investments in Mainland China. So, while we have been very impressed with the thoughtfulness and discipline displayed by China in terms of gradual opening of its financial markets, it remains a country in which a financial services company cannot yet enact a short-term growth and investment strategy, and therefore has to have a five- to ten-year time horizon in its development effort. In Japan, the problem is different: there, it is simply very difficult to establish a meaningful in-market position based on organic growth. But, provided the size and growth of these markets, it is one of the areas where we are very active.



Lucio Loubet

9ème série de la Métamorphose n° 6
(100 x 73 cm)

You mentioned Japan previously and did not seem to consider this country as having any strategic importance for UBS. Could you explain, in greater detail, the reasoning behind the differences you perceive between Japan and other large countries, the US in particular?

PAW: No investment bank can be globally recognised without having a strong position in the US. By comparison, a firm can still be respected globally with only foreign bank status in Japan. With the exception of Citigroup and its Nippon venture, there is no US bank that maintains a real insider status in Japan. For UBS, a strong position in Japan remains a long-run goal, but this is not a trivial matter and the specificities of this country, including the language barrier, require some courage.

Since your acquisition of PaineWebber in 2000, your position in the US has been considerably reinforced. Did it deliver the synergies that were expected in private wealth management and institutional asset management businesses?

PAW: PaineWebber was clearly a defining transaction for us. Without PaineWebber, UBS would look very different today, and we would not have been as successful in building our investment bank, nor as strong in our global reach without this deal. PaineWebber enabled us to gain a very meaningful position in the US private wealth management business with over 7,000 financial advisors. The US now provides us with a third of our revenues and 40% of our staff lives there. On the back of the PaineWebber acquisition, we hired roughly 450 new investment bankers in the US, expanded our equities business, for instance our research capability, which now ranks second in the US according to the Wall Street Journal, and took the lead in mortgage-backed securities market. In brief, we did not have critical mass in the US before this acquisition, now we have it.

Is not the PaineWebber acquisition a contradiction of your previous statement regarding internal growth?

PAW: This was the response to a clear strategic gap on our landscape that had to be filled externally; this is precisely why I said it was *defining*.

Would you say that UBS is now perceived as an American bank in the US?

PAW: Not yet sufficiently. Unfortunately, in the US we are still sometimes perceived as a European bank. One of the key challenges we face in branding is to establish clear recognition in the US as a global firm. This is tough and it has a lot to do with the way the media and the US fund management industry work: both tend to differentiate between US and non-US firms. In this environment, because we are not directly compared with our American competitors, a US domestic fund manager forced to make an investment decision would usually choose between the big US names, and would tend not to directly involve UBS in this process. Conversely, an analyst researching non-US stocks, and European ones in particular, will likely group us exclusively with other European banks or financial institutions. This is unfortunate because it does not correspond to our business model and does not reflect our global reach.

So, one of our challenges is to get a stronger profile and this is the primary strategic objective of our branding campaign. That is why we invest so heavily in branding in the US.

What are the main drivers and obstacles to UBS's development in Europe?

PAW: One of our biggest strategic initiative of late has been in European wealth management where we invested heavily into expanding our presence in five of Europe's biggest countries: Germany, Italy, France, Spain and the UK. Here, we have established approximately 30 branches and now employ close to 800 financial advisors with 65 billion Swiss francs in client assets. This development has encompassed four acquisitions – two in the UK, one in France and one in Germany. Overall, our European business increased client assets under management by 64% and revenues by 44% in 2003. In my opinion, that is pretty impressive in the economic context of very low if any European growth and wealth creation. So, I think UBS's European business has been developing so fast because of our wealth management expertise and because we are providing a highly attractive alternative to the traditional universal banking model of most European banks whose business models are generally far less focused on wealth management.

Of course, the banking industry in almost all of these countries are in the midst of rampant consolidation and this creates an enormous degree of uncertainty for wealth management clients and their advisors, in terms of risk of discontinuity or disruption in service. We witnessed this ourselves a couple of years ago, during the integration of the merged private banking businesses of Union Bank of Switzerland and Swiss Bank Corporation: some of our clients had to change advisors multiple times within only a couple of years and they were often upset, and for good reason. However, by making wealth management our focus, we now have a greater critical scale and a higher chance of organic development than the other banks, elements that have been at the heart of our success in Europe.

One key question global firms have to address is whether there is something like a global client. You seem to consider that most of your clients have the same expectations, wherever they are located outside Switzerland. Is it the same if one considers the subject of 'ethical investment?' Is UBS very active in this field and do you consider it to be important for future developments?

PAW: Of course client expectations differ greatly location-by-location, depending on regulatory and tax environments. However, our aim is to strive for maximum identity in the experience a client has when dealing with UBS anywhere in the world, for example in the way the bank presents itself, advises the clients, designs products and executes transactions. In terms of ethical investments, again, this greatly depends upon each individual business. Our British asset management group, for instance, abides by a regulatory obligation concerning socially responsible investing. This involves areas like ecology, but also takes corporate governance and human rights issues into consideration. Similarly, in Switzerland we actually operate eco-friendly mutual funds.

In the US, on the other hand, fund managers are obligated to optimise shareholder returns so if they pursue explicitly alternative investment strategies, they expose themselves to legal risks. However, some of our American clients ask us to exclude certain sectors – usually alcohol, tobacco or guns – but these clients tend to diverge from our European ones in that ethical investing is a much lower priority.

What role is e-banking playing to allow UBS to be an even more global bank? What are the main characteristics of your e-banking model?

PAW: For us, technology is an enabler, helping us to improve the quality of service and ultimately the client experience, but it is not the primary component of our service. Our model puts advice at the centre but not all clients and not all services need the same level of assistance: providing excellent and efficient execution is also part of our client-focused approach, in particular for standardised transactions.

In Switzerland, we are very strong in providing dedicated e-banking services for our individual clients: it is widely acknowledged that our e-banking solution is highly user-friendly. We find it to be an efficient way for our clients to communicate with the bank and, of course, support the use of electronic channels also through our pricing structure. However, e-banking is neither a stand-alone business model, nor a stand-alone product. It is basically one way in which we provide convenient access to, and support for, standardised banking transactions to our Swiss individual clients.

Outside of Switzerland, e-banking for private clients is not very relevant: wealth management is advise-centric – providing analytical and advisory tools to improve client services – and private clients have no great need for this service.

Wholesale e-banking, on the other hand, effectively translates into certifying that we leverage technology capabilities as comprehensively as possible. One specific domain of excellence is foreign exchange in which electronic transaction processing has been one of our key priorities. Four years ago we only had a 5% to 6% market share in foreign exchange and it was a money-losing proposition. At that juncture, we then had to make the strategic choice either to leave forex entirely or to invest deeply in it because we realised that it was quickly commoditising and essentially becoming a market share game. We chose the latter: now 70% of our forex transactions are executed completely electronically and we hold a 12% share, making UBS the market leader. You can call this e-banking too.

Understanding that equities also need a technology overhaul, we are trying to replicate such success on the equities side as well. Of course, we are not expecting the same level of automation here because the diversity of the stock universe is far greater than the number of currencies traded, not withstanding the added complexity of equities as assets. However, we feel there is room for a more technology-based business model in order to internalise flows and provide useful services to our clients. So in that sense e-banking is very important for optimizing our securities businesses.

UBS is part of the *Wolfsberg Group* that drafted and enacted a list of 'good governance' banking rules in particular in terms of 'know your customer' rules. How important are these types of rules for a bank like UBS?

PAW: It has, indeed, been an important strategic decision of the *Wolfsberg Group* to take a leadership role in ensuring that we are at the forefront of the fight against money laundering and other forms of criminal financing – terrorist funding and the like. We felt that this position was essential so as to guarantee the fulfilment of highest ethical standards, to defend our client's privacy, to offer tax competition as an alternative to the high-tax countries and to protect the traditional Swiss franchise. In short, this is an important initiative.

Is the creation of the Financial Stability Forum very important?

PAW: This is obviously one of the forums where the effectiveness of these aforementioned mechanisms is discussed and it proved to be an important device to satisfy the OECD's concerns regarding the stability of the financial centres.

The globalisation of the banking system raises the problem of increasing systemic risk. Basle II has been designed to encourage banks to improve their ability to measure and manage risks, and to adopt best practices. Will this new regulation have any impact on UBS's strategy and UBS's competitive positioning?

PAW: For UBS, Basle II is not a big issue because in the early '90s we already experienced a severe credit crisis in Switzerland that forced the whole banking system to introduce appropriate risk-management models and a risk-adjusted pricing. Thus, much of what is being required in conjunction with Basle II has already been implemented both by UBS and by other Swiss banks, so in terms of capital requirement, we expect the capital situation to be more or less unaffected.

In June 2003, all major businesses within the UBS Group adopted UBS as their single brand. Why did you decide to adopt a unified brand?

PAW: Based upon our firm's internal research, we found that the attributes our clients are looking at are surprisingly similar across our business segments, from private wealth customers to institutions or corporations. Stemming from this realisation, we sought to provide our clients with one seamless face and to be as efficient as possible in so doing. Internally, we have been operating as one firm for quite some time. To adapt our brand architecture to an integrated one-brand strategy was a logical consequence. This was especially important in the US where the co-existence of three brands – the PaineWebber, Warburg and UBS brands – was confusing and our clients had legitimate difficulties in comprehending the differences and synergies between them. So, as you can see, this was a far-reaching strategic decision that we executed after substantial research and it had much to do with our clients' needs.

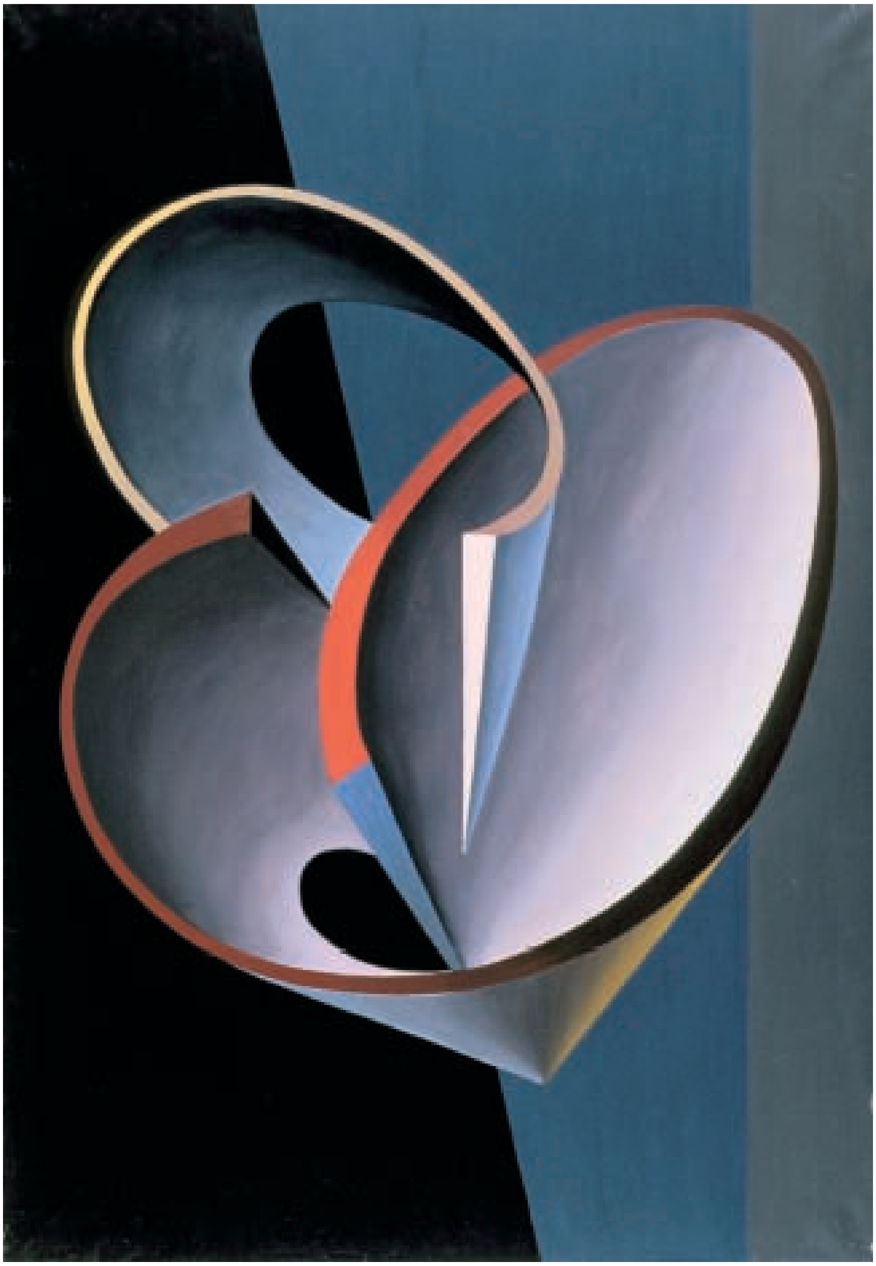
How do you ensure brand consistency?

PAW: We have a global branding organisation, which reports to the Chief Communication Officer (director of investor and media relations, public policy

and branding), who in turn reports directly to me. UBS has established stringent global guidelines on our branding strategy, on the way we represent brand attributes and on global sponsoring platforms such as Art Basel or Alinghi. However, our businesses, individually, have influence over resources in specific product campaigns, sponsored events and so forth.
For instance, if the Swiss organisation wants to launch a more aggressive mortgage campaign, the role of the global branding group is simply to ensure consistency with global branding standards. Specific decisions regarding how much money will be allocated to such a project and the type of media to be employed are decided locally.

What have you found as the most challenging aspect of making UBS a global firm?

PAW: The complexity of aligning different cultures and mentalities strikes me as the most obvious challenge. Indeed, to integrate our employees and clients under one roof and to maintain the diversity of perspectives, talents and skills while simultaneously keeping UBS's best interests at the fore has proved a constant test. We have made huge progress in this arena lately and this calls for an integrated leadership culture, which I feel we have gone a long way toward attaining.



Lucio Loubet

8ème série de la Métamorphose n° 2
(200 x 146 cm)