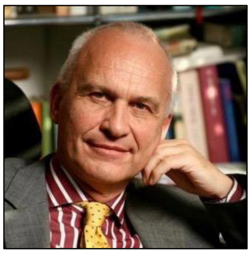
Shrink UBS to size!

Critical comments on the Swiss mega-bank

*by René Zeyer**



René Zeyer
(Photo persönlich.com)

There is a lot that speaks for it, but one thing speaks against it: The greed of the Kelleher-Ermotti duo. Or are the two of them making a cucumber salad out of the state? UBS has become a monster bank after the incorporation of Credit Suisse at a bargain price. It is not only "much too big to fail". With total assets twice the size of Switzerland's GDP, it poses the greatest threat to the existence of the Swiss Confederation since the Second World War. Evidently, there is no awareness of this problem at the top management level – or it is being ignored deliberately.

Its quasi-monopoly in many banking transactions alone, should be enough to get the *Competition Commission* (Weko) involved. It was involved, but the federal controller was called back by the banking supervisory authority *Finma* at the behest of the Federal Council. This process alone shows that an abuse has occurred here that must be curtailed. But there are some more good reasons for doing so.

First, there is the asymmetrical profit-loss potential. Further growth of UBS can (and may) only take place abroad. Any profits will be made and taxed there (by the respective subsidiaries). In Switzerland, nothing or practically nothing of this will be available for tax purposes (holding privilege, etc.). Profit Switzerland – zero.

However, the situation is quite different if something happens to one of these subsidiaries, which is easy to imagine in modern banking and given the history of UBS. If there is a serious loss, it must be covered from Switzerland (and at the same time reduces taxable profit in this country). This is because UBS will not be able to afford to simply let a foreign subsidiary go under. Risk for Switzerland – exorbitant.

* *René Zeyer* (1955) is a publicist, best-selling author ("Bank, Banker, Bankrupt") and communications consultant. He lives in Zurich and Havana.

In addition to this asymmetry, there is also a limited profit potential in relation to the risk of loss. This is because the two do not grow in parallel. If a bank of size X (e.g. UBS before the merger) has a catastrophic risk of loss Y, then a bank of double that size has a catastrophic risk of loss of 3Y or 4Y. History is full of banks that grew too fast and then went broke. That would have happened to UBS too if it hadn't been saved by the state. Or has it already been forgotten how quickly the new bank started to falter after the merger of UBS and SBV and how the state had to help it out?

History is full of banks that cannot manage their risks. In the tax dispute with the US, UBS was on the brink of disaster for a second time because it could not manage its risks. Since the state itself had put billions on the line before, it had to save it a second time: This time with the abandonment of the banking secrecy and damages to the Swiss financial centre due to billions in fines.

The statements of the current management team show that they are completely unrepentant about these dangers and problems. They also ignore their own, not exactly glorious past. The lavishly paid CEO even publicly complains that UBS has allegedly been downgraded from saviour to problem; what an injustice. Yet the monster bank was and is a problem bank. Notably, a dangerous one.

Only an overburdened finance minister and a Federal Council that had once again resorted to emergency law saw UBS as a saviour at the time. And it was given another gift of 16 billion francs by the total write-off of CS's AT1 bonds. The damage that will be caused here by state liability, with hundreds of claims for damages pending worldwide, will give taxpayers a taste of what will happen if UBS itself gets into serious trouble.

The emergency slaughter of CS has shown that the great settlement regulations do not work in a crisis for a large international bank. By what miracle should they then work for an international bank that is almost twice as big? Perhaps we should remind sulking *Ermotti* that the *United*

Bank of Switzerland (as it was originally called) only came into being in 1998. And that in the few years since its inception, it has twice come close to collapse. And that should be a guarantee that it won't happen a third time?

UBS is not only "too big", but also "too big to save". Its potential rescue would push the SNB, would push the Swiss state to its breaking point – and possibly beyond. The conclusion is obvious. UBS urgently needs to shrink. The risk it poses is definitely too big and is not offset by any adequate added value.

The argument that it is necessary for the Swiss financial centre has not worked for some time either. Such a financial centre no longer exists; internationally, Switzerland is far behind, merely ranking 14th or even lower. An exception is the asset management, but that does not need a monster bank like UBS. Its further and planned expansion can only take place abroad, from which Switzerland has no profit but a lot of risk.

A UBS half the size of today would serve Switzerland just as well, with significantly less risk. What is the purpose of an even bigger UBS, which brings Switzerland nothing in terms of tax? But would it not massively increase the risk for the Swiss taxpayer? The question calls for an answer.

In terms of jobs, Switzerland is going to experience a significant shrinkage anyway, which has already begun. Here, too, new jobs would only be created abroad. Finally, there is the alleged importance of the financial sector for Switzerland. Even if you add insurance companies and pension funds to the banks, this sector accounts for a mere 9 per cent of GDP.

This sector generates a gross value added of around 40 billion francs a year, less than one-twentieth of the GDP. At the same time, it carries enormous risk. UBS is, so to speak, the Chernobyl reactor in the financial centre. Switzerland could do without it.

What is the simplest and most efficient way to achieve this downsizing? By massively increasing UBS's equity capital, despite the objections of its expansion-minded and defiant management team. Not by a measly 20 billion, but to at least 10, better 15, even better 20 percent. This has only advantages. There is a better risk buffer. The implicit state guarantee, i.e. the liability of the taxpayer, would be significantly reduced.

As one of the best capitalised banks in the world, UBS would be even more attractive as an asset manager. It would probably have to part with foreign subsidiaries, away with potential damage, away with risk potential. The only obstacles are the egos of the bank managers and their greed for bonuses.

Source: https://insideparadeplatz.ch/2024/08/02/schrumpft-die-ubs/, 2 August 2024

(Translation "Swiss Standpoint")