

news

UBS Seeks to Stem Outflows After Shedding Toxic Debt (Update1)

By Elena Logutenkova and Warren Giles



Enlarge/Details

Oct. 17 (Bloomberg) -- UBS AG, the European bank with the biggest losses from the global credit crisis, is getting rid of its toxic assets. The next challenge will be to stem an exodus of wealthy clients.

UBS said yesterday that the Swiss government and central bank will provide a \$59.2 billion aid package to take risky debt securities off its balance sheet.

Zurich-based UBS also reported that wealthy clients withdrew about 66 billion francs (\$58 billion) in the third quarter.

"The big question is whether high net worth individuals are willing to stay with an institution incapable of surviving on its own," said Bernhard Bauhofer, founder of Swiss consulting firm Sparring Partners GmbH and author of "Reputation Management." Asset outflows mean bankers leave, "customer service declines and it becomes a vicious circle that no one wants to be associated with."

While customers at UBS, the world's biggest manager of money for the rich, are pulling funds, smaller rival Credit Suisse Group AG attracted about 14 billion francs from private clients during the third quarter. In Switzerland, UBS clients withdrew 12.6 billion francs in the three months through September. By contrast, state-owned Zuercher Kantonalbank reported inflows of about 1 billion francs per month this year.

"It is indeed obviously the one key concern we have," UBS Chief Executive Officer Marcel Rohner said of client withdrawals on a conference call yesterday. "We've laid the foundation to turn it around."

UBS was little changed at 19.06 francs at 10:29 a.m. in Swiss trading, leaving this year's decline at 59 percent.

'Cold Shower'

The bank, which managed 1.93 trillion francs of assets for wealthy clients at the end of September, saw outflows in all regions in the third quarter, with the U.S. business losing about 10 billion francs. In total, the wealth management and business banking unit's clients withdrew 49.3 billion francs, and affluent customers accounted for about half of 34.4 billion francs in outflows in asset management, Rohner said.

By comparison, Merrill Lynch & Co., the third-biggest manager of money for the rich, said yesterday that clients pulled a net \$3 billion from its global wealth management unit, primarily because of "persistent volatility and negative market movements during the quarter."

Javier Lodeiro, an analyst at Bank Sal Oppenheim in Zurich, described the client redemptions at UBS as "a cold shower."

"They thought wealth management could lose even more if they didn't do something, and having a healthy balance sheet may help retain talent in the business," he said. Still, Lodeiro doesn't expect UBS to attract new money next year.

Recruitment Effort

UBS has lost client advisers at its wealth unit. Seven of 33 advisers and three assistants at its St. Moritz office left to competitors including Julius Baer Holding AG. In the U.K., 18 advisers and 32 supporting employees joined London-based Vestra Wealth LLP.

Such departures may lead to more client redemptions in the fourth quarter and

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beyond as private bankers become free under severance contracts to join other firms and take clients with them, Bank Sarasin Chief Executive Officer [Joachim Straehle](#) said in an interview last month.

UBS said Sept. 30 it hired [Philippe Tschannen](#) as head of executive recruitment, a new position, to find more wealth managers and help stem withdrawals by rich clients. The bank also hired 26 [Lehman Brothers Holdings Inc.](#) investment advisers to manage about \$10.9 billion for clients from offices in New York, Los Angeles and San Francisco.

State-Owned Banks

Swiss clients have increasingly turned to state-owned institutions, such as [Zuercher Kantonalbank](#), which added 8.5 billion francs in new assets in the first eight months of this year, compared with 2 billion francs for all of 2007.

Clients seeking to open an account last week at ZKB's central branch on Bahnhofstrasse in Zurich, a block from UBS's headquarters, had to wait as long as an hour.

“We don't know what to do with all the money right now,” ZKB spokesman [Urs Ackermann](#) said.

At UBS, wrong-way bets at its investment-banking unit led to \$48.6 billion of credit losses and writedowns since the start of last year, the most by any bank in Europe. It had to raise fresh capital three times in a less than a year.

“The next six months will be critical for UBS,” [Derek De Vries](#), a London-based analyst at Merrill Lynch & Co., said in a note to clients, adding that he had expected 5 billion francs of outflows. “Having gotten rid of its legacy assets, UBS has to show that it can stop the outflows.”

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Last Updated: October 17, 2008 04:40 EDT

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