

HOW UBS TAKES THE RISK OUT OF RISK MANAGEMENT



WORKING WITH COGNOS, UBS HAS TURNED RISK CONTROL INTO A COMPETITIVE ADVANTAGE.

THE CHALLENGE AT UBS AG

As a leading global financial services organization, UBS faces many challenges to its ongoing success. But the ability to consolidate, identify and classify risk – across all business units, all regions, and all products – is an overriding issue.

“A tremendous volume of risk-related data passes through our enterprise every day,” explains Patrick Hendrikx, Head of Risk Datamart and Business Intelligence Solutions. In his role, Patrick oversees the Credit Risk Control Reporting at UBS AG. “Key long-range business decisions, and the day-to-day management of our business around the world, are impacted by our ability to aggregate and understand what that data can tell us.”

THE NATURE OF RISK AT UBS

The two primary risk-related challenges facing UBS were:

Risk identification – UBS is a globally active bank offering multiple, often tailored, products to a wide array of high value customers. As a result, banking services are highly complex and sophisticated. Risk Identification in such an environment is critical, and must ultimately provide a single, global view of risk across the Group.

Risk Classification – As a global bank offering multiple products in multiple regions, UBS has many complex risk management tools, systems and processes. However, each risk system is tailored to the specific products they support. To classify and calculate risk in a globally consolidated way – an absolute necessity if the enterprise wants to understand the potential impact of risk on the whole portfolio – these disparate and discrete risk sources must be aggregated. First, however, risk policies must be visible, actively discussed, and agreed to by senior management, risk managers and business management teams across the organization. Why? Because these risk policies become requirements from which technology solutions can then be implemented.

To be sure, UBS felt it had excellent transactional risk tools in its discrete business units, but for a firm that operates worldwide, consolidation across units is a required precursor to intelligent operation.

“We had to eliminate data silos, and create a process that would allow us to identify and select risk-related data for all divisions [Investment Banking, Global Asset Management and Global Wealth Management & Business Banking], globally,” says Hendrikx. Management wanted to aggregate all credit risk data across all Business Groups globally, to consolidate across all counter-parties and credit risk portfolios.

The sheer enormity of this challenge can be daunting. UBS has millions of credit risk relevant client relationships with quite complex structures, where each client group consists of multiple legal entities (subsidiaries and branches), each with its own product, regional, and country issues. UBS itself has 70 million financial products, 20 million limits, and 20 million risk mitigants.

“To understand credit risk concentrations and to ensure regulatory compliance, we needed consistent, accurate answers to the identification and classification of risk,” notes Hendrikx. “Clearly, in light of the volume of data, the complexity of our business, and the wide variety of users, that required an automated and robust process based on the principles of business intelligence.”



THE NEXT LEVEL OF PERFORMANCE™

THE COGNOS SOLUTION

Based on past successes within the UBS enterprise (Cognos had an existing relationship within the UBS retail banking group, consisting of many different projects), the Cognos team already had an appreciation for the very stringent technology standards at UBS, especially regarding server deployment, security, integration with the existing network, and scalability.

To that knowledge, Cognos added a deep and specific understanding of the risk challenge at UBS, including:

- the number of people touched by risk information
- their geographic distribution
- the different levels of users and their individual (as well as collaborative) needs for understanding and acting on risk data
- the wide variety of data sources that would need to be aggregated
- the types of analysis and reporting that had to be performed to generate actionable intelligence

One notable aspect of risk management at UBS is the consistent application of commonly agreed Risk Management and Control Principles across the whole firm.

Risk managers in various countries and divisions work together to capture risk control requirements, then identify and implement risk principles. To support UBS's overall goal of excellence in risk control, Cognos needed to understand and be compliant with the principles and policies to which UBS adheres.

"I suspect that some organizations struggle with centralized identification of principles and policies for risk," observes Hendrikx. "But UBS strives always for the use of best practices, and we believed strongly that an aggregated risk model would be such a practice, because it's the right way to support global and group risk management. How else can an organization such as ours ensure consistency and buy-in at the divisional level?"

Once Cognos had internalized all of these factors, and had examined the existing technical environment ("We had to replace the legacy system for Group credit risk reporting without interrupting

their ability to do business and maintain their market leadership position," says Cognos' Laurence Trigwell), Cognos supported the development of the appropriate solution, working in close partnership with UBS AG.

HOW AND WHY UBS CHOSE COGNOS

Initially, UBS reviewed offerings from several vendors in addition to Cognos. After careful consideration by the internal solution provider, along with members of the Steering Committee and the senior management team, the decision was made to have Cognos build and run a pilot.

"In addition to the quality and capabilities of their products," says Hendrikx, "Cognos demonstrated a strategic understanding of our business and our needs. We also were aware of the collaborative relationship they had established with our retail banking colleagues. All of these things were weighed in our decision."

The pilot ran for six months, in parallel with the existing system, to establish measurable results in such areas as security, scalability, development (time to market) and performance. "We were looking for nothing less than industry standard outcomes."

At the conclusion of the pilot, Cognos provided detailed analysis of results to the internal Project steering committee. They also included independent analytic research to help establish benchmarks for industry standards, and insights into performance of existing Cognos implementations in retail banking.

"We chose to move forward with Cognos," Hendrikx recalls, "for many reasons." First and foremost, the Cognos solution supported our needs extremely well. Just as important, they were compliant with demanding UBS security standards. They were Web-client based and had excellent development tools. That all translated to efficient development, quick time to market, and a reasonable total cost of ownership."

RESULTS OF IMPLEMENTATION

The Cognos solution has been in place for three years and, according to Hendrikx, in that time it has consistently produced visible results that are directly in line with expectations. "Data analysis has been accelerated with Cognos' cubes. We have a truly

global, consolidated view of risk that requires much less manual aggregation. It is, therefore, a more accurate view and we arrive at it in a very timely manner, reliably.”

Specifically, UBS has experienced several improvements in performance:

Executive decision-making. The Group Chief Credit Officer was a primary driver of this entire project. It was his vision to provide portfolio aggregation views to top counter-parties; outperform regulatory risk and reporting requirements; more clearly understand risk exposure concentrations and to provide accurate visibility to senior Risk Managers, allowing them to review information more readily and make better credit risk control decisions. “In this area, there is strong satisfaction with the Cognos solution.”

Risk provisioning. With the ability to see the same version of risk numbers globally, UBS has significantly increased risk visibility and country-level control into operations, aligning them consistently with product, division or customer-centric risk. This has allowed them to make more accurate risk provisions, offsetting risk concentrations and protecting against the calculated expected losses. As Hendrikx notes, “Managing risk across the enterprise across all products allows us to take a country slice of the risk information and make financial provisions against potential defaults across a portfolio of products on a country basis.”

Client service. The accuracy of the risk information is critical for the confidence of senior management, and for those managing senior customer relationships or relationships with external stakeholders, such as regulators, government bodies, and auditors. The ramifications and ensuing political pressure of a country downgrade, for example, can be significant. “Accuracy, transparency and timeliness are all byproducts of this solution,” says Laurence Trigwell of Cognos. “These characteristics create confidence among UBS executives. In turn, clients and other constituents are more confident in what UBS tells them.”

Regulatory compliance. “It’s quite simple, actually,” Hendrikx observes. “We now have much more transparency into our operations and information. That transparency equates to simplified compliance. In fact, we’re seeing that when compliance is based

on such easily seen and understood data, regulators also have more confidence in what we’re telling them. UBS feels they are actually outperforming regulatory guidelines. “This is a source of pride for us.”

Competitive advantage. UBS has gained a greater degree of control over risk exposure through more timely and well-informed decisions. Around the world, UBS risk managers, controllers, credit officers and others – people responsible for billions in assets – can identify risk against the allowed ceiling, cognizant of what a local decision will mean for the UBS risk profile globally. “If we think a counterparty might default in one country, we understand how that will impact us elsewhere,” says Hendrikx. “It is having a positive effect on our balance sheet, and our competitiveness.”

‘What if’ analysis. UBS can now stress a model portfolio against specific variables to see the outcomes, review those results with Cognos tools, and see the expected portfolio loss.

LOOKING FORWARD.

“We appreciate our partnership with Cognos,” says Hendrikx, “because they don’t merely accept our insistence on constant improvement, they embrace and share that attitude. I am sure that UBS will identify new challenges to address with Cognos solutions, and also look for ways to improve what we are already doing. This is natural as we respond to evolving market conditions and new business objectives. As that occurs, I’m also confident that working with Cognos will continue to yield positive results.”

ABOUT UBS AG

UBS is one of the world’s leading financial firms because, at all times, their first priority is the success of their clients. As an integrated firm, UBS creates added value for its clients by drawing on the combined resources and expertise of all its businesses: they are a leading wealth management business; a global investment banking and securities firm; a leading asset manager; and the market leader in Swiss retail and commercial banking.

UBS combines financial strength with a global culture that embraces change. The company can be found in all major financial centers worldwide, and employs over 67,000 people.

ABOUT COGNOS CORPORATION

Cognos is a recognized leader in delivering business intelligence and corporate performance management solutions for the banking and financial services industry. Nine of the top 10 banks in Europe and the United States use Cognos.

Cognos' Corporate Performance Management (CPM) solution – achieved through the strategic application of Business Intelligence on an enterprise scale – helps customers drive performance through planning; monitor performance through scorecarding; and understand performance through business intelligence.

Cognos serves more than 23,000 customers in over 135 countries. For more information, visit the Cognos Web site at <http://www.cognos.com>.



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