In this assignment I have compared two of the currently leading banks, UBS and Bank of America for differences and similarities in risk management. Since I have worked in UBS under Credit Risk sector, I felt comparing a Swiss multinational Bank and American multinational Bank would be interesting and I could relate more with them.

UBS is a 150-year-old Swiss multi-national wealth and investment bank which provides financial services in over 50 countries. The current CEO of the company is Sergio Ermotti. UBS was founded in 1862 as a Bank in Winterthur and consequently merged with Toggenburger Bank in 1912 to form Union Bank of Switzerland (UBS). The Union Bank of Switzerland (UBS) finally merged with Swiss Bank Corporation (SBC) in 1998 to create a firm known solely as ‘UBS’. UBS is the largest Swiss banking institution in the world. In business perspective, UBS client services are known for their strict bank-client confidentiality and a culture of banking secrecy. [1] The bank has acquired large positions in Americas, EMEA (Europe, the Middle East and Africa), and Asia Pacific markets, which makes it systemically important financial institution within the European Union. It is listed by Financial System Board as ‘Too Big to Fail’. UBS handles the largest amount of private wealth in the world, which accounts to roughly half of the world’s billionaires among its clients. Besides private banking, UBS provides asset management, wealth management and investment banking services for private, corporate and institutional clients with international service. UBS has a significant presence in the United States and operates in all major financial centers worldwide, with 61,000 estimated employees and offices in 52 countries. UBS has about 34% of its employees working in the Americas, 34% in Switzerland, 18% in Europe, the Middle East and Africa and 14% in the Asia Pacific region. UBS promotes performance-oriented risk culture, which values and encourages collaboration across entire group. According to UBS, this helps to maximize the opportunities to create value for their firm and support employees’ success. The performance at UBS is closely linked to their risk taking. Their goal is to strengthen their performance culture and focus on their strategy to achieve long term, sustainable profitability. UBS focuses on variable component as an incentive to foster a performance-driven culture, while supporting appropriate and controlled risk taking. UBS seeks reputation protection through a balanced risk culture which is characterized by a holistic and integrated view of risk, performance and reward, and by full compliance with their standards and principles. They also emphasize on their Code of Business Conduct and Ethics.

Bank of America is an American multinational investment bank and financial services firm, which is led by CEO Brian Moynihan. It serves approximately 67 million consumers and small business clients in over 35 countries throughout Europe, the Middle East and Africa, Asia Pacific and the Americas. It was founded as Bank of Italy in 1904. Later, it was acquired by NationsBank and the bank was renamed as Bank of America. Bank of America is listed by Financial System Board as ‘Too Big to Fail’. Bank of America is a global leader in wealth management, corporate and investment banking, and trading across a wide-ranging asset classes, serving corporations, governments, institutions and individuals around the world [2]. Their growth strategy is to act responsibly, which comprises of integrity, ethical business conduct and managing risk well. An important point of focus of Bank of America as far as their risk culture is considered is to make financial lives better for those they serve through the power of every connection they can make for them. In simple terms their focus is more on Environmental and Social risks and they consider these types of risk very seriously [6].

The highest impact risk that both companies, UBS and Bank of America faced was during Global Financial Crisis in 2007 [11]. The Community Reinvestment Act (CRA) was designed to help the Americans with low and moderate incomes to get mortgage loans. This in turn encouraged banks to grant mortgages to higher risk families i.e. families who might find it difficult to repay the loan amount. Thus, large banks invested in risky mortgage loans and credit default swaps to obtain higher rewards. A high default rate in the United States home mortgage sector caused the subprime mortgage crisis. The situation worsened with the collapse of the investment bank, Lehman Brothers who were involved in excessive risk taking in subprime mortgage market. Both UBS and Bank of America had Investment Banking and Wealth Management as their primary business. Since these banks too invested in mortgage sector and owned a portion of the high-risk mortgage loans and credit default swaps, both were significantly impacted by this crisis. This was a reality check that these two mega banks faced because had there not been a government intervention, then the situation might have resulted in the world economy to completely cease. The financial crisis cost UBS more than 37 billion dollars loss in mortgage market [3]. The financial crisis cost Bank of America total of 191 Billion dollars loss. Among the total cost, 83 Billion dollars were to recover from representation and warranty claims [4]. The losses in terms of the numbers were very huge after all these banks were known as “Too Big to Fail” banks. In addition to the monetary losses incurred, they lost their credibility in front of their investors.

The similarities among UBS and Bank of America in identifying the risk were that they both realized the impact of the risk when US was hit with financial crisis in 2008. The differences among them were as follows. In April 2008, UBS issued a special report to shareholders that diagnosed the causes of loss. Basically, UBS revealed that they had fundamental failures in incentives, control systems, accounting decisions, and the people making decisions. On the other hand, Bank of America identified that their failure was due to high risk derivative trading i.e. trading done with the help of financial security having a value that is reliant upon or derived from an underlying asset or group of assets. After Lehman’s collapse, no one could understand any particular bank’s risks from derivative trading and so no bank wanted to lend or trade any other bank. UBS used stress testing to measure their risk. The forecast of stress testing came out to be that UBS incurred a loss of 500 million. But this prediction did not go as expected. On the contrary, Bank of America was careful in lending loan to those whom they wanted to keep in their record books, while they did not measure the risk of loan they sold to investors.

Both the companies considered contingency plans as to use their large capitals to compensate their losses or by seeking loans from other banks. Since both were high risk takers, they had just one disaster recovery plan i.e. the government would bail them out of trouble. Eventually this is what happened, and the government had to help both the banks in order that they function properly.

One of the major mistakes that both the companies did was that they were high risk takers which was evident post financial crisis of 2008. One thing that UBS did not do right was they took high risk in mortgage loans and credit default swaps [9]. While Bank of America did risky derivative trading. One right thing that UBS made, according to me, is that they went back to the drawing board after the financial crises hit them and did a thorough analysis of what they did wrong. They issued this report to all of their shareholders too. Bank of America is very clever in terms of acquiring other banks and believes in the mantra of responsible growth. This is what I feel they are doing right because larger the capital lesser is the chance of the company being totally bankrupt.

UBS applied stress testing to measure the risk it had identified during financial crises of 2008. By doing so, it had found out that they would incur a loss of 500 million. Since 500 million was a meagre value to UBS they took the risk and incurred much higher losses than expected. On the other hand, Bank of America managed their risk by selling their mortgage loans to multiple investors. They believed that by distributing their risk they could handle any crisis. However, they also incurred heavy losses during the global financial crisis.

If I were the leader of a business that experienced the same type of risk, then I would try to increase the capital of my organization by mergers and acquisitions. I will also make sure that there is leadership across each diversification and maintain proper communication within the holistic firm. Also, I would try to diversify the business units and also use shareholder value-added to balance the risk. I feel the concept of SVA is the best practice which can be thought of at the moment. One of the alternatives that I can think of now is about considering more critical scenarios during stress testing so that almost all the angles are covered.

**Citations:**

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