



**Modern times: operations need to be industrialized with a view to improving services and reaping scale efficiencies, says Ulrich Hoffmann, UBS's Global Head of Payments and Cross-Product Services**

## Making operations pay

How global utilities can raise efficiency and add value to banking operations

**When you visit** Ulrich Hoffmann in Zurich, you step off the train into an industrial suburb, then walk up to a tall glass-and-steel building with a loading bay in its basement. If momentarily you took the offices at Max-Högger-Strasse 80 for a factory, no objection would be raised by your affable host, who heads up UBS's global payments and cross-product services function.

On the contrary, he might welcome the comparison. After all, "industrialization" is the word that Hoffmann likes to use when

outlining his strategy for UBS's operations. Banking transactions are commoditized, he points out. And, logically, one should respond to their rising volumes and shrinking margins by cutting costs and streamlining processes. In Hoffmann's view and that of quite a few consultants (see previous article), you would do that by pulling operations facilities into central hubs, by re-engineering workflows, by sharing infrastructures, and by standardizing products.

You would set up global utilities for payments, cash management, financial messaging, reconciliations and output processing. These would ride atop a consolidated data repository, harnessing the massive processing capability of your latest-generation bank IT infrastructure. And why stop there? You could extend the utility approach to securities, derivatives, trade and credit operations.

That was the gist of a talk entitled "The Industrial Revolution in Banking"

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that Hoffmann recently gave to a SWIFT conference. But wait a moment, one might object. Although manufacturers went down the road of standardization and centralization decades ago, banks have been slow to follow. And there are good reasons for that, including inconsistent regulation, idiosyncratic payment and settlement cultures in different centres, single markets that aren't, and, last but not least, the hodgepodge of legacy systems within many banks.

### Clear-cut vision

Hoffmann is well aware of the obstacles. But you have to start the industrialization process somewhere. UBS did that in 2005, when it took the decision to launch its global cash and messaging utility. The vision was clear-cut. An unwieldy raft of operations platforms would give way to a robust globally integrated infrastructure. The new environment would weave together the bank's disparate clearing and messaging platforms, optimize cash funding and enhance risk control for the whole bank. It would also generate operating efficiencies and additional revenue opportunities worth tens of millions of Swiss francs. Four years on, much of that plan has been realized.

When the global banking crisis erupted, the global cash and messaging utility passed its first real test and proved its value for the bank. At the same time, transaction flows dwindled, forcing banks including UBS to review business cases and slow down infrastructure spending. But some elements of the utility program were too important to be put on hold. Initiatives to strengthen business continuity, incident management, and failover performance, for example, remain sacrosanct. As Hoffmann points out, neither regulators nor clients will tolerate operational lapses.

Nor will UBS itself. Flawless operational performance is assumed by the managers

of its key business franchises. Although the firm is not usually seen by outsiders as a global transaction bank, its core activities keep it among the top ten institutions worldwide in terms of SWIFT messaging. And, under UBS's Bank for Banks concept (see box), the firm gets extra mileage from its infrastructure by placing it at the disposal of partner institutions.

Operational excellence comes with an imposing price-tag. To keep costs in check, Hoffmann reaches for two levers. First comes cost transparency, which implies a clear understanding of fixed against variable, shared against dedicated, and run-the-bank against change-the-bank costs. Secondly, total costs of ownership are allocated to the service recipients based upon commercial rules set out in service level agreements.

One way of influencing costs is to decide clearly whether to make or buy. A few years ago, for example, UBS decided to outsource scanning of its Swiss domestic paper-based payments to PostFinance, the country's postal banking subsidiary. Furthermore, the bank continuously looks for ways to save costs by leveraging its global network of correspondent relationships, offshoring centres and third-party operations and IT vendors.

### Smartsizing

Cost transparency also helps UBS to "smartsizes" its operations capacity, says Hoffmann. If volumes are small and transactions complex, for instance, straight-through processing may not always be worth the spending necessary to achieve it. It could be better to stick with manual

## About the Bank for Banks

"UBS. The Bank for Banks" provides financial institutions with a wide range of modular services that draw on the expertise of all UBS's business groups. At present, these services are grouped into six "streams" comprising cash/currency, securities, asset management, private banking, corporate finance, and trade and export finance. The service offering is delivered through marketing hubs in Switzerland, New York, and Hong Kong.

processes. A similar trade-off applies to application development: sometimes individual solutions for specific locations can be more cost-effective than a global standard. But UBS has opted for a single messaging infrastructure worldwide.

Product standardization is another way that makers of commoditized wares can cut costs. Ulrich Hoffmann is no exception: "We need to reduce service complexity for both cost and risk considerations," he explains. Clients might see things differently, demanding services that fit their requirements. UBS squares this circle by building value-added solutions on top of highly standardized infrastructure.

How does this work in practice? The starting point is classical client segmentation – private clients, corporates, financial institutions – with service offerings tailored to each retail and wholesale category. As Hoffmann comments, "The more you differentiate between client segments, the more precisely you can target your offering." Specialist advisory teams work with UBS's relationship managers to ensure that private and institutional users get the service they need.

### Successful template

When the service offering is differentiated, remuneration for risk and resource commitment must match. The traditional system of transaction charges has therefore given way to a more flexible framework that takes into account both the volume and value of transactions, introduces risk-weighted pricing and allows for fixed fee schedules. In many respects, Hoffmann comments, pricing now follows the pattern established by mobile phone companies, offering all-in tariffs, surcharges for optional features, and so on.

UBS's global cash and messaging utilities can now act as a successful template for the creation of further industrialized services to be shared across the bank. Exponents of industrialization aim to produce a greater variety of goods at more competitive prices. In that sense, the UBS offices at Max-Högger-Strasse 80 really do represent the factory of the future.

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