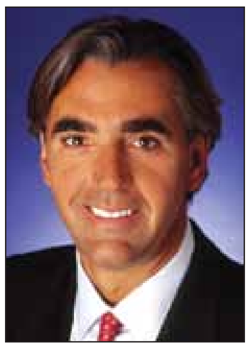
Brand Strength

An Interview with Seth H. Waugh, Chief Executive Officer, Deutsche Bank Americas


Seth H. Waugh

EDITORS' NOTE *Seth Waugh joined Deutsche Bank in April 2000 as Regional Head of Global Markets for North America. He was appointed Regional Head of Global Markets and Equities for the Americas in June 2000 and was named CEO of the Americas region for the corporate and investment banking division of Deutsche Bank in February 2001. Before joining Deutsche Bank, Waugh was CEO of Quantitative Financial Strategies, and spent 11 years at Merrill Lynch, where he was Co-Head of the Global Debt Markets division. He assumed his current post in May 2002. Waugh is a graduate of Amherst College with dual bachelor's degrees in Economics and English.*

COMPANY BRIEF *Deutsche Bank (NYSE: DB) is a leading global investment bank with a strong and profitable private clients franchise. The bank (www.db.com) is continuously growing in North America, Asia, and key emerging markets and has more than 80,000 employees in 72 countries, including 12,000 in the United States.*

Were you surprised at the speed and severity of the economic crisis, and in terms of a road to recovery, where are we today?

As an industry, we were all surprised with how quickly it happened and how deep it was. It was a real wake-up call because it has been, to a certain degree, a generational crisis and one that should have us thinking about money, saving, and spending in different ways than we had before. There was too much liquidity, and as a result, wealth creation appeared artificially easy. It all collapsed, as it often does, because of leverage. It wasn't so much corporations being overleveraged this time as it was consumers. When housing collapsed, the crisis then leaked into every other asset class.

I can't remember a market closing as abruptly as it did in the summer of 2008. It took a very long time for it to recover. However, we're in much better shape 18 months later than we could have imagined at the time.

The U.S. government, and governments around the world, really did a lot to reopen the market, and certainly the liquidity that the Fed provided and the bailouts have gotten the world spinning again. But we were reminded this spring how fragile confidence is when the European crisis hit. The world de-risked and put their money back under the mattress again.

Housing prices seem to be finding the bottom. Most CEOs I talked to had seen improving numbers and reasonable prospects going forward. We had reached the stage where management teams were contemplating investing in their businesses, but that has been put on the sideline again with the downturn this spring.

Now it is a question of confidence. It is understandably fragile, and restoring confidence is tricky.

By any measure, equity markets are inexpensive right now. We have incredibly low interest rates which, to a certain extent, can only go one way at this point. That will continue to create more liquidity and ultimately more investing appetite because investors can't survive on zero returns, which is effectively where interest rates are now.

Europe has some issues, but that appears to be a bit more isolated to certain countries. Meanwhile, Asia is growing and Latin America, particularly Brazil, is also doing well.

So the world is very different than it was a year and a half ago in the sense that, when the mortgage crisis hit, it was at a time when all economies were struggling, whereas this time, there are several of parts of the world that are doing quite well.

For the second half of the year, the surprise would be more on the upside because people are under-invested right now, although obviously it's still a risky proposition given the volatility in the markets.

Beyond that, I believe we're in for a few years of fairly flat growth because it's hard to see where the real job growth is going to come from, and until we create that, it's going to be a lackluster recovery and a difficult period.

How critical was it to increase the level of communication with your people during that time, and was it important to reinforce the strength of the brand and long-term vision for Deutsche Bank?

It was the most important time in my career to communicate and be open and honest with people. We're pretty proud of how we performed through the crisis; we didn't take government money, and we didn't raise any capital, so we didn't dilute ourselves through the whole period.

For us, the crisis was an opportunity to grow market share and client share, and to hire quality people that may have been displaced or displeased with where they were.

We were able to rapidly transition from crisis management and industry concerns to focusing externally on our clients and what we can do for them. Our behavior and our steadfast focus on our clients during that time means our brand has never been stronger and our access has never been better. In a lot of ways, we made more progress over those 18 tough months than we would have in five to 10 bull market years because the crisis defined us, and it was a game-changer for us.

Do you feel the dialogue about financial reform has been effective, and do you worry when these things are discussed during turbulent times, they might go too far?

Yes, you always worry about the pendulum swinging too far and causing unintended consequences.

Congress has an incredibly hard job in dealing with financial reform, which has not been seriously addressed in 75 years. The industry has become vastly more sophisticated since then, so it's incredibly difficult for someone from outside to grasp the broader ramifications of changes and keep the compass pointed toward what we are all trying to accomplish, and that is to make sure to never again have a crisis like the one we've just experienced. We have tried to be part of the solution by providing a lot of real and practical information to Washington.

There has been dialogue, and the essence of the reform makes sense and will help to restore confidence. Unfortunately, there is also the risk of unintended consequences. Hopefully, the industry can continue the dialogue as Congress and the regulators work out the interpretation of these laws and find the right balance. We have a chance to harmonize and simplify things, but we may end up with an even more complicated system of governance that leaves too many gaps.

Deutsche Bank has been a leader in corporate responsibility. During challenging times, how important is it to maintain an emphasis on that area?

When times get tough, that is when those efforts mean the most. So we remain committed to our pillars, which are community development, sustainability, education, and the arts. ●

