

Setting the scene

Major findings from the discussion paper

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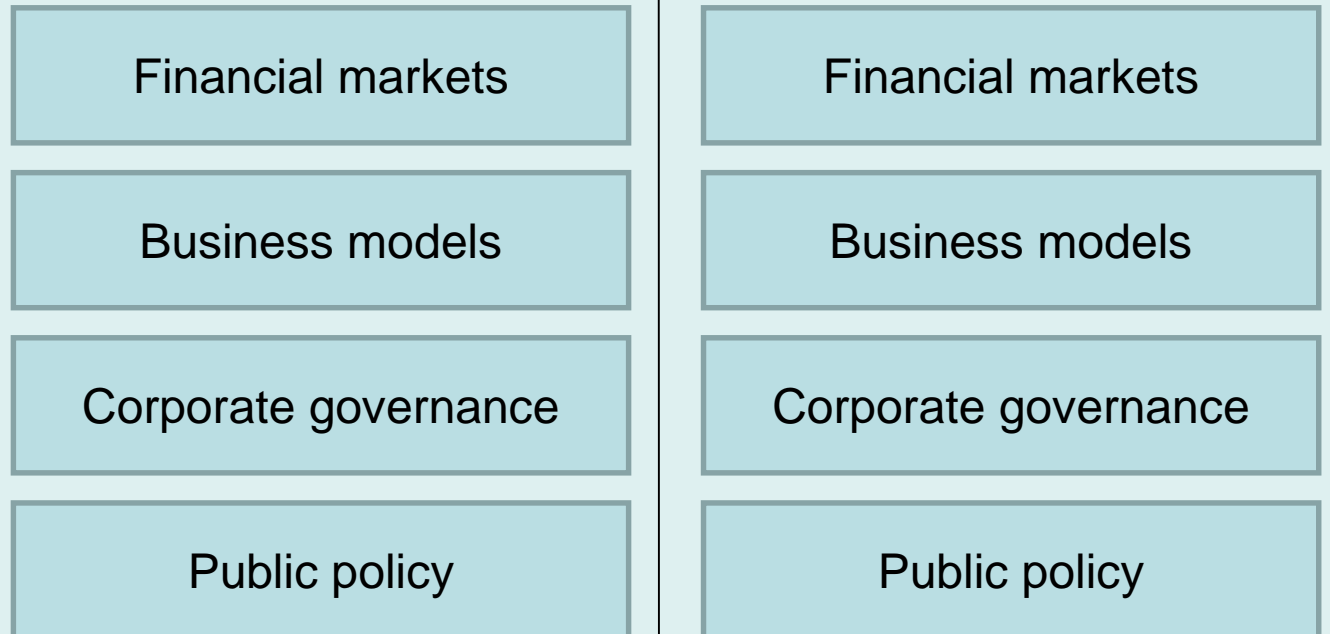
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Objectives of the paper

- Collect a number of in-depth and controversial views
- Strike an appropriate balance between bankers, insurers, academics and other stakeholders
- A colourful spectrum of interview partners:
 - Stine Bosse, CEO of TrygVesta
 - Bill Emmott, Former Editor-in-Chief of The Economist
 - Ernst Fehr, Professor, University Zurich
 - Patrick Liedtke, Managing Director of The Geneva Association
 - George Stansfield, General Counsel of AXA
 - Peter Voser, Global CEO of Shell
 - Klaus Wellershoff, Former Chief Economist of UBS

Structure of the paper



The retrospective view

What went wrong?

The prospective view

What needs to change?

What went wrong: Main findings (I)

■ Gross mispricing of risk

- *“Both market participants and regulators were ‘fooled’ by securitisation and its promise to disperse risk” (Emmott)*
- *“The current crisis is the result of collective exuberance and exaggeration fuelled by an excessively aggressive and lax monetary policy” (Wellershoff)*

■ Ill-designed compensation structures

- *“Efforts to implement values such as sustainable and prudent behaviour were foiled by pecuniary incentives which encouraged short-termist and excessively risky behaviour” (Emmott)*
- *“The conceptual flaws of compensation schemes fuelled the mispricing of risk – the root cause of the crisis” (Fehr)*

What went wrong: Main findings (II)

■ Shortcomings in corporate governance

- *“Some boards were simply too close to their CEOs” (Stansfield)*
- *“The way board members are selected makes it difficult to add dissenting characters to the board” (Fehr)*

■ Regulatory deficiencies

- *“Regulations were largely defined and implemented in a domestic context, ignoring the realities of globalisation. Also, regulators failed to properly take into account systemic risk” (Liedtke)*
- *“Regulators were unable to keep pace with financial innovation” (Fehr)*

■ Flawed corporate risk management

- *“The inability of traditional risk models to anticipate extreme scenarios has added to the risks associated with organizational complexity” (Stansfield)*
- *“Flawed risk models and ratings contributed to a severe mispricing of the structured securities created through the originate and distribute model” (Voser)*

What needs to change: Main findings (I)

- Transparency and disclosure should be enhanced
 - *“Transparency and disclosure are more relevant to preventing excesses than increased capital requirements” (Emmott)*

- Stakeholders, not regulators should push for changes to corporate business models
 - *“Customers want simpler and more transparent products. Financial services companies will respond accordingly. On the side of investors, we will see an end to the ‘drunkenness’ of recent years” (Wellershoff)*
 - *“There were serious mistakes in the financial sector, but the crisis is not a sweeping indictment of capitalism” (Voser)*

What needs to change: Main findings (II)

- Corporate governance should be subject to increased regulation
 - *“The free rider problem associated with corporate governance calls for increased public intervention”* (Fehr)
 - *“The main challenge is to make Board of Directors ‘less clubby and cosy’ to promote dissenting behaviour”* (Emmott)

- Public policy should recognize the realities of globalisation and the downside of asset bubbles
 - *“We need, first, a truly global approach to regulating global financial institutions and, second, a systemic risk regulator”* (Liedtke)
 - *“Central banks need to give greater weight to macroeconomic imbalances and asset bubbles in the formulation of policy”* (Voser)

Areas of controversy

- The inherent stability or instability of markets
- The role of compensation
- Market versus public policy failure
- The role of regulation in restraining corporate risk taking
- The role of corporate and individual values

Dialogue

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