

FINANCIAL SERVICES

CHALLENGE IS TO

- REBUILD AND RECONFIGURE THE INDUSTRY
 - (GLOBALLY)
- WITHIN A REGULATORY ENVIRONMENT THAT :
 - SUBSTANTIALLY LIMITS THE POTENTIAL HARM TO THE REAL ECONOMY
 - WHILE CONTINUING TO ATTRACT CAPITAL AND INNOVATION

THE INDUSTRY

- HAS INTERFACES ACROSS THE (GLOBAL) ECONOMY
- IS THE TRANSMISSION MECHANISM FOR MONETARY POLICY
- HAS VERY SUBSTANTIAL INTRA-INDUSTRY FLOWS (HENCE, SYSTEMIC RISK)
- IS GOVERNED BY ECONOMIC RULES BUT ALSO EXHIBITS NON-ECONOMIC BEHAVIORAL CHARACTERISTICS THROUGHOUT
- IS ONLY “SOMEWHAT” AND SOMETIMES SUSCEPTIBLE TO MATHEMATICAL CHARACTERIZATION

THE INDUSTRY

CUSTOMERS

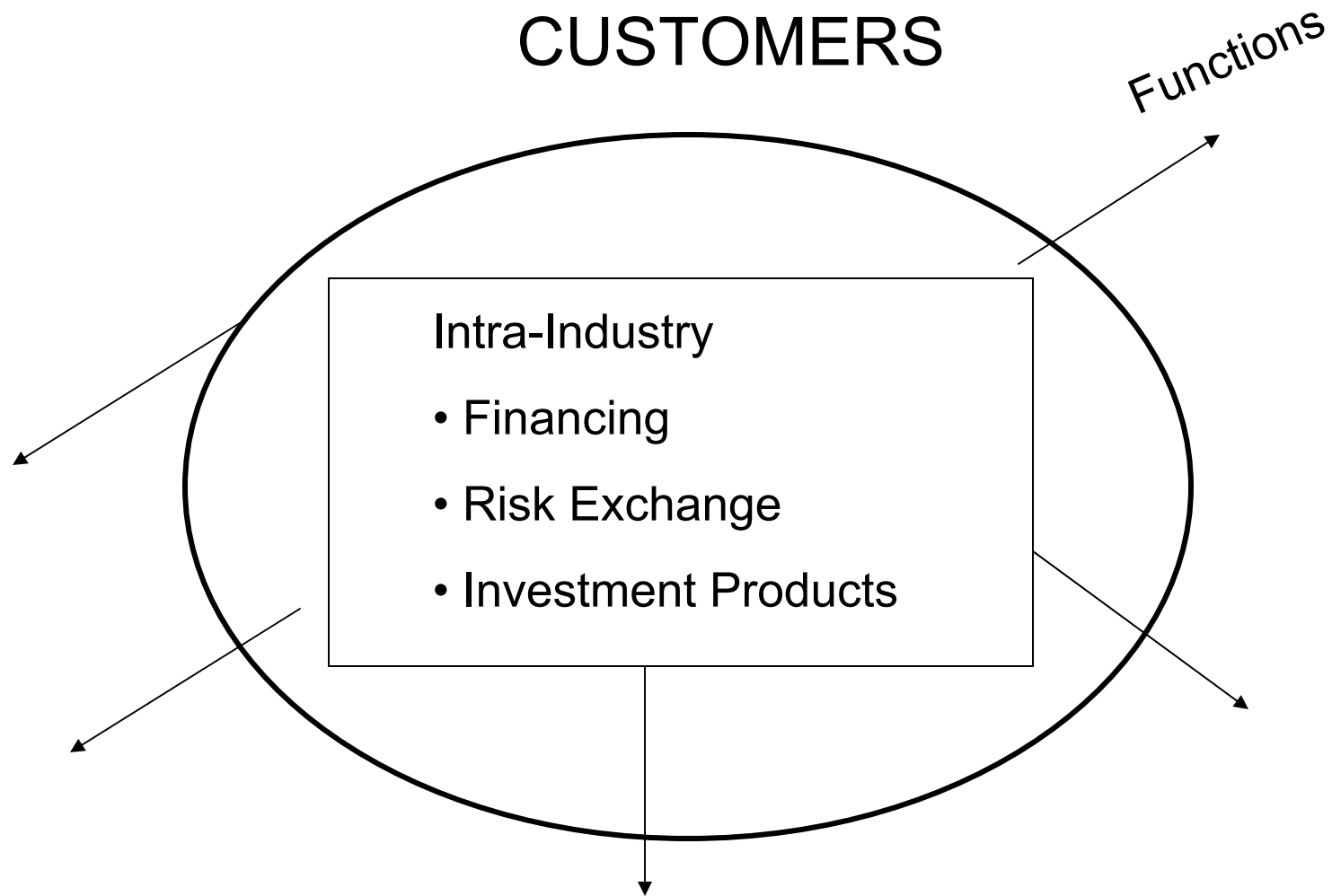
- 1) Average households
- 2) High net-worth individuals
- 3) Small (no market access) firms
- 4) Larger (market access) firms
- 5) Investors and other
Financial firms
- 6) Governments

FUNCTIONS

- 1) Transactions
- 2) Working Capital
(for household-
loans, savings)
- 3) Capital/Capital
- 4) Investment services
- 5) Advice and analysis

THE INDUSTRY

CUSTOMERS



THE CURRENT CRISIS (THE INDUSTRY)

- 80'S INVESTOR "TAKEOVER"
 - Shareholder Value
 - Changed attitude to compensation
- 90'S SECURITIZATION
 - Risk Adjusted Capital →Decapitalized
- Late 90s/00s ASCENDANCY OF MARKETS
 - Proprietary Trading
 - Proprietary Investing
 - Off-Balance Sheet Vehicles for investment
 - New Players
 - Hedge Funds
 - Private Capital
 - "Interactive" - rating agencies
 - New Investments
 - Derivatives
 - Pervasive Practice – the bonus

THE CURRENT CRISIS

THE ENVIRONMENT

- LOW INTEREST RATES →
- PERVERSE INCENTIVES THROUGHOUT – (SALES, TRADING, DISTRIBUTION, FIRM)

THE RESULT

- - OVER LENT
 - MARGINAL BORROWERS
 - LEVERAGED BUYOUTS
- - OVER BUILT
 - ~ 3,000,000 HOMES
- - REACH FOR RETURN

THE CURRENT CRISIS

THE IMPACT:

- AS RATES MOVED UP/MORTGAGE PORTFOLIOS DETERIORATED
- BANKS IMMEDIATELY SEEN AS UNDER CAPITALIZED
- INTRA-INDUSTRY FLOWS SLOWED (AFTER LEHMAN) STOPPED (LIQUIDITY CRISIS)
- NO MARKET FOR ASSETS

DIRECT TO THE ECONOMY THROUGH

- HOUSING
- FINANCIAL SECTOR

THEN – SECONDARY IMPACT

- PSYCHOLOGICALLY
- ABSENCE OF LENDING
- WEALTH IMPACT (MARKETS, HOUSING)
- POSTPONED SPENDING

CONCLUSION

- THE INDUSTRY MUST BE “RETHOUGHT AND REBUILT”
- A SYSTEM’S VIEW – WHICH INCLUDES BEHAVIORAL CONSIDERATIONS IS ESSENTIAL