RISKMINDS 2009 RISK MANAGERS' SURVEY

FREE TEXT RESPONSES

1.1 At a macro level, how would you assess the following factors as causes of the banking crisis?

Other... please specify:

The "economic crisis" was staged by the influential families to gain control over the "normal man on the street"

Risk Managers had the answers but nobody listens to them

Culture of expectation of gratification of 'wants' through individuals borrowing beyond their ability to repay

off balance sheet banking and securitisation without bank continued exposure

Weak credit underwriting specifically related to US housing

Systemic risk - Belief in new economics (unlimited growth of asset prices (bubbles) due to high demand)

Expansive US monetary policy

Inaccurate ratings, over endebted over geared consumers, prolonged cheap money supply, inappropriate loan gearing, overvaluation of base assets, over complex structured products, asset bubbles such as property, insufficient capital reserve ratios, management data speed and quality, overgearing of counterparty risk unrelated to capital reserves (eg:AIG - CDS), risk taking cultures, asset valuations geared to mark to market accounting in highly volatile market conditions.

Compensation systems focued on s-t- time frame that created incentives that misaligned risk and profit

Remuneration systems with performance bias - the most important factor when taken together with easy money.

A cycle of boom and recession every decade

Other: 1) Advanced complexed financial products often have assymetric risk structures (incentives) implying that risks are hard to quantify and there is a need to harmonise risk and price models to harmonise calc. of market values. 2) There seems to be a general need in societies - globally - to discuss ethics, risks, incentives and greed. Is regulation to be a framework to support market efficiency rather than just preventing specific actions (resulting in bureaucracy to regulate with hindsight)

underestimation of systemic effects

You obviously ask the right questions for a very complex situation. In addition I would add Off-balance sheet accounting for "companies (SIVs)" for which nobody was responsible. Political mistakes (Clinton and Bush pushed for an increase in mortgages ==> a heavy political mistake, because the mortgages had to be government guaranteed... Leverage, Rating Agencies which didn't play their role of independent consultant (because there was too much money involved also for them), Central Bankers and politicians (Greenspan and Paulson) too close to Wall Street (what about the separtion of power, which is the basis of democracy...) (and financial policy is done by Goldman Sachs....). NO social responsibility but egoism and personal greed (as long as I win, the society can pay...) ("Heads I win, tails you loose", "apres moi le deluge", ...). None of the responsible CEOs end up in jail (the next financial crisis will thus be just round the corner). Critical voices were asked to shut up (the party was just too great and was supposed to last... everybody forgot about the hangovers after any party)

Macroeconomic Policy

Product innovation beyond control

Accounting rules and regulation that undermined global business

Proprietary risk models

Short term monetary policy focused on inflation rather than long term equilibrium (but countries have no balance sheet...)

active and severe contractionary monetary policy exercised by the fed

U.S. Congress' involvement providing ex post facto solutions that are tepid at best; US econ leadership void pre-event.

Poor Standards of rating

Failure to recongnize that financial modeling only provides possible values, not definitive values.

International legal requirements for standardized concise investment disclosures into tracking database

Inflation of money supply by Fed and US housing policy (i.e. Fannie Mae, Freddie Mac, CRA, etc).

Congress' push for lax lending standards on residential mortgages.

USA younger persons trained to be GREEDY I use www.congress.org to beat on the Federal Senators

Lax monetary policy

low interest rate environment fueling the search for yield

disparity on the valuation mechanisms based on geography

Excess liquidity by the Federal Reserve Bank

low interest rates triggered overflow of liquidity as well as the search for yield and the boom in securitization

failure to asses stresses to funding costs

US Economic Policy directive to Fannie Mae and Freddie Mac to lend to low income US citizens

Remuneration structures do not penalize excessive risk taking

Failure in Quantitative and Qualitative assessment of Banking sector's risk capital Regulatory Framework, Marked to market of banking performances

Complexity of banking business overly growed

Enphasis on short time profit even when compromising the future

General incompetence of top and senior management: too much politics

social-economic-political risks

credit agency ratings

Government policy decisions, esp. with respect to increasing home ownership, and not including asset prices in measures of inflation.

Information asymmetry in securitisation market

Easy monetary policy and bad housing policies (subsidies etc)

Accounting standards which required undervaluation of banking assets

oil price rise

blind reliance on ratings for securitisations

A lack of ethics translation into transparancy

Lack of integrating risk management beyond the financial perspectives

rewards inadequately connected to longer term results = Very important

Mortgage wholeseller mis-management

Excessive Executive compensation schemes that ecouraged exorbitant risk taking coupled with lack of understanding of risk exposures at the board level.

Lack of a common global regulatory oversight for international banks.

Lack of transparency

Global system without circuit breakers; failure to understand modern capitalist/managerialist system

Model based "brains off" risk management processes, exacerbated by a long period of success

Systemic behaviour of many interacting factors

The lack of integration between Governance and Risk Management and the lack of accountability that this entailed due to individuals only looking at things through rose tinted glasses

emotions

Financial Innovation beyond previous levels resulted in a shadow banking system

Inadequate top management in the financial institutions

Banking is a cartel. fiat money combiend with thsi led to the disaster taht continues.

Government regulation requiring banks and financial institutions to provide capital and loans to high risk creditors

Mortgage Broker Network and commision based lending is problem. Remedy, unknown.

Insufficient senior management attention to risk relative to growth in returns.

Failure of Credit Rating agencies

Collective bankrupcy of moral in financial markets. Executive, non-executive and regulatory supervisors.

I choose "failures of regulatory systems" as primary cause, but by that I do not mean legislation which is complete and correct, I mean failure by regulators themselves (including politicians in key positions) who did not do their job and yes they did have the tools.

Collapse of traditional US managerial culture as described in my book The Puritan Gift' which was rated by the FT as one of the Top Ten of 2007.

Political pressure on state mortgage businesses, regulators and supervisors to lend for economic growth

unregistered speculation, which caused commodity prices to rise, making it impossible for the sub-prime mortgage holders to continue paying....

Lack of Christian Business ethics

Greed, Greed, Greed!

Wholesale funding reliant on rating agencies whose rating models failled (NB a lot of such debt is traded over the phone which is reliant on the rating.)

unregulated sub prime mortgages

failure to recognise that the social fabric from which the wealth is created requires trust& mutuality beyond the narcissism of market fundamentalism

mark to market

lack of understanding and imbalances in risk appetite - returns sought not commensurate with the risks taken

(1) Risk competition (i.e. competitors are investing in CDOs and making money, therefore so should we. Our risk perception regarding CDOs becomes irrelevant since the market (and consequently our bosses) will not forgive us for failing to exploit an opportunity proven to be profitable by our competitors. Hence spiraling risk appetite amongst competing banks. (2) Over-reliance on quantitative risk methods - failure to recognise that risk management is an art, not a science (3) (Linked to 2) Inability to perform effective scenario analysis / think outside the box (e.g. what if the credit agencies are wrong with their AAA ratings)

Lack of understanding of the correlation and interdependency of assets and contagion.

Staff compensation structures, and amounts, to a lesser extent

Better disclosure and transparency might have meant that shareholders and other external bodies would have reacted sooner, even if regulators did not

(1) risk management not modeling and not pricing the correlation of credit and market risk; (2) separation of credit risk and market risk departments in risk management departments; (3) risk management not modeling and not pricing liquidity risk

Inadequate understanding of 'originate-to-securitize' business models

cheap money, government policies eg to encourage home purchases

insuifficient due diligence by investor community - short term market behavior

FED fractional reserve lending and banks' unpunished for the risk they take (too big to fail)

Development & selling of new financial instruments & products without clear accountability for associated risk management

Short term remuneration schemes driving high risk and collectively causing systemic failure

Unintended consequences of state policy and its impact on market behaviours

Irresponsible fiscal and monetary policies in the G7

High management lack of competences

Links to 'failures of regulatory systems' - the ability for financial institutions and regulators to 'rely' on the advice of external firms who are dependent on the hand that feeds them - so called independent firms give thenswer they think the person signing the cheque wants to hear.

A society of lenders losing the run of itself because of poor political and institutional financial leadership

Inappropriate regulation that caused conflicts with accounting standards

incorrect incentives across the spectrum (from retail to Large Investors)

failure of financial regulation, early warning systems, and supervision by risk

Lack of post-event accountability/responsibility.

capability gaps at the most senior levels of Bank administration combined with hubris and misplaced confidence in the size and stability of the business models

Ignorance of the implications of actions

Simplistic view of risk spread in bundled US package without any or adequate investigation of what was contained in the packages.

Failures of credit rating agencies and other assessors as well as regulators to consider leading indicators rather than historical data

Meddling with other country's affairs

Economies dominated by the service section are doomed to speculation, greed and non-real activities

Top Risk Management function should report to supervisory board just as but separate from Internal Audit. Supervisory Board members need to be knowledgable and be able to override BOM decissions.

Poor internal management controls applied by banks

Government reluctance to challenge a sector of the economy that was critical to wealth generation.

financial institutions should be able to self-regulate to reasonable level as this is in their bbest interests and assists in the growth and stability of company performances. Poor practices grew in certain markets i.e. lending partly due to being able to package and sell on this debt which was being rated, incorrectly, at a higher level than was realistic. This then spawned a huge growth insurance type products to hedge the risk of default and then provided a product by which you could insure against a defaulting product that was not held by your company. Low cost of deratives but by correlation huge loss/ profit for this low outlay lulled financial institutions into a false sense of security. Other products used for hedging against companies to provide fixed costs, i.e. commodity futures were then being picked in larger and larger quantities by financials to speculate and make profits which inevitably pushed the prices lower/ higher adding to the effects of a normal market environment and turning financials into highly leveraged, high risk taking organisations being pushed by their stakeholders for bigger and bigger returns with no thought to the consequences.

Failure to look forwards (data is backwards looking) and interrelationships of events

Fear of being left out of what appeared to be something good, fear of being able to say "i dont understand this"

Growth of sub prime mortgage lending and unscruplious mortgage brokers inflating clients incomes with lenders not performing adequate checks

Risk Management used as an excuse to take higher risks without providing adequate contingency

Lack of independence of corporate auditors and ratings agencies. Excessive leverage of merchant banks. Excessive reliance on historical market data to drive risk models.

over reliance on a free market and then those free markets being artificially supported by Governments

A general failure to remember that economic bubbles always burst or at the very least deflate.

The perceived value of and excessive power permitted to senior executives whose actual technical knowledge of the businesses in which they are involved is extremely limited and the associated deskilling of key financial control activities, especially in the financial sector (banking and insurance)

Systemic confusion as to who "owned" risks; business mangers or risk management functions.

Failure by Government and Bank of England to recognise the Financial bubble, Fraud in the US mortgage business

Governments riding enjoying the feelgood factor of house price rises & possible jobs in banks on retirements

Corporate pressures to return value to shareholders and investors leading to excessive risk taking

Greed is the major factor - stakeholders are quite happy for banks to make large profits but a lot don't care where it comes from so long as it comes. The bankers are driven by large bonuses and the thrill of the chase.

Overall this was a global systemic risk and showed up a lack of global systemic regulation

The US Credit Act and its impact on lenders. Credit rating agencies and conflicts of interest.

Credit too widely available without any checks on ability to re-pay!

Emphasis on short term gains, lack of recognition of cumulative risk in the market, ie similar to what happened in insurance markets - Lloyds where risks were apparently being transferred but in reality were not, went round in spiral. Lack of risk mangement culture at senior levels

lack of long term vision that lending over and above the means individuals have to repay loans would cause finacial issues.

Public and political failure to act to control the asset bubble

Banks not able to ascertain the capabilitities of the borowers to pay back the loans

Percevied lack of risk "downside" based solely upon a reward/bonus culture

Lack of oversight by shareholders

Collective unchecked greed is probably the underlying cause with some of the above being catalysts

A system which rewards those gambling with the money of others the greatest reward for accepting the greatest risk

There was a clear lack of any willingness in many organisations, at any level, to document, assess, or evaluate the risk profile, or any changes to such. Most BoDs did not wish to listent to RM or Internal Audit, and seen them as a business blocker.

Failure to consider the sum of risk as well as the "topN"

Unwillingness of politicians to do the right thing and let banks fail (but with safety net of guaranteeing deposits).Banking is critical to economies; the banks , even the big ones, are not.

Over reliance on financial models; lack of diversity in risk management methods.

Too much reliance on debt

Linked to issue of greed Bonus culture on "results" has encouraged the wrong sort of behaviours

Over-reliance on models rather than rational evaluation

IRFS did not permit banks to provide for future bad debts, thus overstating profitability and thus capital

performance related pay encouraged risky behaviour.

Over reliance and compliance with corporate systems and procedures and instead of personal responsibility and commonsense questioning

Exuberant over borrowing at the end of a Boom has often resulted in deep recessions as taught by history

rationalisation of finance with digital technology - speed and extension

Negative, inaccurate and overstating os early issues which contributed to talking the economy down and glorifying in failures by the overpowerful global media

corruption and fraudulent activity contribting to ponzi finance

insufficient overal capital levels of banks

Failures in both regulatory and internal risk management in recognising contagion.

Reckless easy credit policies of Govt Central Banks; fractional-reserve banking; fiat currency

Implicit government backing of debt of large financial institutions allowing very high leverage at low cost

Banks making stupid loans

1.2 Of the failures in risk management and governance of risk how important were the following in contributing to the banking crisis?

Other... please specify:

Risk Managers identified the risks but nobody wanted to listen

1) Interest levels do not reflect risks nor globally financial imballences 2) Incentives for banks to focus on volume growth are driven by a) the too low interest level, b) the lack of regulation; preventing terms for securitisation that e.g. reflects future increasing market values as a precondition - investors accepted the risk, but hardly understood it, and c) in parallel politicians eased regulations to support economic growth 3) Regulators seems to have focused more on theory and interpretation of requirements in detail - in particular arising from Basel II implementation, rather than to supervise the risks banks have on the exposures booked. Secondly regulators have not seen or understood the risks arising from wholesale funding and lack of regulation for securitisation (partly country specific)

I do not see how auditors have any role in overseeing risk management

Lack of operational follow up

Any critical voice was most likely asked to shut up or leave. Risks were reported to senior executive, but SHORT TERM PROFITS were prioritised

inadequate exit strategy of risky assets following a contractionary monetary policy affecting valuations

Corporate risk management should be responsible for the risk analytics their company uses. Regulating a specific model, like VAR, hides errors rather an exposing them.

validation models on Effect of one type of risk on the other example liquidity and credit

Excessive relaince to the US government "guaranteed" home loans by Fannie Mae and Freddy Mac

Absence of demand from market participants for transparent disclosure of bank risk positions

Marketwide Liquidity Risk model misspecifications and Asset price overvaluation, activities of derivative arbitrageurs which led to bubble burst

The ones who understood the models / problems did not have the power to take action: politics

over-reliance on ratings

Lack of transparency in risk taking

Suggesting that auditors are competent to oversight risk managers is naive.

Undue Reliance on Rating Agencies

Failure to distinguish 'risk' from 'uncertainty' (a la Frank Knight)

there was a personal bias in every individual - people could not say house prices would fall b/c they owned houses too and would be saying they are worthless money

Board's lack of understanding of risk management and their role in it

Excessive Executive compensation schemes and ineffective Board Governance

BOD failed to challenge the assumptions

overreliance on risk management (little empirical evidence that risk management works)

A complete failure of oversight. Very smart people paid huge amounts will always outsmart or arbitrage regulators

A cartel that controls the money supply and credit producing currency that has no intrinsic value is the problem.

Accepted Risk control supervision standards did not cover all financial securities that were sold by interconnected banking and insurance relations.

Good risk managers do not try to get on the bad side of sales so that they got sack. Risk managers at Ibank are almost never well-paid, and anyways risk managers at ibanks are just reporting gnomes. Good risk managers don't get compensated and it is always a cost center

Rating agency failure

Once again departments and whole companies became very untransparent. If everyone had been forced to keep liabilities and assets on balance sheet and disclose their own valuation methodology, regulators, risk managers and shareholders could have been alerted to the problems sooner and thus prevented a full blown crisis

excessive leverage

Overreliance on rating agencies (How does society pay for quality credit research?) & liquidity regulation of organisations disintermediating banks

Lack of competences of top manager in risk management

Inadequate regulatory supervision of business management

failure to weigh the true cost of risks

Over-supply in advanced eceonomies as a result of education, tech. advances, etc

Shortterm gains prevail over longterm, rewards for top management should be on longterm not on short term.

organisational culture includes that of society and industry generally not just individual org.

Common sense

Inadequate resource & authority given to risk managers

Senior managers did not understand the risks which they were taking

Excessive reliance on past market data to drive risk models. Excessive leverage. Lack of independence of ratings agenecies.

That unskilled -- but highly regarde -- senior executives protected (and continue to protect) their ignorance by dismissing (sacking / making redundant) any professional prepared to query theri practices

Incorrectly equating low probability with impossibility enabling impact to be overlooked.

Rating agencies have vested interseted in rating highly rather than objectively -

As stated elsewhere - a world-wide first world view of stakeholder greed and capitalisation. Risk Mgmt has no relevance here - if Corporates want to maximise profits and the client is happy to cash in then all banks will take excessive risks.

Credit agencies rating CDOs inappropriately.

Attitude of greed and profit above all else, and the culture which encourages this, Higher rate of volatility in the market

Why is the onus on risk professionals to identfy the risk? we cannot rely on those who carry the label risk professionals to be the concious for all decision makers

All are important but probably the underlying factor is that Risk Management became more mathematical than etchical. This, in turn meant that risk manager, auditors, regulators, directors etc. were happy of the 'numbers added up.'

Most risk professionals failed to recognise the inter connectivity of risks, either in terms of the company they worked for, or more importantly the inter connectivity of the creditors. There was a belief that one creditor failing would have little impact on others.

Did risk management really fail?...not for the majority of highly renumerated Directors...

Short term remuneration drives short term behaviours; over obsession with quarterly earnings etc.

individuals chose to borrow too much money, and banks were willing to lend too much.

Concentration on internal Business risk management rather than equal attention to external sector risks affecting the business model

management corruption driven by greed

Implicit government guarantees

1.3 Overall, how accountable were the following groups for the failures of risk management and governance of risk?

Other... please specify:

Central bankers

I don't like the question. In stead of pointing fingers, it is so much more important to draw the lessons to be learned. Otherwise increased regaultion will be the answer rather than a public debate on values and ethics. The government reflects society, a bank mirrors society and regulators as well as banks executive management aims to balance political goals (though different by nature)

Commercial lenders or intermediaries

Employees

Central bank (fed) following exactly the steps of the BOJ in precipitating the Japanese crisis

Sales teams

Monetary policy of Fed created inflation and 10-year housing bubble, which distorted measurement of risk.

All Financial Groups should have seen what was coming: I've known since 1998 the banks were going down!

the Front Office, always after the next deal, focusing on P&L and not risk-reward

System professionals

The US Federal Reserve Bank, Fannie Mae and Freddy Mac

Traders

Government for failing to educate its citizens in risk-reward while handing them accounability for managing their own wealth; financial advisors for obfuscation on investment risk; market participants (debt and equity analysts) for not insisting on better disclosure

Quantitative Risk Managers

Overall society carpe diem syndrome (live now, make debt, worry never)

the borrowers too were complicit and greedy and wanted to borrow the most to leverage the most to gain the most from the rise in asset prices - they are equally to fault

Governance

In a democracy, the voters are ultimately accountable for everything

There was complete systemic failure, and we have not learned from it.

Consultants and advisors plus investment analysts

customers that only focused at revenues

sales

Givernment cretaed the bubbles. The central banks led the charge and built the bubble taht burst. The problem is fiat currency and it's manipulation and control by a small number of privately controlled central banks.

Financial sciences have lacked to express their concern or to produce a critical mass against their funding surroundings...

People taking loans they couldn't afford, customers taking on risk they didn't understand

Investors

The public at large was content to take on all debt offered to it(us)

inability of policy makers and implementers to think systemically media

Sales staff aggressively chasing high risk/yield products.

Society as a whole perpetuated desire for more greed within industry: increased wealth generation through inflated house prices (cause, risk and effect)

traders running and managing positions

Investors relied too much on rating agencies' risk assessment which was intended to capture credit risk only, not market risk

Traders

Free money caused institutions to behave they way they are designed to. Blame the providers of free money. You can't blame a dog for barking.

Mortgage lenders

politicians, the indulgent political system

stakeholders

Portfolio Managers

Employees and customers

Don't think those responsible have been held accountable, although that's difficult to really know

risk professionals could be held accountable for failing to offer sufficient devils advocacy, as can all non execs and other independants such as ext auditors.

Again, did risk management really fail?...the Directors broadly seem to have emerged if not unscathed then certainly not impoverished.

Non Execs lack of skill in ratifying identified risks and validating control actions by the executive board

2.1 Did you have any major concerns about the financial or market risks to your organisation or the organisation with which you worked in the run-up to the banking crisis?

2.3 With whom did you raise these concerns? (tick all that apply)

Other... please specify:

At that time I was not directly involved in this sector

in consultancy role and advised Board

Governement officials

Articles highlighted and distributed via web site

CFO, COO, CIO, TAA, SAA

industry lobbying and customer advocacy groups

All 100 Federal Senators and 4 last US Presidents!

clients

as a system professionals to our consultants to the bank

friends in the industry

Nobody. I am not in a firm. They were not relevant to the work I do.

Risk Management departments in banks

CFO

Articles

as an external consultant in various risk areas, it would not have been appropriate

I was a Governance and Risk Management consultant working for a big four firm which I left after 10 years in October 2007 due to my concerns over the power glory and reward culture at both the firm and our clients

corporate governance active investor organisations

Top Manager Credit Risk

Published reports in journals and news organizations - ignored as "doomsday sayer".

Rating agencies

Raised with clients in course of my work as a consultant

in published articles

I was the chairman so could not raise it with myself. I wrote a book about it called 'The Puritan Gift'.

in a book

Not in a risk role

Executive team

Friends and acquaintances

I was very public with my concerns, including at international conferences - but no one was interested in taking this up. Note that many people more important than I were also raising these concerns publicly, from Warren Buffet to Clyde Prestowich and William Rees-Mogg.

On some training courses and to Christian Groups I work with

We sold all European and North American financial stocks from our clients' portfolios by the end of Q1 2007.

The organisation was expressing public concern about the level of debt

Pension fund exposures

Publishing articles pointing out illogical risk management practices.

Everyone

trading colleagues

Risk Management Committee

friends

Not applicable - only a guess

Chief Financial Officer

Several public lectures

External Auditors; individual banks; rating agencies

Overheating housing market was seen as indicator by many.

cultural concerns not specific

I didn't raise concern - management did

numerous people in various positions of responsibility

Director

2.4 Did you ever feel inhibited from raising these concerns to the extent that you did not raise them when, or with someone, you should have?

If yes, please specify:

First time I raised concerns was denied a promotion and moved to another department

There was clearly such a priority on doing business and feeling that nothing could go seriously wrong. Objections were inevitably overruled and senior risk management had essentially given up the fight.

Lack of access to board/senior management level

Not appriciated to cry wolf, Lack of appropriate risk culture, Focus on sales and short term earnings and share price

Board

Consultancy could be jeopardised, but. even beyond this the people around failed to see the risks and to understand implications of credit downturn. Regulator noise was silent. Basel II implementation was seen as the cure - but mostly poorly implemented in terms of education. Above all, Board deaf to warnings.

Could not find the right level of person who would listen to me.

The line manager, never felt the calculations from the stress testing of portfolios and VAR calculation applies to our Zimbabwean economy therefore he just swept the calculations under the carpet.

As a vendor of Risk Measurement, Management & Control systems, I was active in raising issues and questions that the Risk manager's and Senior Executives didn't feel they had to act on....

limited appetite to listen to the principles of risk regulation, more about tactical adherence

I was eventually fired for bringing up some of these risks

I was fired in 2003 because they won't hear my concerns. I was than on a blck list and didn't find a new job; so I'm running my own litle company since than.

Quantifying the concern requires commitment of resources that were unavailable and was necessary to successfully conveying concern.

www.congress.org. I've sent my document ""What is Wrong With the USA"" since 1998 thousands of times by email/fax/mail/UPS to all 100 Federal Senators/most Congressman and the last four US Presidents. I knew in the 90's the banking world was going to be in trouble. There is NO Cost Controls, the Greedy are out of control! Prices for everything continue to climb upwards and no one is stopping it!

I raised them and was fired as unable to understand business needs

limited tolerance for bad news in a sales driven optimistic organisation

A system had been put in place to address all the issues of the crisis. They just did not act. The too big to fail case.

It was my job to alert banks and other firms exposed to [credit] risk as to the deficiencies in their procesesses, procedures and systems

Accused of being over paranoid.

It is reported to the highest risk management authority

Fear of losing contract. Fear of loss of credibility. Fear of loss of face.

Fear of being sidelined in the business. Opposing arguments are based on past history and thus difficult to convince Board members of obvious risks without the need for scietifically proven facts.

Told to 'drop it'

At my age and with over 30 years in the industry, I am in a fortunate position that I do not have personal financial considerations that may inhibit my views

There was no interest to listen, because too much money was made. Because of the way the organisation was structured, a conflict of interest resided with the people making the decisions, being both responsible for credit risk as well as for the bottom line.

As a private consulting firm earning revenue based on the frequency of transactions, to report a growing concerning about a market downturn and potential worse case senario, it hurt our business in the short run due to loss of clientel who were seeking positive outcomes of our reports to raise capital. We were labled as "doomsday sayers". However, in the long run, our business has earned additional credibility. The partners of the firm agreed, and we made press releases, no matter how unpopular. It was the right thing to do. Our firm provides risk management, valuation and feasibility services.

The risk team was not empowered to challenge or refuse business that would incur substantial risks.

Due to merger implications, much attention was focused on roles within the new organization.

Lack of seniority and lack of adequate forums to encourage healthy challenges to risk taking. Salary and seniority imbalances between the risk-takers and risk managers gave false sense of superiority to the risk takers.

N/A given my role

The culture of all organisations prioritised sales and profits, and any attempt to raise matters relating to risk or regulation were considered "spoil sport"

My line manager (head of equity) did not want me to bring these concerns up. My colleague from the fixed income side and our representative for risk (CRO, although I was at same level) shared my and his own concerns with the Risk Management Committee in which I was not supposed to participate (due to my line manager). Although my risk colleague, who de facto was our CRO did protest about some of the equity risks and certainly about the extensive fixed income risks (spread risk), he did not share the fixed income risks fully with me, even though I needed to know as being responsible for balanced funds and fund-of-funds, where these same FI risks were also widespread. Senior management was aware of our risks, but chose to take them + discouraged discussions about them outside the Risk Management Committee (I brought some of them up in the New Product Committee).

In general we did not make much of a noice about our debt level concerns - the country at large was feeling Ok about them

they didn't want to know

culture would not support challenges to growth strategy

Fear of reprisal

Concerns obviously not welcomed.

I should have gone directly to the CRO and not left it to my line manager who basically buried my concerns

Still have to do deals. Being a credit risk manager is a balancing act, noone has a crystal ball. Everyone knew the walls would come down eventually...just as we know now that printing money can last without inflation

Pressure was exercise by high management to hide known deficiencies (absence of promotion, harassement)

Market risk and associated risk management was not my area of responsibility or in my direct area of expertise.

In the sense that warnings were ignored and eventually you were seen as "crying wolf"

Organisational culture made it difficult but still possible

The issue within my own organisation is that the Risk Management and Finance functions rarely interact. Furthermore, there is little or no financial expertise within our Risk Management Team.

My speciality is technical, safety and environmental risk not as financial professional so I felt my concerns not taken as informed professional opinion.

Migh get negative reactions from my superiors

Apprehension that the issue might be wrong

Decision making is based on information. One assumes that the top management have access to more data than others. Typically egos then play a role when questioning top management.

Oppressive atmosphere, dickhead execs, unsupportive non resorced position

the prevalence of management by fear cultures

People simply did not belive that the whole system was in such a frenetic race to destruction. Maybe they could not assimuilate the concept.

History shows that those that raise the flag when all is well usually suffer the consequences of others actions in the aftermath (i.e. HBOS, NASA etc....)

There was a series of mouch more senior staff & 'more substantial/expert checks on performance with those who had greater access to information & could see the bigger picture with RBoS these included primarily the FSA & Auditors (& rating agencies) third party analysts. The fact that all of these except the FSA had a vested interest in helping the senior management earn their bonuses as they ran the risk of being replaced by other 'more compliant' yes men was a susopicsion but even contrstuctive/commercial/money saving suggestions to the Group had been considered unjustified criticism - there amongst staff a preception that at all levels a culture from RBoS of blaming messengers for bad news & mangement identifying those who brought problems to management notice of being the problem even on a day to day basis. The big issue here would seem to be that almost every one, even those who purported to be independent & responsible for operating checks (Auditors, rating agencies, analysts) had direct vested interests in having the process continue unchallenged as to do so would be likely to mean a direct reduction in business income as the banks go to other, more ameanable providers, especially when thier reputation for objectivity/doing their job properly spread to other companies who required agreement to support share price etc or if the value of assets or activity of a major company they were auditing, valuing started to fall. (This would seem to include the government). The potential exception should have ben the FSA who were potentially out of their depth, and also risked the wrath of their masters in government who wanted the party to continues; &/or assumed that if auditors and others who had greater time and access to the organsation were doing their jobs approved it must be ok. (An intersting question may bew how many FSA staff/government ministers & other representatives responsible for or connected with supervising banks etc later have jobs with them. Future employment hopes may be a big disincentive to asking difficult questions - for employee who may lose theirs fro appearing difficult or negative, fro the auditors/rating agencies who will need to be replaced or for government minsters r regulators who want to enjoy the potential future earnings that an appointment with a large bank will provide.

Bullying in the workplace. Main issue was with the fact that, as sheep do, so humans will follow, is that the collective businesses worldwide could see the US housing market quickly degrading but due to the last 6 years of growth felt the bubble would never burst. This led to even greater risks as people continued to invest in high risk / high yield returns despite the immediacy of the impact being relatively imminent. I believe the key problem was the simple fact that the people who control the investments are only interested in the highest risk yield, and that the people who make the investments on behalf of their clients will shadow other professionals in the same field - on the balance of probablities it is safe to follow your peers. It was obvious as early as 1998 that UK mortgage lenders were offering 5 times the salary of the average person - alarm bells were ringing off the scale for me. In 2004 to 2006 prices on houses were increasing 10-15% per annum and banks were still lending at stupid rates. Factoring this in with other debt, and the level of national debt I believe the inherent problem lies with the culture of the 1st world, in that people are driven by greed and wants, as opposed to what they need. It is as much the fault of those seeking return as those doing on their behalf.

I always felt OK with raising concerns - that is my role as a Risk Professional.

I noticed cultural apathy towards control management that I felt was indicative of something bigger to come. I wasn't involved in uncovering specific concerns.

Top Management clearly understood the risks. How many times can you raise it with them?

However, it is easy to raise concerns - but the challenge as a risk manager is to be taken seriously! A risk analyst is a 'modern day prophet' - your forecasting problems based on assumptions that can be easily countered by more senior management with agendas and shareholders to whom they answer. Its easy to hind behind compliance with what is perceived good corporate governance.

Senior management are in the position of wanting to maintain the status quo, so that they can continue drawing their salary. They therefore chose not to rock the boat.

Line Manager did not understand my concerns and stated that I was overstepping my role in questioning business strategy and in challenging decisions rather than just advising of the risks associated with their outcome.

Because anybody higher in hierachy than my collegues do not give room for us to give our view on any issues.

I worked for external firm - looking in from the ouset at a clearly flawed strategy

Ultimately it resulted in my redundancy. I was deliberately excluded from job vacancies on the basis of so called 'relationship skills' i.e. I had been prepared the challenge the business and this was not wanted.

Was too junior to get attention from anyone. British working culture is just toooo hierarchical and stuck on positions and age

3.6 How would you assess the importance of the following proposed 'structural' changes in internal risk management and governance of risk?

Other... please specify:

The importance of effective intraday risk technology providing timely accurate data for effective decisions

Education for non executive directors

Improved designed in all market related processes across company perimeters

In any organisation improvements can be made. However in terms of financial crisis the incentives and methods / regulations to balance business strategy and risks is not solved by such improvements, but by a culture driven by values, hopefully reflecting society's ethics as well as supporting society's political goals

Better risk management culture which encourages risk managers and businesses to put in extra effort to identify those hidden risks of a transaction in assessing its performance

Either change remuneration or increase regulation

Use Economic Capital metrics rather than regulatory metric

incorporation of macroeconomic factors in risk analysis

Model are fine; just legitimately validate the things

no greediness, no shortly determined bonusses, better culture, ethics, etc. fair trade!

Standardized Annual Baldrige-quality style risk scorecard/review

All Costing must be lowered, for everything!

improved board oversight of strategic decsions

Integrated / Global regulatory standards for a multi level corporation for KRI identification

we need better models , not less models

Quantifying market and systematic risks by using logic, mathematical and statistical models is still highly implicative of a better risk surveillance system.

Accountability of top managemenet: fiducuary responsability

1. CRO has a business background. 2. Truly embed risk into organisation.

My previous organization had very effective risk management, an excellent risk culture and was only indirectly effected by the crisis. And I reported jointly to the CEO and non-executive.

There needs to be a definition of the role of government and the powers governments will have and exercise on financial institutions

Appropriate context of strategic and business objectives for defining risk priority

Board also being responsible for risk management

More rigorous examination of the qualifications for Non Executive Directors in order to do their job rather than be part of "the club" and a limitation of the posts that they can hold

The problem is the fiat currency and the leverage it creates. Until the cartel is broiken up, currencies revalued based on an intrinsic measure adn free enterprise enforced there is no hope nfor improvement.

Reduced reliance on Credit rating agencies

Replace rating agencies by indices in renewed standard reports by accountants.

Use of dedicated risk professional and not just Auditors or Accountants

Reform of mathematical methods use: go Bayesian and use model averaging.

Forced transparency - if you can't tell your customers and shareholders exactly what you are doing, you should not be doing it

integrate credit and market risk AND introduce new model parameters of liquidity risk and correlation of credit and market risks

Reduced reliance on rating agencies (> implied ratings?)

Competence of risk managers, i.e. beyond risk control and able to work with line managers to problem solve

Leadership - CEO or Chairman taking interest and being truly concerned about governance

A change of culture: peer challenge expected and all challenge respected

RM can set framework for Risk Management, Line Management should always be responsible to manage risks, they know their risks best

Motivation of the company to want to change

improved training in implications of adopting a particular strategy, for staff to understand why certain practices are discouraged or require senior approval

Independence of ratings agencies and corporate accounts auditors.

Risk Committee to be combined with audit and compliance committees

improved regulation of the insurance industry, especially to prohibit the appointmnet to senior management and board position of individuals without qualificaitons and practical working experience in the industry

Have external auditors & rating agencies directly accountable to shareholders & regulators

Scenario planning to aid challenge

move away from economic-rationality benchmarks of decision vailidty

The behavioural and psychological aspects of risk in organisations

Clarification of the respective roles and responsibilities of the Risk Management and Internal Audit functions

Most of the above are very important but we must be cautious about becoming too authoritative and demotivating people.

The premise of the risk manager being responsible for risk abdicates operation managements responsibilities - this must not be allowed again

All Managers to have specific risk monitoring targets agreed with risk committee

IT systems that are flexible and can be adapted quickly to head-off changes in market conditions, regulations and risk appetites.....internally built systems do not provide enough flexibilitty and should be replaced/upgraded within the next 6 - 12 months. Risk systems should form part of any audit/regulatory reviews.

Eliminate Government intervention and Central Bank

4.1 How would you assess the importance of the following proposed changes to regulations/regulatory guidance?

Other... please specify:

Regulation of remuneration on local basis

Actually applying existing or foreseen sanctions to people who failed in their duties or due diligences.

stop having central bankers who say that they can't stop bubbles (I think particularly of Greenspan).

All changes / improvements in requirements reflects the risks accepted on exposure booked. The required capital reflecting risk weighted assets is yet to prove its chnage and importance towards too agressive business strategies. The required capital must however be sufficient to cover losses when market values drops and markets become illiquid. Thus a change to liquidity requirements make sense. Still regulators should focus on how the individual bank balances business strategy, risk appetite and funding rather than how a bank manage each of these separate and which improvements are to be made for each.

non monetary antispeculative measures in real estate

If regulators specify a particular risk tool/methodology/requirement, then companies will only execute these requirements in order to pass audits, thus missing the risks all over again.

implementation of malus (the oposite of bonus)

Eliminate regulations (i.e. CRA) that created distortions to housing market

the most important issue here is regulatory enforcement. too many times managment stated that they new they were doing dumb things but did them anyway

Abolishing the Federal Reserve and better understanding of its damaging role so far

More emphasis on state-provided education for individuals about financial markets principles

Risk Manager fully understand business and how money is earned.

I prefer the regulatory approach of the FSA (UK) which is that they do not know how to run financial businesses but hold individuals (board members and senior management) directly accountable for the outcomes experienced by the firm.

Don't socialize losses!

Unification of risk definitions and context, (A risk to WHAT?)

Governmental regulation on lending criteria

Move away from principles based regulation, to a more rules bases regime. Move away from the UK tri-partite regulatory model - no one takes ownership, therefore it fails to be effective

It is very hard to effectively regulate away unacceptable behaviours without first recognising they are behaviours we do not want

We need less or smarter regulation - not more. Otherwise, the law of unintended consequences as seen in Basel II will just happen more often

these changes will no more deal with the problem than issuing improved life preservers would have on the Titanic.

replace rating agencies by regulatory indices by international standards through accountancy.

Cash and reserve ratios and regular BoE liquidity reporting

Better training of operational managers

uniform implementation of international agreements across countries

Require increased risk transparancy that is audited.

regulators must upgrade their skills and capabilities to assess and regulate the risks based on the business models of each instituton and the sustianability of the model, this requires a major committment to the HR strategies

Considered and palatable measures to facilitate more shareholder engagement in risk matters, executive respect for risk expertise and opinion without making the sector too dull through over-regulation.

separation of the financial management and risk management functions within companies

The need for truly independent external independent auditing & risk assesment.

Regulator must improve their performance/skill/experience

Greater penalties on individual Directors for Regulatory non compliance rather than a charge on the forms P&L account

Internal IT departments, quantitative departments and middle management in Risk departments should NOT be given carte blanche to continue working in the same ways as before. A complete overhaul of systems and controls needs to be instigated as the highest priority in all firms not just the Tier 1 companies.

Elimination of Government interventions, Central Bank, guarantees

4.2 How would you assess the importance of the following proposed changes to the supervisory practice of regulators?

Other... please specify:

The Regulators have been so useless it is hard to suggest giving them more power

More business know-how of regulators

Remuneration overview by regulators

Confirm acceptability of non execs to manage risk committee

Being stricter in sanctions.

Regulators are important, but always late. The control has to be done internally and the requirement is a CEO who looks further than just his own company (i.e. social responsibility, ethics, ...)

Supervision of salaries, bonusses and malusses

The Financial situation today is Mostly because of the Greedy in the USA controlling factors

Regulators being a technobusiness professional to understand the implication of one on another

Understanding that government-backed Fannie Mae and Freddy Mac are the root cause of the problem

All noted points already occur. Regulators should, however, provide Boards with independent assessment of quality of risk management reporting provided to them by management

International Banking Risk Assessment Committee needs to be set up for overseeing Banking and Credit Market Investment Risks.

Improved training of regulator agents on the field

All firms are different ... and to suppose a regulator would have the competence and capability to supervise and sign-off effectively for all such firms is extraordinarily naive. The can monitor the effectiveness of internal risk management, but not supervise it. They simply do not have the necessary competence.

Regulators need to go beyond process - they must learn the products producing the risks they are regulating

Regulators to focus on macro-prudential systemic regulation, rather than micro-regulation of individual firms

management of SYSTEMIC risks... not individual firms... redefine too big to fail

Government intervention

1. Bust the cratel, 2. end all central banks, 3. end all fiat currency.

Imposition of systemic risk capital to discourage excessive growth of financial institutions.

Compulsary regulatory oversight when products, company constructions or contracts, have multiconnected or interconnected securities.

Higher fines for regulatory failure and an enforcement system which impacts directly the income distributed to sharehlders instead of customers in order to focus their priorities.

Limit of max allowable Risk for each type of Finan. Firm.

Better understanding of how mathematical models have understated uncertainty.

smarter supervisors that understand what banks do

We will need to educate and reward the WHOLE workforce on ethics and risk management, top management need to lead by example and support RM and LONG TERM objectives over short term

Regulatory oversight of risk management training in firms

Disposal of the copncept of "Chief Risk Officer" -- this is a meningless appointment that actually tends to act AGAINST effective embedfding of real Risk Management practice

Internal controls can be corrupted - you need external

Regulation is not the key issue

More regulation is not the answer - this leads to abdication of personal responsibility those that take the risks rely on someone else to 'pick up the pieces'

stricter rules for rating angencies

1/4ly review of internal oversight and assurance plan by Regulator

More rigourous reviews of IT systems to ensure veracity, intra-day performance and changes can be delivered at all times

Eliminate regulatory supervision

4.3 How would you assess the importance of the following proposed changes to the operation of regulators?

Other... please specify:

Use the rules that exist. Tendency is to invent more when good rules already exist and are not enforced.

stop outsourcing responsibility.. A CEO is responsible for his/her company, strategy, ... and it should remain this way. And responsibility means assume all decisions (in the 1960s a CEO such as Ospel, Fuld, Prince, ... would have committed suicide. Today they go golfing on taxpayers money...)

Industry needs less prescriptive regulation, not more!

Puntive (legal) accountablity destroys motivaton for individuals to persue regulatory carriers

They are ALL Extremely Important! corp@myfamilyshield.us

Integrated regulatory function with reference to other regulations

Beteer education on how monetary excesses create bubbles

Conflict of interest or friendship with bankers

Competent personnel

Regulators can only be "accountable in law" for their failures if those they are regulating are similarly accountable.

Focus on macro-prudential regulation

change the FOCUS of the regulators and the regulations

I do not believe we can entirely regulate away this chanllenge

Regualtors need to enforce an open market. This emans any firm too big to fail needs to be broken up. Any form controlling or influemcing price, supply or demand also needs dismanteling.

Better rules, not more rules

Frequent screening of personel, regulators and others that have supervisory tasks or responsibilities.

it is important for the independent body to be a global one so that global standards are maintained

Set incentives toavoid regulatory capture by industry.

More authority for the regulators

To have regulators that understand the specific field they are in, the FSA has too broad a brush, sweeping insurance in with banking

Structured training and "licences to practice" for regulators

Higher calibre personnel should mean people with REAL experience in the management of risk in industry and commerce. It should NOT mean "high-flying" former executives or civil servants

True independence of regulators/gvernment and personal responsibility

Regulators are largely irrelevant as long as the state underwrites the banks.

Over regulation will decrease prosperity

It is not the regulator - it is the risk taker and the motivation to take the risk

Representative industry associations to be part of REgulator Governace process to ensure focus on relevance of regulation and its performance

Provide guidance/direction on systems and processes to support more rigorous risk management

Eliminate regulatory agencies

Are there any other comments or observations you would like to make about the causes of the banking crisis, internal or regulatory changes or any other matters you would like to bring to the attention of policy makers?

The availability of credit in the USA is largely determined by commercial banks, under constraints commonly agreed upon at the federal reserve banks, which have next to no democratic oversight. This leads to enormous concentration of power in the hands of unelected men and women. This might be the root of the problem.

Thank you for this Survey. I believe that the banking sector has sufficient principles for managing risks and sufficient regulations to comply with, such as SOX and Basel II, the problem is in regulatory roles and in the external auditors' methodology of work. i believe we should work on the following: - enhance the regulatory roles. - more governance on the external auditor work and reporting to regulatory agencies. - enhance the whistle blowing and the ethics codes. And others.........

I have identified the primary causes of the multiple factors which led to the economic volatility. These are the isses which require solution to prevent a future repeat of the factors which produced the current economic situation which has become globalised not only as a result of the internonnected nature of the markets and global financial system; but also resulting from the rapid and global dissemination of volatile highly engineered structured products and excessive dependance on an unreliable rating system and excessive counterparty credit risk exposure unrelated to capital reserves.

The financial crisis was largely produced by a failure of basic internal, banking oversight, exaccerbated by over-reliance on mix-matched funding and compensation practices that encouraged ignoring the qulaity of assets becasue they were going to be sold on.

To a certain extent, the banking crisis is triggered by US sub-prime market. Prudent lending of financial institutions should be ensured. Lending to high risk borrowers, without consideration of their repayment capabilities, is considered irresponsible.

It will come back with a vengeance as the answer to the "too much money in the system" was "Even more money in the system".

It is easy to blame greed but this is fundamental in all businesses. There has been a breakdown in the performance culture and its lik to bonuses. But, this is only possible if Remuneration Committees allow this to happen. Rem Coms are headed by non executive directors yet little hs been said about their performance. My view - all performance management reward schemes should recgnis that banking is a regulated business and therefore should inlcude a moderator linked to regulatory compliance and intenal audits. Failure to be internally audited and to meet the minimal compliance requirements should lead to cancellation of any bonus no matter how successful the unit has been. There should under no circumstances be guaranteed bonuses - the term itself is nonsense and is an excuse for poor management. Very few new rules are needed - Regulators should use what they have. And - what has happened to Basel II? This was seen as a solution so either it should still be one or recognised as inadequate - and quickly.

First it is not an isolated crisis. It is a crisis among a series of other crises. The first question would be to look at the interdependencies between those crises. Second the banking crisis was clearly triggered by an unfortunate move of a US Government official who was clearly not aware of the consequences of his decisions. The rest occured almost automatically. Third the regulators did not see it coming while there had been signals well before 2007. They failed in their duties. It may be good to strenghthen regulations but how can one think current people will do any better in the future. This is like giving the best make of golf clubs to a poor player. Fourth a few journalist say it everybody's fault, first from the people who benefit from the subprime lending. How could they have refused. In a nutshell, we need a combination of better people with better tool and do not hesitate to work on the 'unthinkable', the so-called 'black swans'. The actual crisis may still be ahead of us with the mounting debts of countries like france, UK, the US. Who said too big to fail?

Start behaving responsible, i.e long term. what is the world you would like your kids to live in.... And stop endangering democracy and the capitalist system (which is the least bad of all). I wouldn't want a chinese system in Europe or USA. NO politician / CEO / .. is Louis XIV.... the french revolution happend, and can happen any time again if the top dogs don't respect the underdogs....

The policy makers as well as the public opinion are most often - as in case of the financial crisis - looking for someone to consider responsible. In terms of potential criminal actions this is fair and required by law in most countries. However banks play a very special role in society - supported by legislation and therefore subject to supervisory. Thus policy makers and others being active in the debate need also to consider the political goals, the general ethics of the society and the level of wealth and greed to balance criticism. Business models and growth incentives should be more in focus for the financial crisis. However to evalaute it is to be remembered that historically the efficiency and coverage of financial markets plays a significant contribution to wealth in a society. New regulation should not hamper efficiency in the financial industry, while coverage in a world getting closer to have only one economy might be subject to investigation. While we should not forget that regusirements and even the most advanced models cannot predict the future - as it is yet unknown.

Policy makers should come up with stringent policies that helps to curb such economic shocks despite the country in which one operates. Risk and valuation models should be well tested and monitored before they are being used.

With the increasing complexity of markets and products in a more globalised financial services environment, IT systems designed either in silos or, to cope with volumes/methodologies of the 1990's need to be upgraded/replaced. Front office systems continue to receive huge investment whilst Risk systems always take 2nd place. This needs to be revised so that as front office becomes more automated and powerful so Risk and Reporting need to be able to keep up. Front office pricing and Risk pricing are different animals; traders and Risk managers have different roles to play....the interaction of both of these needs to be considered in a more rigorous and risk management oriented way so that trader led pricing and 'sales at all cost' attitudes can be tempered to fit with Board and shareholder risk appetites, corporate governance/internal audit and the preferred principles based regulatory approach.

Three main causes, simply and succinct: 1. Global macro-prudential failure to control asset bubbles (systemic greed?) 2. Incentives in banking not aligned with public interest -- ""To big to fail"" 3. Not enough capital / too much leverage and opaque reporting / accounting standards

Risk of default amplified by usage of Credit Derivatives (cf. "Contagion and Systemic Risk in Financial Networks" by Rama Cont, Amal Moussa and Andreea Minca

The current culture of risk management does not encourage businesses and risk managers to work together to identify and evaluate the underlying risks of a transactions. On the contrary, in the current culture, businesses actually try to discourage any extra effort spend in identifying the hidden risks because addressing the risks could delay a transaction's approval. It could also lead to the disapproval of a transaction. To encourage identifying the hidden risks of a transaction, the following changes should be implemented: •Hold businesses and risk managers accountable for the failure to identify any important risks of a transaction which materialize after origination •Hold businesses and risk managers accountable for any failure to communicate the hidden risks to senior management and to ensure that senior management fully understand the impact of holding these risks in the bank's balance sheets •Address whether a transaction fully compensates a financial institution for taking the risks before approving the transaction

There is an urgent need, in my view, for all new banking products to be rigorously stress tested for potential risks in a "non-threatening" environment (i.e. where the risk manager's job or career is not "on the line").

No formal balance sheet management at state level has led Central banks to manage liquidity with a short term view, leading to excess liquidity and resulting into excessive risk taking; Inability of regulators to provide effective risk taking limits. Inability of governing entities of offer regultors a wide-enough perimeter to fulfill their duties (including funds, insurance Cos...

As far as I know, nobody have reviewed the participation and liability of the rating firms in the present situation. They kept rating A+ to all financial intitutions, even in those cases in which the wrongdoing was more than evident Not even this survey stresses in the sinister rol played by the Rating companies

Rules may work for the moment but are not likely to be a long term solution. The culture must be changed so that the risk takers also view themselves as risk managers, or at least that the risk managers are their allies.

Risk culture and independent peer review are the keys to success.

Why is it that the people responsible for giving subprime mortgages, to people who clearly could not afford them, are being brought to book? The government and regulators are condeming Wall Street, but not main street. How is it that millions (if not trillions) of dollars worth of these mortgages were issued without any supervision of the mortgage brokers?

we must stop the American way of life; the next crisis have yet startet in the US: Environmental Issues, Jobless, Credit Cards, Health Care, Food, Water, Education, Criminality, Infrastructure, etc.. The real economy only needs 2% of funds - 98% are in financials.

The fundamental cause of the bankining crisis was government action and policy: the ten-year housing bubble in the US was caused by the combination of a) the inflationary policy of the Fed which enormously increased available credit and b) US housing policy, which channeled that excess credit into the housing market via such things as Fannie Mae, Freddie Mac and legislative pressure to make mortgages more available to the sub-prime market. Secondarily there was a failure by the senior line and risk management of some banks to a) recognize the risks that would occur once housing prices began to fall and b) realize in 2006 that the housing bubble was starting, indeed, to deflate. In contrast, some banks (i.e. Goldman, JPMChase) realized that the housing bubble was about to deflate and largely insulated their firms against the consequences. The creation of a bubble by the actions of the government distorted markets and also distorted the measurement and assessment of risk by many actors in the market (e.g. rating agencies, investors, traders, risk managers, executives). While the failure of these actors needs to be addressed, we should not ignore the fundamental cause of the problem. Your survey is deficient because it focuses virtually all blame on either bankers or regulators and ignores the fundamental role of monetary policy and housing policy in creating the housing bubble that was the fundamental cause of the financial crisis.

Regulators, legislators and the public seem to have lost sight of credit granting as an enterprise requiring both appropriate assessment of risk and appropriate pricing of risk. The greatest danger facing the EU credit industry is forced pricing harmonisation regardless of risk infrastructure and cultural differences across the EU.

Cost control. The Governments must either take over or control all financial groups. But... The main problems were NOT the financial responislbe group parties. It was the Brokers/Real Estate agents across the USA that went wild - completely out of control. Land/Property/Homes that were worth $35K in the 70's, the same worth $37K in the 80's became worth $190K in 90's to $260K-$420K in the 2000's. The same location, no changes, but time. The same land. The same building. Maybe a new roofing or paint. If I could start a Class Action Case, I would charge the Brokers/Real estate agents across the USA for Criminal attempts to destroy the USA/Banking! I knew in the 90's the Foreclosuers would start shutting down/closing our banks. I was right then and still am. There is NO control; everything is costing more and more. Why. There are more person purchasing. There are more drivers, purchasing more vehicles/gas/oil. There are more persons purchasing homes/land. There are more persons purchasing food. This means more income being brought in. So. Why is there NO control for costing - TO STOP PRICES CLIMBING? THE ONLY REASON: PURE GREED! The problem is NOT OIL/GAS. It's everything!

Very few global corporations are responsible for the banking crisis. On a Global banking scenario, a risk assesment method which continuosly monitor the weightage of the risk that individual banks have on the system should evolve which could alarm the global banking system in case of indications of a probable systemic failure for preventive measure.

Regulatory and management functions were sacrified on the alter of financial boom. All eyes were on bonuses. The boom will be back. Lets not get carried away a second time.

Policy-makers were at the heart of the crisis in the US through their expansion of FNMA & FHLMC.

It was a breakdown in basic risk management in many organisations that caused the problem. People got lazy and greedy and didn't consider the consequences.

While liquidity and credit are the most important aspects of commercial and investment banking, risk assessment of both these should be undertaken within a strict structural guideline and legal framework. As well, continously monitoring systematic and systemic risks by risk committee shall be of order. Internal Discussion Forum and Annual Summit of 'Capital Risk Management Association' is ardently required to thwart off future crises. Investor action behaviors are to be monitored to check contagious bubbles. Financial Risk Committee should assess more vigorously to the Balance-sheet and asset-liability records of banks.

Regulator should redesign the regulation such that it is relatively arbitrage free. Reduce complexity and build in flaws. Rethink about the philosophy to follow when incoping with increasing complexity in financial markets. So abandon BIS II and think about better ideas to design new regulation.

This crisis was a consequence of the overall phylosophy of maximising short term profit. Eventually long term came and, contrary to wisdom, we were not all dead (fortunately). It was once again proven that greed with no long time perspective can be dangerous. After the '29 crisis there was a war that destroyed a lot. A lot of rebuilding was done by people that developed a good understanding of the word ""crisis"" and of the need for real global cooperation (it helped they had a common enemy). After 2007 one hopes no new war will teach the current generation the real meaning of the word ""crisis"".

improved implemantations of the enterprise (corporate) risk management

Even if you would have seen the reasons for the crisis within years in advance, put a system in place to save the institution, formed internal personnel and regulators on the subject, written articles on it, urged board members to act, you would not have got to save the institution and you would not have avoided to be dismissed exactly and precisely because you saw the crisis. That is the system, and it did not change a comma. - The clearing house role of central banks for interbank transactions should be developed or re-inforced in order to set-up confidence in liquidity&confidence dry-out. - Macroeconomic in-equilibrium among big economies should be closely monitored.

The crisis has at its heart the breakdown of fundamental / sound banking risk management practice, combined with a lack of transparency and due diligence by investors in risk and managers of risk: why would any sensible / well trained risk manager or bank build a model around lending 100% or more loan-to-value mortgages to people who cannot afford to repay them, and then why would any intelligent professional investor buy in to such assets without understanding the risks they were taking. Similarly why would any management or regulator allow banks like Northern Rock to carry percentage levels of liquidity / capital similar to a bank like HSBC, when the funding model is so fundamentally different.

Regulations are good in so far as establishing ""fences"" and ""gates"" within which banks could operate safely. However. ""fences"" and ""gates"" --> even if these are ""state of the art"" can not deter a determined ""thief."" Whether the thief is outside of the house or worse, is actually a resident of the house!

Too many accountants are running trading desks and finance functions. Need more finance background, both in Risk and Finance management of banks.

In my opinion international co-ordination of regulation is essential. Without this regulatory arbitrage will be a continuing detriment to the performance of the financial services industry. Accountability with respect to the regulatory framework on the part of senior management must also be part of this. And a principles based approach is superior to a rules based approach as products easily can be designed to get around existing rules. Measuring up to sensible principles opens the game to sensible interpretation, which can be applied to a changing financial world. This likely will mean the legal sector will gain with an initial increase in lawsuits or appeals of decisions but that is an unfortunate cost of putting in place this type of setting. That cost should be viewed as an investment in a long-term, efficient and reliable financial system in which the public can develop confidence.

1. Too much regulation raises expectations to unrealistic levels. 2. Too many regulators don't understand how markets work. 3. The FSA Handbook has over one million paragraphs, I believe. This is not 'light touch' regulation! 4. The distinction between 'risk' and 'uncertainty' is basic; but was widely ignored and required to be so by regulators!). 5. International harmonisation is risky, if the 'global authority' gets it wrong. Competition and trial and error have much to be said for them.

We must be ready to fight tomorrows battles and face the challenges of the coming future. We must not live for or anticipate yesterdays crises. While the crisis of 2007-2009 has happened/ will happen and end, and we must learn from it, we must learn that we will try to prevent another crisis - this 2007 crisis that just passed will likely not repeat itself identically, so there is no need to fix that what was broken as its likely not relevant (like the French commanders in WW2, lets not reinforce the Maginot line, that is not where the Germans will assualt from). I think there has to be a focus on making changes so that the system is resilient and will be able to withstand the NEXT crisis when it comes (as it will come). We do not have to survive the 2007 crisis - that is the past.

The banking crisis was a systemic failure not an outcome of greed or bad people. Government support for excessive risk taking and organisational cultures that inhibit challenge were the prime causes. Nothing has been learnt and the same will happen again.

Problems began with Government interference in markets, through, for example, the creation and subsequent encouragement to expand of the US government agencies FMNA and FHLMC, plus the failure of goverments world-wide to deal with global imbalances. Subsequent failures of regulators, senior managers, risk managers, etc. were important, but secondary factors. These safety-nets probably could not have overcome the impacts of the primary failures.

To me, the biggest failure comes for complication of oversight. It is time to go back to principles. Clear and effective disseminated accountability for strategic and business objectives acheivement. Clear ethics, and culture promotion and endorsement. Formal, Effective, principle based methods of implementing and overseeing operations built to acheive objectives (incorporating risk considerations.) Accurate comprehensive reporting that allows internal transparency to both operational vulnerabilities to objective acheivement, and to the risks that face the objectives. Line level transparency allows Department, Corporate and Global transparency. To me expecations of line managers, and creating transparency of their efforts is the key to being aware of vulnerabilities and illustrating transparency!

This crisis is an example of how the fundamental principles of excluding moral values from business can allow greed to flourish without checks and balances. It is strange to see that Capitalism is not criticised at all and that it has failed for once to satisfy the desires of the most privilledged. There are still going to be many more failed starts as the fundamentals have not changed. We are not yet out of the woods! Those who screwed up are still in charge.

I think in addition to the excessive executive compensation schemes which have arisen over the past decade and the need for Boards of Directors to provide effective and informed oversight, I would also highlight the abysmal lack of a longer term and engaged ownership mindset by both equity and debt holders. Too many shareholders are either ignorant of their role as an owner of the enterprise and therefore take a very short term trader focus.

Check whether the agreed and signed off Risk appetite in the formal Risk Framework complies with the balance sheet and P&L, as well as with the culture and sales targets

Recognizing the line of difference between hunger and greed !!!

ERM is a holistic approach to Risk Management. As RIMS and IIA develop the competency model there needs to more input from the banking sector of the financial services community. The cause of the banking crisis was a run on real estate and the drive to originate more loans for packaging. The plain truth was that we were borrowing from the future and it never came. The problem is that the bankers are generally still employed, but joe the plumber may be searching for work for a long time. As Buffet said a long time ago: I don't understand all these derivative instruments...they will the downfall of the system (because no one knows the true impact they are making on the banking system"" He did one or two deals a year and sold his interest in a derivatives firm owned by on of the companies he purchased.

1. Simply put, any institution described as ""too big to fail"" should be broken up into components small enough to individually be allowed to fail. 2. Everyone hates regulation. They hate it because it restricts their freedom of action, even it is just a seatbelt regulation. But regulation is what stops civilisation from collapsing. More regulation, even if it restricts freedom of action by banks, restricts cash flows, reduces profits, is better than Financial knights in shiny armour pillaging the villages and raping the people in the name of ""market efficiency"". 3. Ban directors of failed institutions, or of now-government owned/saved institutions. I watched an Non-executive director state at a conference that ""If I had been presented with some of the information the directors at ... were asked to approve, I admit that I would not have objected for fear of looking like I did not know the implications of what I was being asked to approve"". As far as I am concerned, that director just proved, by his own admission that ""fear of looking like a fool was more important that getting it right"", that he should not be a director in any company.

The Regulator needs to be firmly in the firing line over its failure to regulate effectively, its failure to control cultural failings, and its complete mismanagement of the early warning signs. There needs to be more rigorous and prescriptive regulation - principles based is a cop out, which always leads me to believe that the regulators actually dont undertsand the issues. Next in line should be non-execs. They are paid to provide effective, independent, challenge. I have not seen a great deal of this in financial markets.

To me, good risk management is 70% awareness, 25% common sense and 5% tecnicality. When you increase the use of technicalities - you seem to reduce the application of common sense. The housing, as well as the banking, crisis was (and still is, it appears by the continuing US bonus practices) to be based on an immense level of personal greed - and a corporate/industry which supports and fuel this greed. Hence, this goes way beyond any single company - and can ""only"" be reduced by a) immediate a strict regulation as to the possibilities for sustaining the greed (i.e. legislative regulation on bonuses and any other elements of remuneration) and b) a more general ""value education"" of people involved, that internalizes that ""more money"" is not neccesarily the greatest thing on earth (even though this, to many will seem ""un-American""). As long as success and happiness is measured (almost exclusively) in money - this will ""never"" stop, and the creativity of people means, that there is no way you can make adequate regulations to stop it.

The last questions in this survey made me question the veracity and purpose of the exercise. Shutting the stable door after the horse has bolted and then looking for someone to shoot seems a perverse reaction to something that I think is endemic to the current Western culture - i.e. greed! The banking crisis should be seen as nothing more than a boil that burst from a very septic being. For sure, it is good press to ""shoot"" the bankers - they are an easy target, but this detracts from the wider malaise. Politicians, Investors, Regulators, Auditors, Rating Agencies, Analysts, Consultants - we are all part of the ""Power, Glory and Reward"" culture that has manifested itself over the past 20 years or so. This is the real root cause of the crisis and some of the reactions to it beggar belief - yet more regulation, control of salaries/bonuses etc. Even now, 12 months on, I do not get the feeling that people have grasped the seriousness of the repurcussions of the banking crisis - both financially and culturally - certainly in the UK, but probably elsewhere in the Western world too. We can carry on applying sticking plasters to the septic sores. Indeed, we can swathe the being in bandages through greater regulation and government interference, but it merely masks the true underlying ailment at the risk of suffocating the patient - and even if it doesn't, the boils will still appear and burst again. With apologies for the pessimism and good luck with the survey!

The trading of derivative products needs to be totally through regulated exchanges. The monopoly of the the existing rating agencies needs to be broken up. The law under which derivative products are traded needs to be looked at in order to put the onus on those selling the products to give all material information relevant to the risks being traded and taken by the buyer of those products.

I don't believe changing regulations or boosting regulators is going to be effective. Private sector organisations must remain private, and shareholders must hold directors accountable, not the government. However, when a director has broken the law, they must be prosecuted ruthlessly, to set a precedent for the market generally.

The European Union absolutely needs one Supervisory Authority, with a set of harmonised principles and preferably also harmonised rules, whereby a bank operating in the EU only needs to report once for its activities within the EU. We do not need more rules, but effective regulation which is checked on effective implementation. White board criminality (self enrichment) in the context of risk management should be tackled without remorse.

Thisn questionaire was highly slanted to a socialist world view. The questions failed to elave ipen the private market option and assumed that more regualtions and more control will efefct improvement. Not so. See Soviet Union if you have any questions about what happens when government runs the economy and finances.

Reduction of moral hazard by elimination of institutions that are too big to be allowed to fail is the only reform that will safeguard the taxpayers but not cripple the system's ability to allocate capital efficiently.

Reduce the cost of interest. By all means.

The need to hire qualified/knowledgeable personnel (The right person in the right job) with the appropriate level of authority and empowerment to act.

The regulatory model is flawed. It depends too much on a centralised system by which teams of auditors investigate firms and try to uncover risks which firms might be taking. This is difficult if not impossible to do because of resources and competence stretch. There is also too much of a focus by regulators on detailed process and procedure at the expense of strategic review and stress testing of business models and financial strength. Lessons should be learned from other regulatory models, perhaps most importantly the 'health and safety' regime for risky businesses such as the oil or airline industry. This requires firms to comply with very stringent licencing arrangements and to undertake at their own expense regular independent testing of staff, systems, etc with very stringent legal penalties for firm which fail. So the responsibility falls to senior managers to manage their risk , not to a regime of inspection to somehow find problems.

We must not let the pendulum swing to the other extreme otherwise banks will never take a risk and will not fufill their function of financing the global economy

Over reliance on models and also a lack of understanding of the models are key. This, in addition to the silo thinking of banks to consider their own risks, this is where the regulator could have assisted for each country, but not have anticipated the global impact. The FSA supervisors are inadequate in skills and lack interest, the FSA need to recruit people with a lot more work experience and not the straight from University crowd that they currently do.

This was not the first banking crisis and will not be the last - we cannot even aspire to illiminate risk completely as then we will illiminate returns even further and all the returns will go to the people better able to take and manage the risks - mainly in Asia. Consumers and customers of financial organisations had as much to blame as all the other people you listed. We need better education on how individuals and corporates should run their affairs so they know not to borrow too much money even if it is on offer!!

Warnings of an unsustainable credit bubble were evident for years before the crisis and the government did little to prevent this happening presumably because they didn't want to kill the golden goose or get left behind in economic performance (like lemmings racing toward the cliff top). Government created an environment where interest rate policy was solely focused on managing inflation which was misguided. Rating agencies have an inherent conflict of interest where the sell side arranges and pays for the rating rather than the buy side and, as one of the single biggest influencers in the investment market, they should be regulated and more accountable

Ineffective pricing of risk. Investors relied to heavily on rating agencies to do their credit work for them and as such had no clue what they were buying. Yes the bankers structured some of the more creative and as it turns out, toxic assets. But if there had been no market, there wouldn't have been a product. Know your risk and price accordingly. The only way to know your risk is to understand the assets and liabilities you have or are acquiring. Good fundamental understanding of your risk allows you to price it accordingly.

There is a cultural deficiency; change to culture of greed will be difficult to establish and take a long time. Imposition of more and more regulators will not be effective. Quis custodiet ipso custodes

The main failing was individual and corporate greed combined with a willingness to assent to predicted outcomes which were based on false assumptions. The continuing practice of accepting unsustainable pension obligations, particularly by Government agencies will ensure that the crisis continues to cause harm until honesty becomes the overriding principle, when there is a possibility that effective action will be identified and (hopefully) taken. "Remove the plank in your own eye first".

Shareholders should have a more important role in supervising their equity investments. With the most to lose perhaps they need to be more involved in the management decisions of the company via external directors. Especially for compensation decisions. The risk of holding bank stock is greater than current market realities.

Please see my comments in two articles in the New York Times Online at the end of June 2009

Culture is the key driver of failure

Bear in mind that while terrible things happened, many of which may be laid at the door of actions taken by specific firms or individuals, the actions of these firms and individuals took place in against a backdrop of very long term declines in interest rates which was virtually guaranteed by the monetary authorities. In other words, the times were such that the impact of poor decisions was minimised for many years as interest rates fell and so the final reckoning was all the greater. Thus a return to more 'normal' monetary conditions (and it will happen) should deal with many of the excesses we saw in the past decade.

An independent investigation like the Pecora commission is more important than a law based one (not clear that laws and regulations were explicitly broken in many cases, since the laws and regulations have been so weakened and undermined by industry influence on the Congress, the regulatory agencies and the government).

Take some learning from the chinese model which seems much more egalitarian in its distributive and generative capacity

Having been inside the ""largest bank failure in US"", and built an ERM governance program while the bank was failing, I learned a few things that can shared: 1 -Greed and stupidity are not sustainable in the long run. 2 -Neither greed, nor stupidity can be protected against with regulatory oversight alone. 3 -An incompetent regulator and irresponsible media can make a bad situation much worse. 4 –People will do what best serves them. Internal compensation tied to volume encourages low quality, high risk product. External focus on quarterly numbers encourages short term cash flow driving actions, not long term sustainability. 5 –You can’t legislate good business decisions. 6 –The rule makers will always be a few steps behind the deal makers.

That which we forget we repeat, that which we remember we (may) avoid. This was all about people's behaviour and unless we go back and address the root cause we can expect to see similar incidents happening. When Baring's happened there was an outcry and in came the risk management models with the promise that it will never happen again. Then we had Allfirst (AIB), National Australia Bank and Societe General. Sophisticated modelling of risk does not, and never will, stop major events happening. Controlling people will.

The failure was caused by a complex range of factors. A simple ""magic bullet"" solution will not work. Stricter regulations are part of the answer, but - more than anything - is seeing people ""step up to the mark"" to call out concerns; this requires effective leadership ""in the moment"" and all of the checks and balances to facilitate this. Further there needs to be more qualitative and quantitative disclosures about the risk profile being taken by organisations - at the moment this is masked in external disclosures on risk.

The fundamental focus has to be on changing behaviour and attitudes not on trying to tighten rules and eliminate loopholes. The latter is fruitless; the former is extremely difficult unless there is a deep change in culture, values and incentives.

External reviews will generally be a waste of time, effort and money. There is a long history of 'whitewashing' enquiries that serve no purpose other than to increase revenues at the participating law firms. Bloody sunday, Jean Charles de Menezes, Iraq War Commission, and others spring to mind as examples of why the 'Who should be labelled as causing the crisis' will not be of value to the country. None of the senior executives or politicians involved will be brought to justice (a subjective notion at best) as there is currently no law against incompetence, greed or lack of morals.

Illogical practices that lead to systematic understatement of risk/uncertainty are common in both mathematical and non-mathematical risk management practices. There's a lot of scope for improvement. Regulators should take the lead in this area because people seem too timid to point out that the emporor has no clothes on.

I am responding to this survey as an investment professional who is not directly involved in risk management. Short termism was partly to blame for the crisis and can be mitigated by the need to hold more regulatory capital, this would naturally depress returns in the short run and force organisations to consider their actions over the long haul. However, most important is to have much better qualified and more experienced internal risk managers and external regulators, all of whom need to be given real teeth. Much of the problem seems to have been caused by rules based, unimaginative box ticking. No-body appeared to have any ability to ask the common sense questions - such as "if you are offering mortgages at a lower rate than you pay on your deposits, how can your business model be viable?" Or how can you assess the risk of a derivative product where the underlying assets cannot be identified? These were questions the organisation I work for did ask, the answers were totally unsatisfactory and therefore we had no investments in any financial companies at all after September 2007 and have never owned shares in a bank in the English speaking world, where the worst of the excesses took place.

Distinguish between the responsibilities of internal and external auditors. The survey does not make it clear. Internal audit is insufficiently used to assess and provide assurance on the effectiveness of risk management culture and process.

Weak, decentralized US banking supervision. Non adoption of international (B2) standards in the US. Financial intermediary (""mortgage broker"") system, weak (i.e. non-Basel II compliant credit rating systems) coupled with originate and sell model.

I think that the following issues are very important: - sound lending standards, no originate-to-securitize lending business. - improved understanding of risk by investors, less reliance on rating agencies.

Excellent survey!

I guess a kind of Basel II should become leading for all banks in the world.

Bonusses are ok, but should be more based on long term results. For listed companies you could think about out-of-the-money calls on 5 years basis, when the company goes well and the stock goes well nobody cares that manger receive millions of bonusses. Today they are seen as greedy persons who go for short term money making.

Risk Management should become more active in the higher part of all companies.

Most of the time Risk Management is more a ""nice to have"" and ""it has to be in place"" then ""must have"" else the company is at risk. Commercial department is most of the time much more important then the Risk department where in my few they should be at least on the same level.

I hope to receive the survey results and find out how others views are.

Succes with the survey.

Yes we urgently need a third way between communistic and capitalistic systems that reflect values of fairness and risk/reward held by most decent people with a longer term time frame but including flexibility.

in all the bank failures the root cause was governance or ignorance. governance challenge from within ultimately must be based upon the non executive directors. governance challenge from outside should come from the regulator. Therefore both groups need to understand what an institution is about. This requires enhanced qualifications and standards for the aforementioned groups.

The banking crisis was caused by the decision of a small number of high level managers. Those decisions were often taken against the opinion of knowledgeable staff. In term of risk management and quantitative finance, most of the senior manager would not qualify as a junior staff.

The problems we faced came down to attitude and stupidity - why would anyone buy a securitised asset that is worht nothing if they bothered to look at it?

Elimination of too big to fail and emphasis on market based competition. Refutation of Basel II.

the shareholders demand for growth and high ROE are not sustainable for a sound finance industry.Banks must go back to being "as safe as a bank".That means decent but not excessive growth and ROE.

Remuneration policies should be binding to performance - both positive and negative. Post-event accountability should be enforced and made strict and public. In the long run moral, attitude, education and qualification should be main values so to minimize moral hazard, greed and criminal attitudes.

Attention to detail requiree by all. Too much reliance on computers for modelling decison making.

It was obvious that the credit bubble would burst and something should have been done to control the risk earlier. However I believe nothing was done as the level of damage was expected to be relatively minor.

a need for sustainable policies relating to construction section involved in development which led to a property bubble and elimination of the sub-prime market.

We are generally looking at excessive risk taking and "bonus greed" within funders/banks, etc; however, this is the result of Clients of those banks paying excessive fees, thus generating the funders/bankers extreme profits. The investigation should look at the funding/banking costs, plus a profit margin, which would be in line with general commerce and industry of somewhere between 5 & 15% maximum 20%.

As a somewhat long-retired member of The Institute, my responses should be viewed with some reservations as they are formed at a distance by reading of broadsheets, professional magazines and TV reporting. I have no involvement in banking or other financial businesses.

This survey has not mentioned Mr Peston and co. The media played a huge role in drumming up events into a storm which became a crisis when banks went to the BoE to borrow. One wonders if the whole affair could have passed-by a little more serenely if public sentiment had not been fuelled by such high-octane material! It is critical that regulation for regulation's sake does not squeeze the life out of the sector and yet the sector itself really needs to awaken to the realities of the influence and power yielded by the money men and the harshness of those realities for the rest of society. The Risk Manager role needs to be made a position of aspiration for banking organisations - it is currently occupied by too many non-commercially-oriented, former auditors and the like and the situation really amounts to lip service to Turnbull and everything since. Risk decisions in banking have always been made through a commercially-tinted lens - only shareholders really have the power to start to turn this huge ship around and to do so they will need to be organised and their efforts applied with real intelligence. There is some hope: we're all shareholders now!

There has to be a balance between risk taking and knowing the basic fundamentals of every endeavor.

Hope for future gain must always be balanced with caution, preparation, prudence and the resilience to survive the unfavourable outcome of a daring act of risk taking. Prudence must be given importance over greed.

You maybe very skilled walking on a tightrope but a net below you may come in handy just in case the wind direction does not work to your advantage."

There should a transformation of the management audit profession. It should be different from internal audit.

"In my opnion is the attitude of shareholders at the root of the problem. We no longer have shareholders but sharetraders who are looking for short term gains and expect ever growing revenue and profit. This is impossible: there is a natural maximum size for everything. Companies should be more run as family business with long term objectives and acceptance that one will have good and bad years. The renumeration of top management on short term goals also does not help. I would be an advocate to establish bonuses on a given year and hold those for a number of years and than evaluate if decissions that were taken, were in the best interest of the company. I also do not believe in more supervision. Like one educates his childeren to become good and responsible citizens we need to educate the whole workforce and assure they take the right deccissions in their daily work.

In my humble opinion, the fact that certain institutions do not have formal documented and current policies and procedures continues to remain one of the biggest risks. The reason being that there is always something to hide behind when staff and management do not follow polices and procedures. In many instances, the non conformer is excused in view of the fact that they either did not know as they had no formalupdated material to refer to or on the grounds that it was someone elses responsibility to ensure updated and current policies and procedures. As a result, accountability is split and very often unresolved. It is my firm belief that financial companies should not be allowed to start trading until they have produced a set of current polices and procedures that is viewed by an independant body and/or regulator.

Lending organisations became greedy, they lent money to individuals and organisations that could not possibly return or keep to their agreements. Lending organisations must be regulated and have strict policies and apply them without exceptions, this ultimately protects the consumer.   Transparency was lost to the outside world, but "hidden" within, and risk taking took place with a blind eye.

only that the crisis in my opinion was due to unacceptable levels of risk taking and greed driven by bonus and pressurised sales targets

Risk management seems to have been two words that have been mentioned in hushed tones with everyone nodding sagely at this mythical beast - yet no-one fully understanding it. That says as much about the industry as individuals. There should be different professional streams with risk professionals dealing in financial risk, physical risk etc rather than people assumed to be fully aware of ""all risk"". Should we not as an industry shoulder part of the blame?

Depending on the scope of work many people were only doing their job. As stakeholders we the people are ultimately responsible as we want houses, we want dividends, we want to get rich fast. Until this changes there will always be bubbles like in the housing markets etc. We see that the creation of ""Bad banks"" will still be able to sell acid assets and make a profit. Common sense should say this is impossible as if they are bad then who will sell them? Selling and making a profit will only occur if the bad assets are diluted, renamed, hidden etc. The time line in this questionaire has not been defined. Regulators who look at today will miss the longer term issues and visa versa. As each business model is dynamic then a short term decision that is correct might be wrong in the long term. Who will decide? Not the regulators. Policies should therefore only concenrate on the macro view and framework of protecting the people from the people (stakeholders).

Public understanding of the financial servcies system is poor and their perception is that the banks are "getting away with it". Despite the fact that the crisis itself was precipitated by a combination of events, with no one individual or group of individuals and their actions being solely responsible, this is one of the most important aspects which needs to be addressed, in order to restore confidence in the sector as a whole.

A recognition of an exceptional domino effect of risks materialising in the financial sector and macro environment. More coordinated risk management is required by government and the financial sector to treat ongoing financial risks.

Ratings agencies and auditors are appointed and paid for by the banks and other corporatioan they assess. These are commercial relationships that can and do persist for many years. Even with the best will, independence of thought and freedom of challenge is naturally compromised by the commercial relationship: that is not wrong per se but it simply the normal functioning of human relationships. This therefore needs to be corrected by regulatory or legal intervention. No audit firm or rating agency ought to be able to assess a single bank, or other corporation, for more than 5 years in succession. In addition there should be a 3 to 5 break break before the relationship can be re-established. This would protect the commercial interests of the agencies and the auditors (the pack, so to speak, is shuffled rather than removed completely) whilst the banks and corporation sbeing assessed cannot rest on their laurels or rely on cosy long term relationships to exert any commecial influence.

How can so many people, including the media all know that there is a financial bubble that has to burst yet the Government, Bank of England and Regulators fail to act ? It is my view that the Government knew, the BofE and the Regulators knew but for political reasons they wanted to ride for as long as possible, possibly hoping to reach the next election before the bubble burst. I beleive it could have been managed/controlled many years back but the Government for political purposes allowed it to continue, the CEOs etc continued out of greed and of course the stock market and City make money out of growth and bubbles so it was self interest by a relatively small select group, who knew at the end of the day that the taxpayer would have to bail them out when it all went wrong.

On a national (UK) level the growth of sub prime lending and the blurring of responsibility between mortgage arrangers (usually in the form of mortgage brokers and estate agents) and the mortgage lender as to who was ultimately responsible for ensuring accurate, honest assessments of customers incomes, financial circumstances, and the "plausibility" of a customers circumstances when applying for mortgage facilities also contributed. Mortgage brokers being middle men are not employed salaried sales staff of the mortgage lenders, lenders therefore appeared to attach less or inadequate importance to the checking of the mortgage cases these brokers were sending them. The brokers in turn often receiving generous commission from lenders for placing mortgages with them. It was all to easy for these "middle men" to sell customers "self certification mortgages", "non status" or "fast track" mortgage loans where no proof of income was required, and essentially commit fraud by inflating a customers income and/or generally being less than accurate about a customers financial and other circumstances. Lenders, by choice, or ignorance failed to undertake adequate checks on such business. In an attempt to drive up sales, mortgage brokers would often encourage customers soon after taking out one mortgage, to "re-mortgage" and switch to another lender - encouraging the customer to borrow still further. This often would involve penalty charges being incurred by the customer for exiting a mortgage product early - these charges being added to the subsequent re-mortgage. Such risks of re-mortgaging too soon would not be fully explained to clients who would usually be over focused on headline interest rates and the extra cash they could get. I regard the Financial Services Authority in the UK's recent "Mortgage Market Review" paper published Oct 09 as along the right lines, but needs to go further. Compulsory evidence of income, and affordability should be provided by all customers and verified by all lenders, even when mortgage cases are being placed via a 3rd party such as a broker. Mortgages should be restricted to no more than 90% loan to value, or possibly less, to encourage a greater culture of saving, commission paid to mortgage brokers should be banned, Second Charge and Buy to Let lending and unsecured (credit card) lending should be regulated in the same way and by the same single regulator as applies to the mortgage world, and tighter rules applied to advertising of all lending products, bans on cold calling, leaflet dropping, use of "emotive" language etc. Third party mortgage arrangers like mortgage brokers should be subject to far more rigourous checks by and regular visits from the regulator and, regarding all the above suggestions, a pan European approach to standardising the rules of lending applied. Enforcement action taken against the likes of mortgage brokers should be more severe - along with lenders who accept "poor business" from such third parties.

The most serious failures are based in greed and incompetence. The former has tended over the last twenty years to encourage the promotion of relatively unqualified, inexperioenced people to very senior appointments, often moving from one industry to another (or one employer ot another) at relatively frequent intervals. Extreme (and unwarranted) reward has been given for quick, apparently positive, effects without regard for the longer term damage being done. Such quick apparently positive effects have often been based primarily in cutting costs. This has usually meant cutting jobs -- especially getting rid of highly experienced, competent, well trained people -- and cutting controls and assurance mechanisms. The senior (often Board members, chief executives and chief financial offciers) then move on -- to another high profile position -- before the inevitable adverse consequences emerge. This constitutes progressive deskilling and generates incompetence; the greatest incopmpetence gravitates to the highest levels and the cycle continues.

The whole system was unfit for purpose. Regulators had no comperehension of what was going on, rating agencies were stupid greedy incompetents, firms chose acceptably supine non-execs, and the competition for bonus earnings got out of control. Rubbish Economics made things worse.

The crisis was precipitated by greed and lack of effective regulation. The culture of banks, some more than others, needs to change. The crisis has brought the world's economy to its knees and yet some bankers still whinge about losing bonuses. Many of these people should not be in jobs any longer. In most professions they would have been sacked for gross incomptence, possibly fraud and would not get a reference worthy of the name again. All taxpayers are paying for this greed and incompetence, plus the failure to regulate banks sufficiently. Bonuses paid at the top end of the scale are absurd and unmerited. In terms of bonuses paid at lower levels, these are still questionnable and perhaps banks should pay better basic salaries to attract better staff. Until the crisis, they certainly had the financial capacity to do that. The approach to dealing with it should be 'never again'.

When a bank worker has to choose between personal rewards and ethical advice it is likely that the wrong decision will be made too often, sign off by someone outside the reward chain should be enforced to limit abuse. The rewards and risk balance should ensure that there is a downside as well as an upside so that the risk takers have a potential to lose personally not just their customers. There should be clear statements by governments that prison is a likely outcome for improper behaviour.

Global solutions are required to this global problem. Therein lies the problem with fragmented and mis-aligned Global Regulators and authorities. Specific renumeration policies remain in tact for some firms that are encouraging risk taking and resulting in other firms losing staff (i.e. RBS - state controlled and limiting remuneration but suffering from competitor positions that remain aggresive). In addition, Solvency II type regulations are welcomed but again only address part of the problem (i.e. European based firms). The Global community needs to agree on sound values and principles upon which the governance frameworks within Regional and local markets can then be developed into a more comprehensive governance structure. This should act as the driver of change to how organisations manage themselves and meet the long term challenges of sustainable and reasonable growth.

People need to wake up to the fact that greed is a 1st world issue and lending out-stripped credit in the late 90's, never mind the 2000's. Banks were keen to lend as it gave them a good return. Traders were keen to trade as their clients wanted good returns. I believe bankers remuneration is irrelevant (the media hype begs to differ) - it is the decision of the CEO and stakeholders as to who gets paid what. Not the public who have no vested interest...... I wish that countries had adopted a de maximus limit on loans, credit and inflationary schedules in the 1990's as this would have disincentivised large investors and risk takers who would hedge on excess and greed - it would also have protected Jo Public from rocketing loan values.

All parties had a part to play in the banking collapse. Which could have been managed better by the board, senior executives, CRO and regulators.

Agree with the Advanced Institute of Management Research (aim) paper "Risk Management gets personal"

The upcoming crisis was known about by risk professionals. BIS alerted regulators constantly and specifically in 2007. Goldman are rumoured to have reduced their exposure from 06 through 07. Of course, those institutions which did spot the US mortgage scam could not get out of the way of the damage when it blew up because it was a system wide problem. So, it was a regulatory issue at fault, as regulators need to protect the system - they failed as they were underesourced, attracted the wrong people and had little (diluted) power so they couldn't keep up with the global nature of the system. The issue of bank bonusses is a distraction aimed at (i) appealing to base nature of electorate (ii) diverting attention away from government responsibility and (iii) putting an obstacle in way of new government when formed.

There has clearly been a systemic failure of risk management and dircetors duty. This is probably cultural in view of th efact that it has primariliiy arisen in the UK/USA and built on the culture of greed. The problem appearsto be that it has developed over a number of years so that the distortion of the position to maximise the creation of apparent paper profit to generate bonuses and the measures to securitise & spread risk had become so distorted and far removed from reality that risk models built on unrealistic information were of little use. There was no real accounatbility for failure and the biggest failures were in many cases held out as the biggest success until the end came. Unless the culture of these aorganisations change with the removal of the large incentives for creative accounting and complex finacial arrangements to distort the preception of risk and disguise the true position it is likely to be repeated. The myths that he market is always right with its valuation and banks can create true wealth on (or off) their balance sheets irrespective of the true position/value of the customers or its underlying asstes must not be repeated. It seems likely that the survivors are now benefiting form huge bonuses from the overselling following the crash and again are making large amounts of money/bonuses from stock price rises, which they have little to do with other than potentilly driving a new cycle of inflation. If the recipients of teh bonuses which were clearly not earned on true perfomance/value were forced to return these with interst it may act as a dissincetive for a repeat. Accepting that greed/glory is the main motivators of many bankers, the depenednce of auditors/rating agencies/analysts on their goodwill as well as the eagerness of retired politicians and regulators to accept their money it is esential that the regulatory system is strong, effective and international (world wide). In particular auditors/rating agencies must be truly independent and answerable for their failures. To do this it may be appropriate to move their appointment away from the company to avoid any undue influence (what board will re-appoint an auditor who regularly causes problems by asking awkward questions - even justificably). Even to the extent of requiring regular changes after a couple of years and/or allocation by lottery as well as the audits being being subsequently bench marked and assessed by others. It iis also essentuial that the auditing companies do not become involved in tax schemes or risk advice for fees etc to the companies or inductries they audit (as they will not criticise their own syetems). Similarly personnel in the industry regulators or releated government bodies should not be allowed to cross over without significant penalities/risks (ie loss of public pension rights etc). Finally court action agains thos who have deliberately distorted the system for their own benefit or even benefited innocently from the distortion of the unrealsitic pay/bonus system their worked in to and undue amount shiould be expected to repay the taxpayers and other of the money paid under incorrect assumptions. (This would hopefuly make the next generation of workers more honest/csautious/realistic).

Very few of those seen as responsible were actually held to account, this sets a poor precedent for future financial trading. The crisis made regulatory bodies look under resorced and under supported by governments around the world. They had no real teeth to hold people and companies to account.

Are Risk Managers sufficiently able to assess credit risk? Do we need a Sarbanes Oxley type regulation for the UK?

Not only should the Banking Crisis itself be investigated for learning points but it is also vital that the response by the government should be investigated as, to my mind, this fuelled public concerns, damaged principles of the market system and has had a poor result.

This was not a failure of the models to predict the interaction of a complex global financial system, it was rather a failure of the designers of the models to reasonably reflect the complexity of the environment in the models and in a Baudrillardian sense the failure of those who pedal such models to acknowledge that they are only a reflection of the reality, if the reality could ever be discerned; they were a simulacra only. Furthermore it is certainly time for a review of the reliance on Bayesian methods to predict decision making behaviour. Collectively risk managers are as far from ready to be able to deliver such change as are the institutions which train them; the professional and academic institutions.

There can only be effective change when the attitudes and mindsets of those people in positions of power are more responsive to and understanding of the the value of risk management as a professional discipline and management process.

I think the banking crisis was the result of failure of political and public processes as well as the banks. In particular politicians and the central banks could have helped to defuse the crisis by idntifying and warning of excesses. There needs to be a change in their culture and the culture of the public who paticipated willingly in the boom. As things recover this is likely to be extremely difficult especially for politicians. Strict and continuing regulation of bank lending and practices would help with no easing as things appear to get better.

Turner Report issued in the early part of the year 2009 had a comprehensive summary, Credit rating agencies have to made accountable for their rating analysis !! Cannot have another crisis.

I am a Commercial Underwriter who is engaged daily in assessing & pricing individual ""risks"" with a view to delivering the financial safety-net that allows Policyholder's to trade, whilst also delivering a profitable portfolio of business to my employer. As a Professional, I take any losses hard and seek to learn from any errors of judgement - ie from any error, I know that I will face consequences. Unfortunately, the events of the past 2 years have further detatched bank traders from the consequences of their errors - they have the safety net of now knowing that they can work solely towards hitting personal targets and achieve bonuses, without any real consideration of the risk attaching to their decisions....because the world's governments have demonstrated their will to ""bail them out"". We are in more vulnerable times than pre-crisis; culture, risk management and day to day operations of our banks must be firmly controlled in a manner that attaches ""risk downside"" firmly at the door of the individual decision makers.

1) Need for a cross-border, EU-level response / crisis management plan in the event of the failure of financial institution that operates in more than one EU member state. 2) Establishment of a supra-national financial regulator to regulate financial institutions operating within the EU. 3) Moves to reduce concentration, i.e whereby only a few (say 3 or 4) financial institutions between them have almost all the market share in a given country.

No amount of increased regulation, however theoretically draconian, will cure the underlying causes which will in the medium to long term create yet another banking crisis if, (a) those in a priviledged section of society continue to be rewarded with excessive remuneration that bears no relation to the true beneficial value of their contribution to their organisation/shareholders/customers (justified by the spurious arguement that this is the only way that 'good' effort can be achieved) (b) such people continue to be rewarded for failure, often not only financially but by public houours, and (c) governments contiue to turn a blind eye to market excesses which have short term benefits to tax generation, resulting from artificial stimuli to the economy.

The move from centuries' long self-regulated culture to centrally (or FSA regulated) culture plus increasingly globalisation (with an increasing US practice influence) on previously more prudent/conservative and principles-driven European financial services markets are 2 contributors to the fragility of the industry. Greater regulation is required to curb corporate greed (which although present in European Markets before, seems to have now become part of the culture for which the USA market practice is traditionally to blame). But the emphasis should not be on rules, rules and more rules. The primary emphasis should be on re-generating a principles-driven more ethical business market place. Perhaps counting and publicizing the opportunity cost of greed-driven decisions (liquidity, company failures, reputation, economic recession, head-count, cost-overun / project delays etc. etc) would be the platform or threshold for regeneration.

The situation leading up to the crisis and as it exists at present encouraged and rewarded those who sailed closest to the wind and took the biggest risks. Voices who raised concerns were silenced. It is ludicrous to accept that the Nick Leesons of this world who ""get it right"" should receive huge salaries and bonuses for having guessed right with no downside should they get it wrong. Apparently the UK must continue with this system (with supposed tighter controls) in order to remain ""competitive"" in the casino business. Investigate, bring to the courts and jail those responsible (by both commission and omission) ""pour encourager les autres"". It is important that policy makers not underestimate the anger of those who are suffering as a result of their failure to manage the cowboys who have brought us to the situation we face today.

The RM profession should demand a greater degree of professional qualifications, supported by a rigorous CPD system which is monitored by an independant body. Regulators should significantly improve the overview of the management of risk, but they require substantial resource (which means paying salries and bonuses in line with market conditions), and a better understanding of the practices of RM. Bank BoDs must question why profits are soaring, or increasing significantly, irrespective of what results competitor banks are achieving. At least one BoD member should be qualified and experienced in RM, and demonstrate the characteristics to continually challenge any risk assumptions. The BoD should also understand the RM framework, not merely sign it off. Then it should be monitored against company specific criteria.

Bankers should look outside their own industry for guidance. The introspective attitude of banking risk personnel is unhelpful for instance 'Operational Risk' means one thing to bankers and something entirely different to all other industries (all of which are agreed on teh alternative definition). Drop the arrogance, boys, or expect to have your industry regulated in a much heavier way.

It seems to me that the crisis was triggered because top management only want to see the top priority risks, ignore the total and do not seem interested in the process being run efficiently and correctly. I am sure in my mind that top risks were being worked but the little risks were not added up and presented. The little risks had been badly assessed and collectivelly this became a disaster of omission.

I have always believed that diversity in banking systems, risk management methods, and having more but smaller banks would be preferable. I do not believe in tax payers bailing out banks and that risk should be better understood usuing multiple methods not becoming over-reliant on models etc. New regulations will be a knee-jerk reaction and probably lead to less competition and prosperity for society as a whole - we should encourage global comptetion and better quality risk management debate. We should drop our obsession for short term results in large businesses - they provide stable but slow growth and should also provide stable employment. Risk taking can be done in smaller organisations and innovation will thrive in that environment.

Politicians are far too sympathetic to the bankers.Politicians have also allowed a huge dependency to develop on one, albeit large, location - London (Tax revenue from the area of greater London becoming too critical as a result...not just from salaries and company tax but also from over-inflated housing costs and taxes). Banking is important to the national economy but individual banks are not , even the large ones which could and should have been allowed to go bankrupt, due to their poor cashflow management ,with government only stepping in to guarantee deposits and keep the branches open,employing relatively junior operational staff into sale or runoff. Several banks were not at risk and could have taken over. An analogy with supermarkets and food. If Tesco , Asda and Sainsburys went bust overnight (due to selling poison, perhaps) there would be no danger of starvation. Government would intervene to take over the major locations, (identify and remove the poison from sale) and keep paying the operational junior staff untill other companies could take them over. Shareholders would be left with nothing and senior directors would no longer have contracts as the companies had gone bust.

There were controls and regulatory bodies in place to prevent this situation occurring (developed as a result of lessons learnt from previous events) the fact that these failed to work to me shows this was systemic failure throughout the sector in terms of the culture that had developed. Risk Professionals can only support the business if they have a voice and can get heard.

I really believe that for the last ten years Government policies encouraged both banks and individuals to spend money they did not have; banks because they relied on over-valued assets and individuals because they relied on credit and the assumed value of (housing) property. This led to an 'emperor's new clothes' situation, certainly as far as individuals were concerned, as everyone was afraid to say that living on ever-extending credit could not continue forever. One impact of the current low interest rates is that savers feel they are being punished for their prudence (if not actually punished, then certainly not rewarded) and the incentive to save has been effectively removed. Savers may as well spend their savings and claim benefits, which will have implications for the benefit bill for decades to come.

Bankers and regulators did not understand and properly manage the risk exposures of their businesses. The concept of either unavailability of wholesale funding or illiquidity of certain assets was never seriously scenario tested and thus allowed for in strategic or business plans

There is a need for clear rules concerning banking practices. The rules should keep up tp date with new and emerging practices / products emanating from the banks. Any new practices / products should be presented to the regulator with a risk analysis for approval. Remuneration practices should not encourage extreme risk taking. Regulator should place more emphasis on the quality of assurance frameworks.

The common thread appears to be that '...they were answerable to their shareholders'. This ethos should change to they must be personally responsible to the stakeholders. No hiding behind system procedural or regulatory's failings. Personal use of commonsense and understanding of their actual responsibilities must be the way forward. The risk takers must understand and be culpable for thier actions - cos all things considered that's why they beleive they are worth the salaries they command but at present do not justify.

do you really think that this survey will make any difference? These collapses are a periodic sympotomo of capitalisim. All the rules and regulation in the world will not stop that.

Whilst knee jurk reactions or hastily made rules may be undesireable, the delay wich has followed in any true penalties or discouragement for behaviour that caused the banking crisis is also poor. In the mean time many banks have quickly forgotten past losses and are rewarding risk taking. Little attempt has been made to increase understanding of risk holistically, regulatory changes are directed at capital or liquidity or lending rather than the organisation's overall strategy and its risk management and control framework. Whilst some Executive and inidividuals may has been ousted, management often trained and operating in their image remain in place, operating within the same culture., in both banks and the regulators. Little will change naturally unless it is forced but no one seems prepared to take the lead. The Risk Management Insititutes, Accountants and Internal Auditors act individually to promote their roles rather than collectively as a credible advisory and assurance function to add vlaue to organisations, particulalry banks where turf wars are common.

Culture and behaviours are key, equally so is market confidence. To look to investigate and prosecute firms during the 'recovery' could be counter productive to market confidence and increase volatility. We need to learn and move on in a sustainable and controlled environment.

It wad quite simple. I actually said to the Treasury department of HBOS that they should stress test their financial models as they looked very risky. They laughed at me and said they were all put together by actuaries. The Risk director admitted she had never worked in risk and compliance and furthermore she had no idea what her large Group Risk function actually did. The new Head of Group Risk wasd equally incompetent and though the answer to risk management was to put the team exclusively in Halifax well away from the business. It was a total joke and I told my wife they would fail as soon as I left. It was an accident waiting to happen and a result of total icompetence, greed and ignorance.

There needs to be a sharper definition of each "banking activity" to enable focussed risk assessment re the deployment of the activity rather than allowing migration of risks (interna and external) not to be recognised. In simple terms understand the "map" rather than just the "geography"

Grredy culture in the fiancing industry, being rewarded for transferring large sums of money without much actual value adding. Strict regulations on bonuses and transferration of award (money/bonus) to who actually adds value.

Due to human nature, they are inevitable.

While many factors came into play, the most fundamental cause of financial crises has always been the same - Central Banking, fiat currency, and loose credit policies. Together, these cause inflationary bubbles that continue to be "solved" by inflating new bubbles. This is exactly what is happening today. The dust has emphatically *not* settled on this crisis.

The focus on the form of remuneration is misplaced. Most financial institutions already paid their more senior employees a large portion of their compensation in restricted stock and options; these people lost a great deal of money when their institutions failed. Their interests were already aligned with shareholders. The problem is that there interests (and the shareholders' interests) were not at all aligned with the governments which were assumed by debt holders (correclty as it turned out) to be likley to bail out those debt holders if things went wrong. Limiting the level of compensation might work in terms of removing any incentive to take much risk since employees would have only limited upside. But shareholders would still have that incentive and I doubt very much this would work in any case -- how would a government decide how much compensation is ""just right""? The basic problem is that banks could function with virtually unlimited leverage as debt holders didn't care about risk as they assumed they would get bailed out, at least with very large, complex, or politically well-connected institutions. One way to deal with this is to impose much higher capital requirements making the risk of ruin lower. I think this is unlikely to work well as bankers are cleverer than regulators at finding ways to game the capital rules (or even convince regulators to use ludicrous formulae to calculate the capital reuqirements). Another way is to strictly limit the kinds of activities that institutions which enjoy government backing can engage in, and to limit the size of institutions which are not government backed. This is likely to be more effective. In addition, governments could pre-declare the haircut that will be applied to different classes of liabilities in case they have to resolve an institution. There is still no guarantee they won't be persuaded to renege on those haircuts and pay them off at par but it would reduce the temptation to do so. It would have been much harder for the AIG counteprarties to argue to be paid off in full if from the start there had been an unequivocal statement from the authorities that, if AIG could not pay what it owed, derivaitves counterparties would only be paid twenty cents on the dollar."