

Thursday 22 April 2010

### **Return to core values, not heavy-handed regulation, needed to avoid another financial crisis**

A return to core values is necessary if the global financial system is to recover sustainably, delegates to the third annual conference of the **Cass-Capco Institute Paper Series on Risk**, were told. The event, which took place on 19 April 2010 at the Cass Business School in London, was chaired by [Rudi Bogni](#) and attended by some of the world's top business and academic leaders.

The event's five key findings were:

- All financial services organisations need to imbed core values in order to effectively consider risk. This will help to address the severe breakdown in trust which has occurred between the financial sector and its stakeholders.
- There is a major danger that the bitter medicine that politicians will administer to the sector, in response to public outrage, will prove to be counter-productive. More regulation will not necessarily lead to more effective oversight, and it could prove counter-productive if pushed through without effective consultation and analysis. For example, curbing derivative activity could deprive markets of liquidity and therefore increase the cost, and decrease the efficiency, of financial transformation.
- There is no magic bullet to ensure the global economy will not suffer another financial crisis. There are a number of measures which minimise the risk of this occurring, including: improvements to the framework for analysing operational risk; aligning the analysis of systemic risk at the macro, as well as micro level; and technical improvements to modelling related to the effects of collateral changes and rating changes.
- There was consensus that the financial crisis was not due to flawed financial technology, but to a breakdown in values, common sense and to policy failures. There were no innocent parties: government policies around the world flooded markets with liquidity, depriving savers and promoting home ownership, beyond affordability, for political reasons. Investors showed no restraints in their pursuit of yield improvement and everyone succumbed to moral hazard.
- Mathematical models developed by academics hardly played a role in the crisis. The models used by the most important operators were both proprietary and differentiated, so it is likely that the systemic threat came from herd instincts and the psychology of mass behaviour. Both academics and practitioners recognise the implicit weaknesses of models. The abuse of models and the over-estimation of their capabilities occurred when they were made integral part of the regulatory system, therefore institutionalising them.

“In the years preceding the financial crisis, leading institutions lost sight of their core values and did not effectively evaluate risk,” said [Peter Schurau, Head of Capco, Europe](#). “The sector needs to rebuild trust and show that it has learnt some important lessons. In return, governments need to ensure that regulatory response is properly considered and proportionate.”

[Richard Gillingwater, Dean of Cass Business School](#), said: “These insights into the cause of the financial crisis are welcome and show how damaging this period has been to people’s trust of financial institutions. Now is the time for governments and regulators to make radical challenges in order to assure the general public that another crisis is not around the corner.”

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### Notes to Editors

1. For full details of the conference programme, click [here](#). The Conference speakers included:

- John Kay, leading British economist and keynote speaker
- Andrew Procter, Global Head of Compliance, Deutsche Bank
- David Jessop, Global Head of Equities Quantitative Research, UBS
- Nicholas Child, Head of EMEA Markets Compliance, Citi

2. The conference considered the main findings of the [latest issue](#) of The Capco Institute’s *Journal of Financial Transformation*. This is the only professionally focused scientific journal in finance to be accredited by the American Economic Association and among the 20 journals recommended by the European Finance Association. It has received the APEX Award for Publication Excellence every year since 2002 and has had contributions from 20 Nobel Laureates. **The Capco Institute**, which publishes the Journal, is ranked among the world’s foremost think-tanks by the Social Science Research Network.

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### 4. About Cass Business School, London

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