

# The Financial Crisis: A Banker's Perspective

Presentation to ASHK Regional Conference  
For Discussion Purposes only

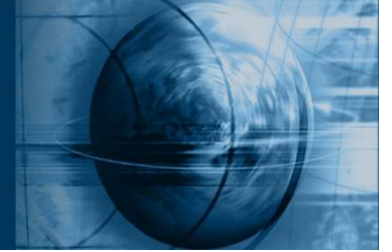
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Goldman Sachs (Asia) L.L.C.  
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# Agenda



- Are things really that different?
- Lessons from the financial crisis
- Issues for Insurers: culture, model risk, and systemic risk

# Origins of the Crisis



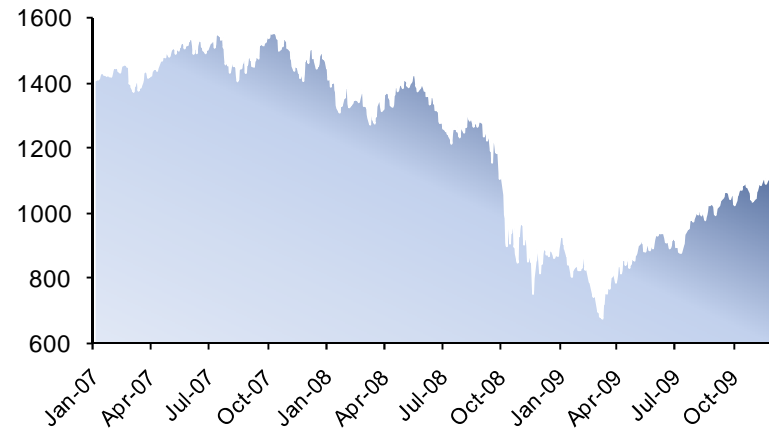
- Material increase in liquidity globally
- Too much cheap money, chasing too few quality assets
- A “Minsky Moment”

# Market Normalisation?

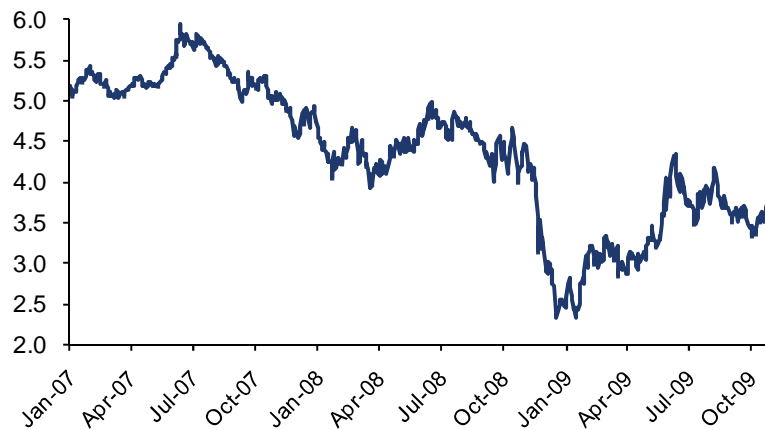


- After the depths of despair across 2008 and 2009, markets have made considerable progress in terms of “normalisation”

S&P 500



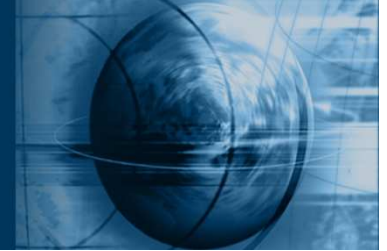
USD 10y Swap



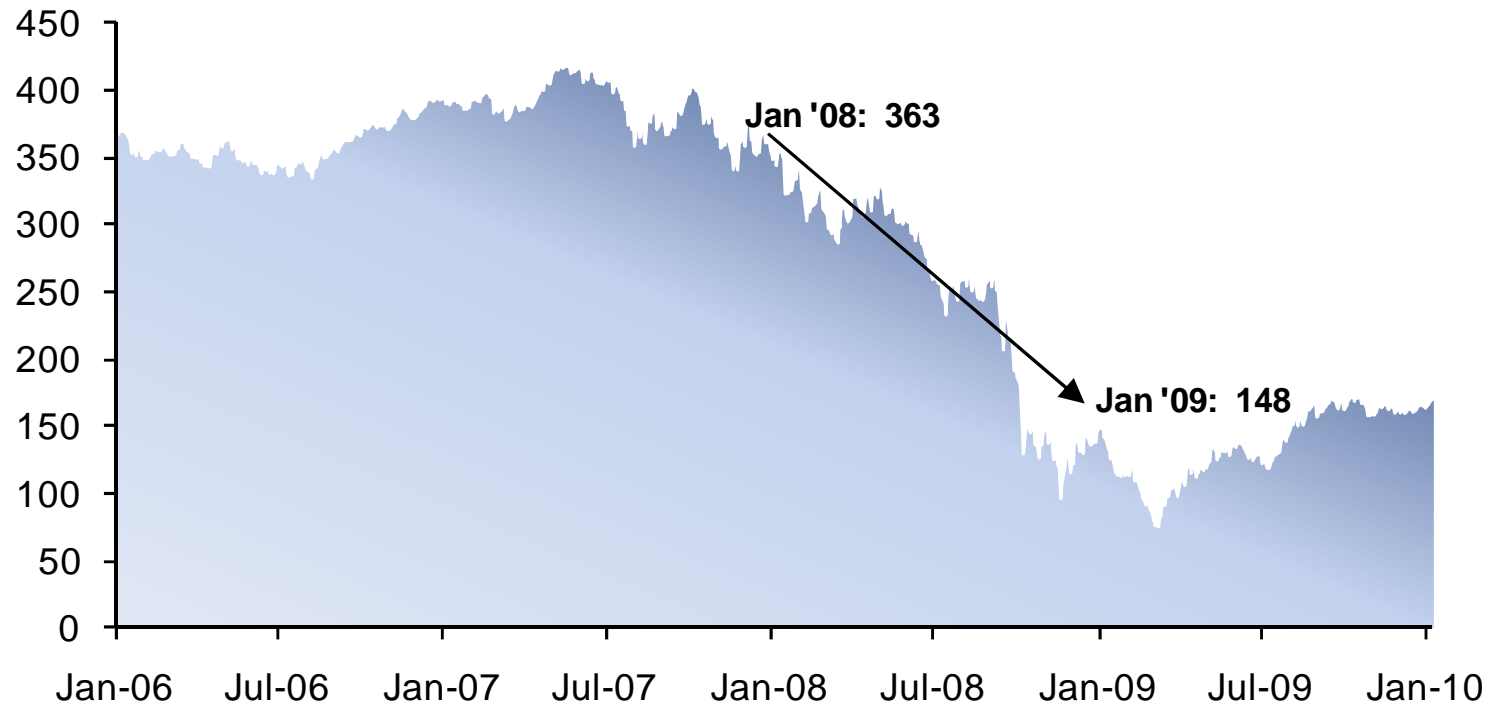
CDX Index (Credit)



# The Perspective for Insurers: The Break with the Past



S&P Insurance Index



Source: Bloomberg



- Most markets have regained some sense of normality and liquidity
- Government actions over the next stage are crucial
  - **Quantitative easing**
  - **Regulatory reforms**
- Still much hard work to do
  - **Clearing of US residential housing market**
  - **Rebuilding earnings in a low growth world**
  - **Rebuilding trust between individuals and institutions**
- Geographic differentiation

# A Few Lessons



- Culture is vitally important – escalation, quality of people, etc.
- Systemic risk – who was watching absolute rather than relative risk?
- Sophisticated use of models (rather than just having sophisticated models)
- Leverage and complexity are hard to unravel in a rush
- Don't be too large in any one thing

# Culture and People



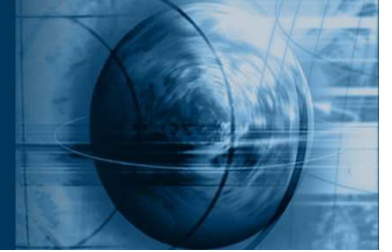
- How do you nurture:
  - **The right people in the right roles**
  - **The right culture - at all levels**
  - **The right process (and not too much!)**
  
- Not all losing bets are stupid bets
  - **Can your organisation's culture tolerate this?**



Models are best used as a tool to highlight and quantify the range of *potential* outcomes

- Potential for “too much faith” and focus on absolute numbers is a risk
- Managing risk relative to model
- Solvency 2 vs VaR models

# Systemic Interest Rate Risk

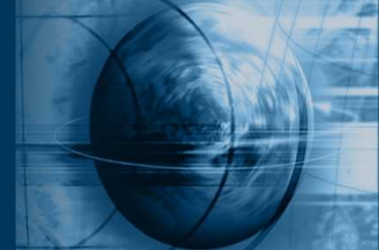


- In Asia, probably the biggest single risk
- Insufficient progress in managing this over last decade
- Are we all on the same side of this risk?

**How effective are our existing tools going to be in responding to interest rate volatility?**

- Capital
- Bonus adjustments
- Pricing buffers?
- Waiting for mean reversion

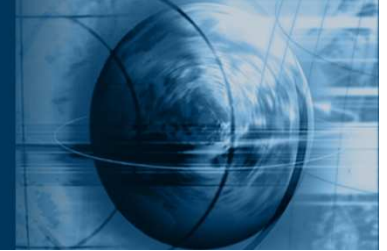
# How Will The Crisis Change Insurers?



**Given the business model's leverage to financial market performance, the insurance industry is increasingly turning to hedging strategies rather than just capital support.**

- Tighter ALM
- Technology spend
- Ever closer working relationships between different parts of the business
  - Actuaries and the investment team
  - Across the product development life cycle
- Changes to product offerings?

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