



Some Thoughts on Risk and Regulation
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FORESIGHT

“Outside the United States, the global economy is experiencing one of its strongest periods of economic growth ever.

As most of this is driven by strong fundamentals, we are forecasting only a modest slowdown globally and continued strong expansion over the medium term.

Ireland is particularly well placed.”

February 2008



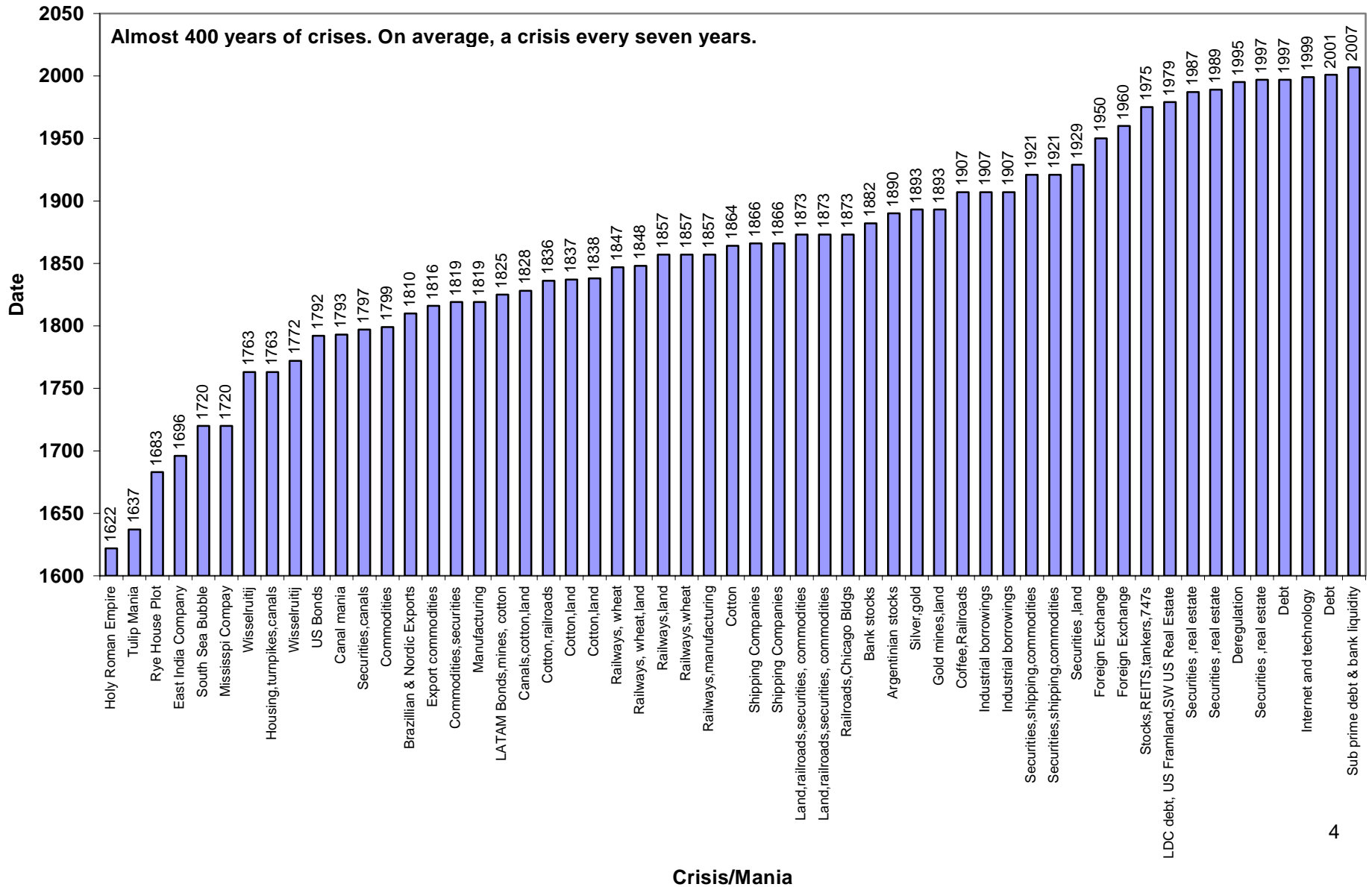
STRUCTURE OF THE PAPER

- **The Evolutionary Background**
- **Financial Services – Special Features**
- **Political and Institutional Framework**
- **Limits of Risk Reduction**
- **Regulation – Public Comment and Transparency**
- **What are we trying to achieve by Regulation?**
- **Light Touch – Heavy Touch**
- **What can we expect from Regulators?**



HISTORY OF BANKING CRISES

A SEVEN YEAR ITCH





THE PRISON OF THE PAST

- **Head/Gut and the Law of Similarity**
- **The Anchoring Rule**
- **The Rule of Typical Things**
- **The Example Rule**
- **The Herd Instinct**
- **The Dominant Male (or Female)**
- **The Causation Paradox**



FINANCE IS DIFFERENT

- **Money is Artificial**
- **Pay Now – Benefit Later**
- **Risk/Uncertainty**
- **Hedge/Gamble**
- **Greed/Fraud**
- **Trust/Confidence**



FRAMEWORK FOR GOVERNANCE

- **Political Philosophy**
- **Government Policy**
- **Institutional Structure and Conduct**
- **Personal and Professional Standards**
- **Regulation**



A LOWER EMPLOYMENT ?

“It is the fate of those who toil at the lower employments of life, to be rather driven by the fear of evil , than attracted by the prospect of good; to be exposed to censure, without hope of praise; to be disgraced by miscarriage, or punished for neglect, where success would have been without applause, and diligence without reward. Among these unhappy mortals is.....THE REGULATOR”

With apologies to Dr. Samuel Johnson



THE RISK BALLOON





THE KISS OF DEATH ?

Football

- **“The Manager has the full confidence of the Board”.**

Chairmen

Bank

- **“If a Central Banker has to confirm the solvency of a Bank, the Bank is insolvent”.**

Walter Bagehot?



OBJECTIVES OF FINANCIAL REGULATION

- **Macroeconomic Stability**
 - **Fiscal and Monetary Policy**
 - **Economic Cycle**
 - **Macro Prudential Supervision**

- **Solvency Supervision**

- **Consumer Protection**

- **Governance**

- **Market Issues**
 - **Competition**
 - **Innovation**
 - **Orientation**



WHAT CAN WE EXPECT FROM REGULATORS?

- **Ante Hoc/Post Hoc**
- **Light Touch/Heavy Touch**
- **Organisational Factors**
- **Structure**



CONCLUDING POINTS

- **More Bureaucracy – Good or Bad**
- **More Regulation – Good or Bad**
- **Risk Diversification and Risk Management are still Good**
- **We need the Entrepreneurs**



THANK YOU FOR YOUR ATTENTION