Panel 1

Financial crises and their socioeconomic fallout

Moderator:

Daniel Mitchell, Senior Fellow, Cato Institute, Washington

Speakers:

Hans Peter Bauer, Member of the Board of the Basel Institute on Governance, Senior Advisor to the Wolfsberg Group, Basel

Jan L. Handzlik, Specialized Lawyer on financial crime, Member of Greenberg Traurig, Santa Monica

"What happened to economies and industries as the result of the financial crisis", asked the moderator Daniel Mitchell introducing this panel. "Socioeconomic fallout also includes what happened in terms of public perception and political attitudes", he added. Introducing the speakers, he talked about the topics they were to discuss: What caused the crisis? And indeed, is it just one crisis or are we talking about multiple crises, as in the title of this panel. Is it an economic crisis, a financial crisis, an industry crisis, a fiscal crisis, or a combination of all of these? How broad is the problem, and what are the consequences in terms of government policy, private sector activity and international organizations. Has something happened in terms of ethics of the financial sector?

Hans Peter Bauer started by acknowledging that we were not facing one financial crisis but a multiplicity of crises: "what started off as the US subprime crisis turned into a global crisis. And it is not only a financial crisis, it has become an economic crisis", said the panelist. The first consequence was on the global financial system, which, according to the speaker, got "as close as you could get to a global meltdown". We should never allow this to happen again, warned Hans Peter Bauer. The fact that the initial financial crisis evolved into an economic recession and to such a drop in share prices hints at deeper roots to the crises than just an overheated US mortgage market. "We are now observing a public debt crisis, which is not a consequence of the US crisis, nor of the global banking crisis. There is probably something wrong with our economy and our political system", argued the panelist. Another consequence of this global meltdown is the emergence of a deep distrust between the public, the political sector and the financial sector, or even the economic sector at large, and a lack of confidence by investors in the integrity of the financial system. He also dismissed the one dimensional view of banking greed and bonuses as reasons for this crisis. "I think the reasons go much deeper, it is not just greed on the side of the bankers but greed on the side of society as a whole. We are living beyond our means. And to support this, the US Treasury decided to develop a policy of cheap money. Alan Greenspan, the much praised former FED

Chairman, thought he had found the magic touch to run an economy without crisis or recession by resorting to cheap money. "The cheap money mentality is one of the major reason for the current crisis", commented the panelist. Cheap money was also introduced in Europe through the common European currency, especially in Southern countries which had formerly much higher rates of inflation and interest rates. "This massive over-liquidity was created by Central banks and governments, not the financial sector", said Hans Peter Bauer, "and it lead to much lower risk premiums, which lead the financial sector to leverage their balance sheets much higher to achieve the same returns in an environment of low interest rates and low risk premiums". This increase in leverage and risk was therefore a reaction by the financial sector to economic and monetary policies, argued the speaker. "The financial sector is therefore not the cause of the problem, it just reacted to it. It is like when a tiger breaks out of a zoo and you blame the tiger, not the zoo. Like in a zoo, the financial sector has rules and 'cages' to rein in the wild animals, so if those get out of order you should first turn to those in charge of the order before blaming the animals". Another substantial issue has been the focus put on pushing up the share prices, in order to increase bonuses and returns for investors. "By trying to increase share prices on a quarter by quarter basis, we have created a machinery that was permanently looking out for additional sources of income by leveraging everything to the extremes", said Hans Peter Bauer. People thought they could do this, he detailed, because they relied heavily on risk models and risk controls, internal and external, which turned out to be flawed. "We have been under the illusion that regulators and supervisors would be able to control the financial system. Their most important role is to avoid a systemic crisis, and since we had a systemic crisis, they must have failed." The failure was on two levels: the macro, systemic level, touching nearly all financial institutions – 50 out of the 70 largest banks in the world needed government help – and on a global scale; and the micro level of individual institutions. "Looking at what happened at UBS, it is still unimaginable to me what went wrong. The only thing that is sure is that the Swiss supervisor, the FED and the FSA in the UK didn't stop UBS from committing those faults and creating those losses. So something that would have been considered impossible five years ago just happened under the eyes of the regulator", noted the speaker. As a conclusion, he said, we have to recognize that regulators are not able to stop a systemic crisis. "This is an illusion. We thought they could stop the big risk, but they can only stop the small risks". There was also a breakdown of other risk controls, including internal controls and independent risk assessment through rating agencies. "If rating agencies are among the most sophisticated independent risk assessors, then we probably have to realize that our ability to understand and control risk and predict the future is much smaller that we thought it was", said the speaker.

As to the socioeconomic fallout of the crisis, Hans Peter Bauer mentioned of course the costs of bailing out the banks, which has increased public debts, while some of this state help will be paid back, he said. But to him the real cost of the crisis is the consequence of the recession and unemployment, which, together, will lead to much more important increase in public debt than the financial crisis itself. And this economic crisis, argued the panelist, has deeper roots than the financial crisis and might have eventually happened without the financial crisis as such.

As the result of this crisis, we shall see more regulation, he went on, as this is a natural political reaction. "My view is that we had enough regulation and these regulations and supervisions were not able to prevent the crisis, and more regulation will not be able to stop another crisis, it is a flawed concept". What should be done is to strengthen the regulator, not the rules, and make sure that the risk in the worst case is less than it was in the past. Another consequence is the rampant criminalization of tax evasion, as exemplified by the ongoing OECD and American legislation projects. "You should be aware of this because this can hit some of your clients", the panelist told the audience of Independent Financial Advisors. "My view is that there is an understanding among governments that to address the public debt they will have to increase taxes. This is the only way to cover the shortfall in their income. But before they do this, they have to close all the loopholes for people to evade those taxes and create a true tax monopoly. This is not only about past tax evasion, it is much more about the future tax increases and to make sure that people cannot react against it", analyzed the speaker.

As for remedial actions, Hans Peter Bauer said we will see leverage ratios that stop banks from abusing their balance sheets as hedge funds. Higher capital requirements achieve a similar effect in providing more security to the financial system, but it doesn't protect banks in the end from failing or collapsing, because a well run bank won't need extra capital at all, and when a bank gets into problems it will never have enough capital to cope with a crisis of confidence. The speaker mentioned the talks about how banks could be orderly run down or broken up. "I am not quite sure this will help us because I don't know how you can take these large entities apart in a crisis. What we might see is a disintegration of banks, going back to the Glass-Steagall act and separating the risky part of investment banking from private banking or retail banking". There will certainly be more action around bonuses, as this theme is politically attractive, but it doesn't have much effect, said Hans Peter Bauer. "Why should people behave less wrongly when they get 10 million instead of 20 million?", asked the speaker. About derivatives, which have been identified as the great root of evil because nobody understands them and call for casino type "bets", the speaker remarked that whenever an investment decision is made it is made under uncertainty and therefore is a form of betting. "But we will certainly see interference in the markets in the derivatives, and all this will lead to is to make the financial sector more expensive in terms of transaction costs, and it will be your clients who will bear these costs", warned Hans Peter Bauer.

On the subject of "too big to fail", the speaker had two observations: 1. Despite what politicians say about too big to fail, the immediate consequence of the crisis is that we have seen a much higher concentration in the financial industry and mergers of a size never seen before, creating "monster banks". So the first reaction, with full political support, was not to reduce the size of individual banks but really to increase the concentration and the size of the largest players. And finally the panelist touched on the question of integrity, morality and confidence. "Do bankers earn too much, not only with bonuses, but do that take too much of a cut out of transactions or out of products they sell? I would state that bankers have intentionally created products that were not in the interest of the client but which allowed them to increase their return on assets. And they shared the extra 10 or 15 basis points return between the investment bank, the asset manager, the private bankers and the distribution channels". So the question arises whether the inherent conflicts of interest in the universal bank can really be managed and whether the politicians and the market will allow this model to continue, said the speaker. One can wonder, he added, if some of the bankers really understood what they sold, and the same question applies to the IFAs. Most important for the future is the unique position of IFAs to look after the clients' interests after they lost confidence in banks. "I think you are uniquely positioned as a fall out of this crisis to re-establish the confidence of investors because you have only one thing in mind, which is the interest of your client", said Hans Peter Bauer. "You only advice the clients on the products so you don't have those inherent conflicts of interest. I think it gives you a unique opportunity to gain as your clients all the people who are now disgruntled with other members of the financial sector".

Jan Handzlik started by saying that while the current crisis is obviously affecting all segments of the financial community and the political world, the key question for the audience is of course how it will impact them, their business and their clients. Crisis trigger reactions, said the speaker, and he detailed what he observed over the past year and a half, in line with what happened in past crisis. During the Savings & Loan crisis in America in the 1980s or the Enron and WorldCom collapses in the early 2000, the common denominator was greed and companies abusing lacks regulation to commit fraud for short term benefits. "At the core of this crisis you once again see regulators either looking the other way or not being financed enough or have the resources, time and knowledge to understand the complex instruments that are being sold and you have folks who will naturally take advantage of it", said the panelist. He mentioned the "regulatory shopping" that was going on, many entities having in some cases 20 regulators to look to. "If you didn't like the opinion of this regulator you would go to that other one and get something that suited your purpose". The crisis has initiated now a huge backlash in regulation in the US, said M. Handzlik, and the US government has a strong tendency to impose its standards to the rest of the world and demand that other nations enact laws and induct enforcement proceedings similar to its own and require cooperation and information exchange. "The plain fact is that enforcement in numerous areas in the US and in the EU has ramped up considerably, setting new priorities perhaps for the next 10 years". Under antitrust and money laundering investigations the US government is pushing to bring not only companies but individuals into court, charged with allegations of bribing officials in order o enhance their business or get business. And on top of this comes further pressure from the tax evasion side. The SEC has a new director of enforcement, Robert Khuzami, who is pushing very hard. "We will see increasing investigations of multinational companies doing business in the US or traded on the US market for improper financial statements, accounting fraud, backdating of options and other such things", said M. Handzlik. How will this impact you and your clients, he asked the audience? The UBS example shows the increased effort to by the US to enforce the tax laws by going offshore and seeking cooperation from revenue authorities and prosecutors in other countries. "This will certainly impact IFAs in the way they advise clients who are US tax payers", said the panelist. In some recent cases, people voluntarily disclosing their failure to report offshore bank accounts were interviewed and had to produce all their documents and tell the IRS and the US Department of justice who they have been doing business with overseas. The US authorities will then go after the foreign banks, lawyers or advisors. All of this, concluded the speaker, is an attempt to enforce ethics and integrity when those shouldn't have to be the subject of criminal or civil enforcement proceedings. "This is a reaction to a fundamental lack of integrity and ethical dealing. Increased regulation will try to mandate ethical behavior".

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QUESTIONS & ANSWERS

Question

A question to Jan Handzlik: as a legal expert, what percentage would you say in this crisis was the result of fraud vs. bad decision and bad government policy? The reason I ask this is because one of my concerns, working on the policy issue in Washington, is that we already had moral hazard in the system when you look a the financial reform legislation being debated in the Senate, I worry that the moral hazard is being exacerbated by the "too big to fail" indirect government guarantee.

Jan Handzlik

An enormous part of the problem was caused by what we recognize as traditional fraud: making false statements, failing to disclose information that should be disclosed, essentially cheating on the whole chain. This could happen also because of a lack of regulation or a failure of will on the part of the politicians and governments. In fact the system from beginning to end encouraged the making of false statements and the omission of accurate information. There is no way to know if the initial borrowers of subprime loans knew they were taking loans they could not afford, whether they were cognizant and participating in a fraud. Apparently, according to a report, about 49% of the subprime loans were taken out without having to show a financial statement. You simply had to show you needed a loan, filled out minimal paperwork, handed it over to a loan broker who packaged it and sold it further into securities.

Question

Twenty years ago we had the Savings & Loan bail out in the US but it was a lot different than the current bail out because the institutions were wiped out. The share holders lost everything, the executive lost their jobs. The government spent a lot of money but it was in the context of liquidating all the bad assets or subsidizing the purchase of an insolvent S&L by a healthy institution. Could that have worked in the context of the current crisis? Specifically, I would like to ask about a proposal that has been talked about in the US by Greg Mankiew, a former chairman of the Council of Economic Advisors. He is in effect saying that as a defense against insolvency one of the first thing that should happen is that bond holders should be automatically turned into share holders. In effect the bank investors would be responsible for bailing the bank out in a way that would encourage greater monitoring of whether the bank is making sound decisions.

Hans Peter Bauer

If I remember correctly a major reason for the S&L problem was a mismatch in their refinancing. And that of course is a completely different situation because there you can calculate how long that mismatch is, you don't have a loss on the assets side as you had in this crisis. Then you just had to get that mismatch right, and then you could continue with a portfolio. Second, in the S&L crisis, you were dealing with a very large number of much smaller institutions. Number three, the S&L crisis at that time, I would say before globalization, was something that was contained within the US or within individual states in the US. So it didn't turn into a global crisis. What is so significant about this crisis is that : 1) it started in the US housing market, it immediately spread into a global crisis, which is the best proof that globalization through securisation and through derivatives really has worked. I agree with you and I think it is a good proposal to think about turning bond holders into share holders. Legally its a bit of a problem because you have to show that what you convert into capital is really covered by assets, so under some laws you have difficulties making that liability capital swap, but I think one should increase the risk on the bond side. Buying a bank bond is not the same as making a bank deposit, and why shouldn't a bank bond holder be subject to the same risks as a bond holder in the industry? I don't think the regulator has to protect the shareholders of the bank or has to protect the bondholders. Probably shareholders and bondholders in this crisis got off too easily. However, this said, I can tell you I am a proud shareholder of UBS shares, and at the top of the market they were quoted at 80 Swiss francs and they went down to 8.5 francs. So I lost about 90% of my investments. I think the shareholders paid very heavily for the mistakes of their management. It is hardly spoken about, but shareholders overall paid much more for this crisis than any government did. If you look at the loss in market capitalization, this had to be carried by the shareholders and not by the governments.

Question
There is one point I would like to make regarding the subprime crisis. It is that every time the government takes out anything it turns out as a disaster. Basically the subprime is microfinance, except that it was not microfinance turning to Nobel price, it was microfinance that turned into a global disaster. Why should a country like the US lend to people who unable to pay back their debt? Good idea like the Glass Steagall act break down. Good ideas fail when they are put in place form people who are not accountable for it. Politicians have good ideas but going down to the breakdown of business is something that has led to what we know!

Jan Handzlik
In fact the mortgage crisis or the subprime crisis really followed from good motives I guess, nonetheless the idea that more people should be able to own their own homes and therefore credit should be made more available and there should be looser standards to encourage people to buy homes, which is part of the American Dream. So Congress, which has a huge role in instigating what eventually took place, set up the environment through law and by encouraging Fanny and Freddy to back up mortgages that they never should have backed up. And we see the result.

Question
Question to Hans Peter Bauer: you said that we should increase transparency. I think we the IFAs are the scapegoats in the financial market for transparency! It has to be for the banks as well, the institutions should go first, not the independent advisors. I think this is something that CIFA should push forward very hard, we shouldn't be the scapegoats for the whole industry.

Hans Peter Bauer

One word first on the subprime crisis, because I think we haven't learnt enough from it! The first thing to understand was the will of the American government to increase home ownership in the US. So you had a clear sociopolitical goal to increase home ownership. And then you just push these on the market, and say the market will deal with it, and you didn't care about how the market dealt with it. Nobody really cared to think about what it meant to the individuals investors, and that gets me into the ethics. Some banks were criticized for not doing enough loans to those home buyers. So you again create a moral hazard; and it was ethical at the time to extent more credit to those home loaners against the banks judgment of prudence. Or to bring it to our days, when banks started to say they are no longer prepared to buy Greece suddenly the politicians raise their hands and say you cannot do this, it is immoral. The same banks that had just been criticized for spending too much money on the subprime crisis are now criticized for stopping to lend to Greece or other European countries because they were afraid those countries could go belly up. And therefore when we are constantly in these moral hazards, the problem with ethics for me is that politicians think they own the high ground of ethics, and therefore they tell you what they consider ethical. I think it is by far enough if we follow good principles and if we follow the law, because ethics is to me something very private, and you have Socialists who have very different ethics than Capitalists, and Catholics have different ethics from Muslims. Therefore this question of ethic is very difficult to me!

It also has to do with ethics when you talk about transparency in costs, and I know question a pressure on financial advisers to disclose. Now I would say, banks or the financial sector intentionally creates structure to increase their revenue on products. Many of those structured products were not created to render a better service to the client but to render a service to the client that brought more return to the banks and nothing else. Probably it even was to the disadvantage of the client and that's why I advocated for more transparency. Of course coming from Switzerland, kickbacks for assets managers is a difficult subject and whilst I am in favor that this should be made transparent, I am as much in favor that you should have transparency on the whole production chain. You cannot start at the end of the production chain, you have to start at the beginning. You start with the investment bank and then you go on to the fund companies and then to the distributors and then you finally end up with the financial advisers.

Question

On the fraud aspect: how come the regulatory authorities or the supervisory authorities have taken care in a much more aggressive way for a certain number of signals from whistle-blowers and not from other people who have been whistle blowing for ten years In very dangerous practices? Who is making the choice at the certain point and with which criteria?

Jan Handzlik

I guess you are referring to the failure of the SEC to discover the Madoff ponzi scheme years before it was revealed by the Madoff sons or by Madoff himself. And there is no easy answer to that question as you know. In fact, the primary regulator was an SEC lawyer in Boston who didn't understand Madoff's business; the folks in Washington at the SEC who were supposedly looking over his shoulder and regulating him, didn't understand his business and didn't even take the minimal steps that they would do in an ordinary case. In large part because of who he was; because of the political influence, because of the fact that he had been a regulator at one time, he was a respected person in the community on Wall Street. But in light of the evidence that was presented to the SEC, not by accident, they certainly should have discovered it on their own, but on several occasion the evidence was handed to them in a nice and neat little package, tied up with a ribbon, and they just ignored it. The question requires an answer that delves into psychology, sociology and a whole bunch of other things, but the folks at the SEC deal with the people that they deal with on a regular basis, they trust them, and they thought this fellow was trustworthy. And when other people, such as Mr. Markopolos in Boston, came forward with written documentation, they said it couldn't possibly be. Or they assign people to look at Madoff who didn't know what they were doing or didn't understand the investments or the scheme; and failed to do even the minimal follow up. It is explainable but ultimately it's really inexplicable.

Question
In this specific case of the non intervention of the SEC, it seems obvious that regulations eventually needs change. It has always been a reaction to something. But even in the Madoff case or in the subprime case, the SEC failed totally. And it's not the first time; we have other cases we could talk about where the SEC failed. Is it going to change with Mary Shapiro? Eventually she has a lot of experience but aren't these entities, these regulatory entities, first of all understaffed with respect to knowledge of the products, which constantly come into the scene. Because the criminals are always at least a mile ahead of regulators. So I always considered that regulation is a punishment and not an action.

Jan Handzlik
I absolutely agree that what we have seen historically is simply a reaction rather that a proactive approach to regulation, and that couldn't be illustrated better than the Madoff situation and the subprime situation. In part during the Bush years, and with Christopher Cox as the Chair of the Commission of the SEC, the enforcement priorities changed. They stalled things, they took resources away from the enforcement division, they took people away and essentially because there are some folks who believe that no regulation is the best way, as Alan Greenspan might have said, that "the markets will take care of themselves". But if we have to have some regulation let's make it minimal and let's not finance it, let's not put the right people in those positions. So all those fine people in Wall street or elsewhere can go about capitalism in the way they choose. I make that sound as if it was a conscious choice on the part of Christopher Cox and others to encourage people to commit fraud, and of course it wasn't, but it was certainly naive.

Daniel Mitchell
Regulation I think is very rarely the answer because you cannot change the fact that some people are bad. The entire economic theory of crime is about two ways to reduce crime: increase the probability of getting caught and or increase the severity of the punishment. And when you increase regulatory burdens, whether it is new tax compliance burdens, new anti money-laundering burdens, new regulatory burdens, disclosure burdens. All you are doing is adding cost to the people who already are planning on obeying the law and the people who don't want to obey the law are not

going to be materially affected, because they only care about what are the chances of getting caught and what is the severity of the punishment. I suppose it is an open question whether somebody at the SEC did something that made it less likely to be caught then that's something to be concerned about! But as a general rule, I think regulation is nothing but a political gesture by politicians wanting to look like they are doing something.
Let me give you a good example: right now in the US the Senate is debating financial reform legislation. That financial reform legislation does nothing to control the easy money policy by the Fed that was certainly a necessary part of causing the crisis, and it does absolutely nothing with Fanny and Freddy that were at the epicenter of all the problems in terms of their policies and incentives on the structure of the government intervention that caused the subprime crisis. So no, as a general rule, I think that politicians are only looking to cover their rear ends and pass laws just so they can say they did something. We had Enron and WorldCom, what did they do? They passed Sarbanes Oxley, a very expensive legislation, but they did not do anything to solve the problem. Fraud was against the law before Sarbanes-Oxley and fraud is against the law after Sarbanes-Oxley. But the politicians felt like they got some good headlines out of it, and that's exactly why they are doing financial reform legislation in the US. It's the same reason why the international bureaucracy has jumped on the financial crisis, to go after tax savings; they have been wanting to do that for years because politicians are greedy and they don't like competition. You had a financial crisis, and even though nobody in Lichtenstein was controlling the Fed, and even though nobody in the Cayman Island was determining the structure of Fanny and Freddy, the politicians, acting as a cartel, moved against tax havens. It's just the political system, the reaction of the political class is always to accumulate more power.

Hans Peter Bauer
I just wanted to add that I read an article last week that the SEC has done an internal investigation into pornographic use of their employees and they found out that the middle manager had spent an average of 8 hours per day looking at those pictures and loading them down on his SEC hard disk. This probably happens in most firms but I know a lot of firms who go a long way to avoid this situation and I asked myself, why the SEC allowed this to happen for so long. So this to me reflects extremely badly on the reputation of the SEC. Second, the remark that at the SEC those in charge of Madoff unfortunately were not capable of supervising him. This is probably not the fault of the individuals, but this is certainly the fault of the institution. And finally, they say Madoff was trustworthy because they had worked so long with him and probably Madoff in his former life had been working for the SEC. If I stand in front of my regulator and I explain him that I didn't catch a money launderer because I trusted him, I lose my license; and therefore I ask myself why do we not hold regulators responsible for what they are paid for? Why don't regulators go to jail as they do with us in the private sector? If they fail for quality intentionally, then they should. I would add that I would apply this to the whole public sector, including the politicians. We are in the game where the public sector is putting all of the blame on the private sector and we have to pay the taxes to finance them. This to me as a too easy game to play! I would wish a bit more reliance on the public sector. When it comes to the crisis, nobody really talks about the regulatory failure? Probably they couldn't see it, probably they couldn't catch it. But if this is a cornerstone of our

system, we would wish that we do a bit more analysis on this. But my suspicion is that politicians do not want to look into regulators because the regulator is the public sector, therefore regulation and regulators is their responsibility. And they don't want to look into their own underwear. It is much better to point fingers at others and in particular at overpaid bankers or financial institutions.

Remark
I think we should distinguish between a supervisor and a policeman. The regulator is the one who makes the traffic law. If you have a traffic law which says in a village you can drive at the maximum speed of 50 km/h except if you have a Porsche then you can drive at 250 km/h, which is exactly what the regulators did with the equity requirement when they introduced this market risk amendment in 1996. They said if you are smart then you can drive at 250 km/h. And the poor policeman, which is the supervisor, just registers and says he went at 240 km/h, so he is within the limits! The limits are set by the regulators and not by the policemen.

Jan Handzlik
In fact we all know that there are some very responsible regulators who perceive with integrity and attempt to do the right thing. And who are conscious and cognizant of the impact that their decisions have on the private sector and others. Examples abound in the subprime mortgage situation where there were Senior officials at one of these agencies, starting in 1998, who were saying that this doesn't work, it's going to collapse, you can't do this. And this official was pushed aside by those who thought they knew better. I do want to take issue with one thing, that regulation is not simply intended to catch people once they have done something wrong, it is intended to do that but really the primary reason for regulation is to prevent the crime, or the fraud, before it happens. Secondly, to detect the fraud, since we all know fraud is going to take place, human being what they are, to detect the fraud quickly through accounting controls that are sufficient, and good governance in companies. And then obviously to have an enforcement proceeding or even perhaps a prosecution of the individual. But I am in complete agreement with both of you with regards to the total failure of the regulatory system in the US, perhaps elsewhere, to accomplish anything but maybe the third one of those three objectives.

Daniel Mitchell
My concern isn't that regulation is always bad but the fact that the political system does not generate anything remotely close to a cost-benefit analysis and often times will react to a negative story by just doing the same thing all over again, just adding a new regulatory layer. So its the failure to be reasonable about what is the realistic goal out of regulation and do the benefits exceed the costs instead of the other way around.

Remark
I am from the UK so we know something about regulatory failure, housing bubbles, and the effect on the economy when people get addicted to that at individual and also state level. My question or reflection is in two parts. First, I think we are in danger of confusing activity with effectiveness, certainly in the UK we have had an awful lot of activity, the regulations being strengthened, there is a lot more

regulations coming along. All of which is being supported by the political class as saying this is the solution. I am a little worried about that because I do agree with the themes that I heard through the presentation that actually it becomes impossible to prevent another systemic crisis. I think if we look to our regulators to prevent systemic crisis, then we will always be disappointed. It is a bit like an investment decision, with risk comes reward, but you can't get reward without enter the group risk. I do worry that if we are going to play fair by consumers, the job of politicians and probably the industry is to say we will operate in a best endeavor basis, but actually risk is just part of the system as it is in life. Your analogy with the tiger was very interesting. I don't regard the financial services as a tiger, because we know how tigers behave. I am struggling to find a better metaphor… The nearest I have come to is a virus. Because viruses keep changing and morphing into different varieties. But it's not a very flattering analogy, so I wouldn't want to use it. But that does seem to be the issue that we face, that we find the cure to the last problem instead of looking to trying to head off to the next one. Nobody has got a crystal ball, nobody is able point out the future. So it does worry me just a little about the easy solutions that our politicians are reaching for and the way they are misleading consumers. And the other point I want to make, having operated in the UK, I am afraid we do have complete transparency of advice cost, manufacturer costs and production costs. And actually it's one of the reason why the IFA community fared so well through the banking crisis, because consumers completely understood our charges and transaction costs. And we found ourselves in the strange position of having to reassure consumers when they came to us because they weren't able to trust the banks. And trusting confidence in IFAs is now three times that of the banking community in the UK. So actually there is a message there.

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