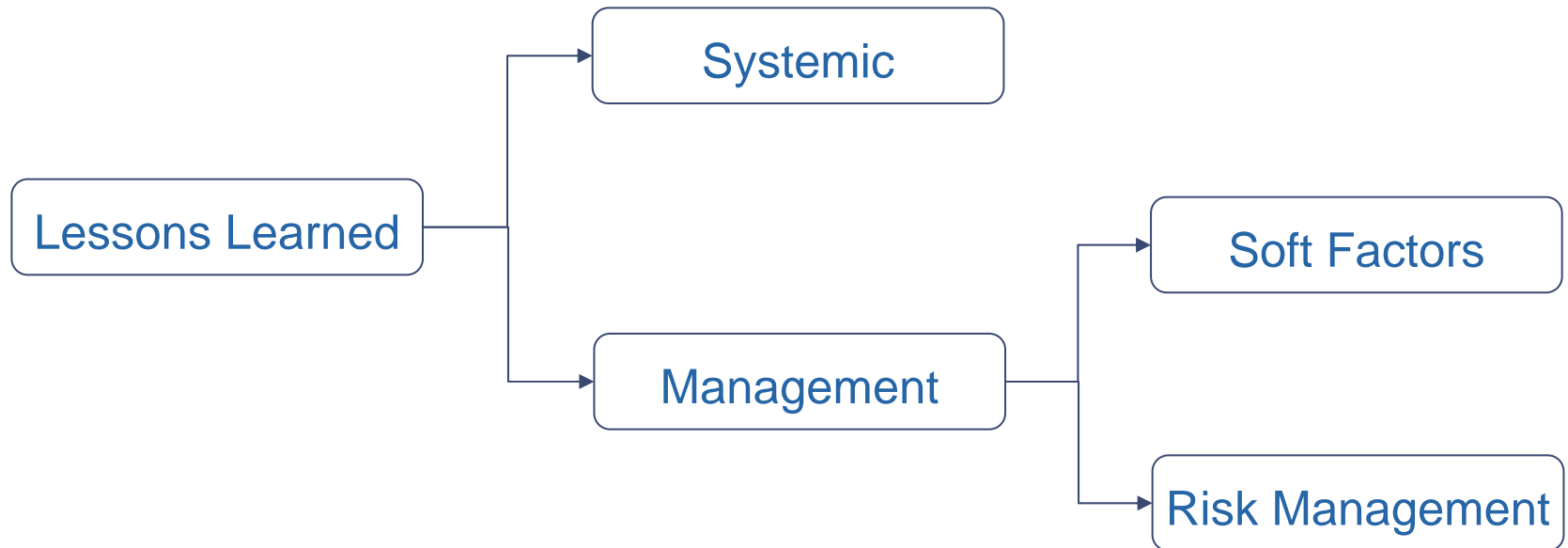


Swiss Insurance Club

Management Lessons from and beyond the
Financial Crisis

Zurich, 11 June 2009

The story of the financial crisis is one of the banks, but the management lessons learned go beyond banking



The market can be differentiated between banks who performed well and banks which had a bad performance

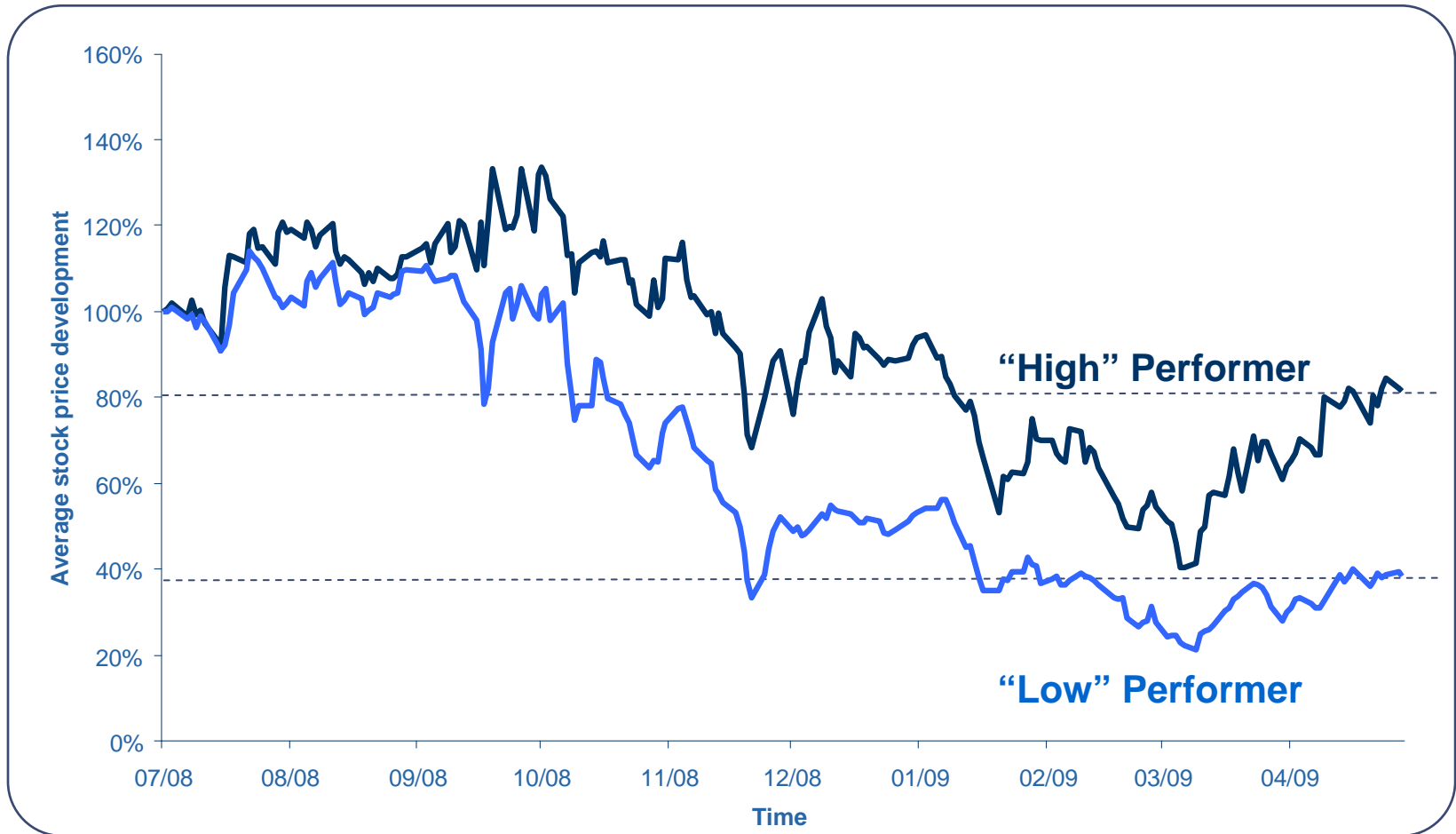
“High” Performer



“Low” Performer

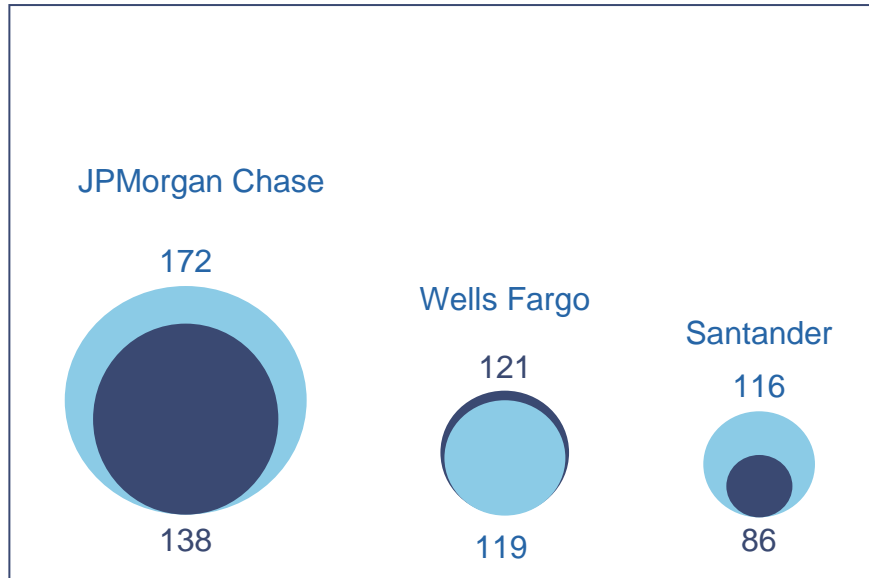


Which is also reflected in the share price and...

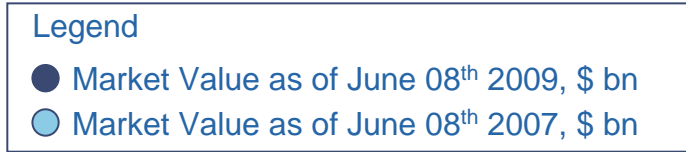
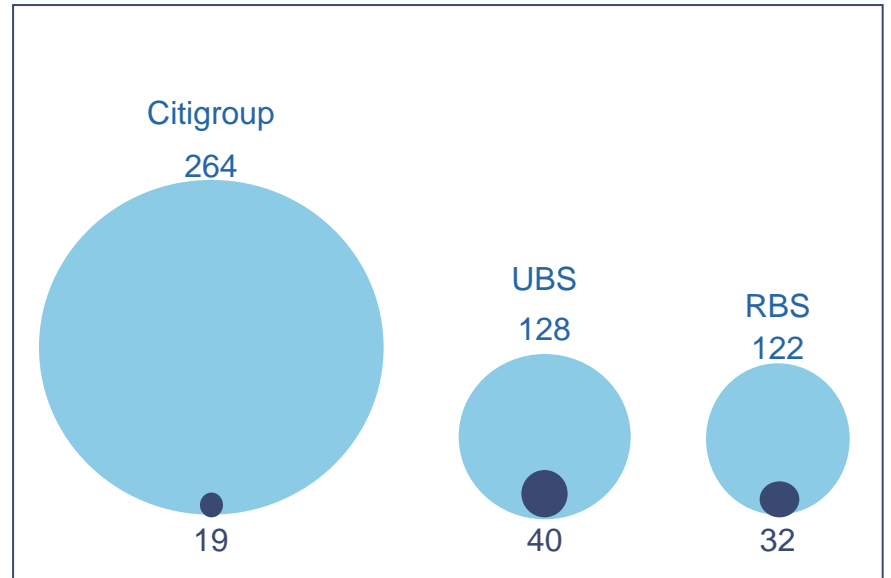


... in market cap

“High” Performer



“Low” Performer



Source: Bloomberg, June 9th 2009.

Internal driver of “good” and “bad” performance can be split into “Soft Factors” and “Risk Management”



Overconfidence

“High” Performer



- Straight and down to earth attitude
- Realistic understanding of own achievement
- Inner circle which give straight and realistic feedback

“Low” Performer



- Excessive pride in achievements (believed in his own legend)
- Failure to get right support to really understand business and risks taken
- High degree of cognitive dissonance
- Until very end believed were right and boasted about it

Hybris

“High” Performer



- Very business sense driven attitude
- Avoided big mistakes because understood that potential risks were not justified by the revenues

“Low” Performer



- Aggressive growth targets (wanted to be Nr. 1)
- Went into areas outside core competence
- Misperception of true size of risks exposure being taken („They did not know what they were doing“)

Groupthink

“High” Performer



- Information (especially negative) flowed freely to top
- Limited diversion, distortion of data flow to the top
- Had open, almost aggressive culture of challenging
- Did not shy away from taking unpopular decisions

“Low” Performer



- Organisation as filter to block adverse information (up to firing and reassigning people)
- Did not want to hear „information that did not fit into the model“
- Made „out of model assumptions“ in case data did not support desired results

Data

“High” Performer



- Got valuation data by selling tranches to get a market price
- Used specialized team for „see through“ analysis of underlying
- Used multi-sourcing of information that enabled them to get realistic valuation

“Low” Performer



- Data was taken at face value (e.g. ratings)
- Used wrong proxies to value illiquid instruments (AAA cash bonds)
- Quality of underlying data distorted or fraudulent
- Siloed internal data prohibited consolidated risk view

Model

“High” Performer



- Dynamic model with flexible assumptions to facilitate true stress testing
- Right balance quantitative and qualitative info
- Used multi-sourcing of data and multiple risk models
- Understood flaws of the models and data

“Low” Performer



- Static model with flawed assumptions (never adjusted model calibrated in 2000)
- Relied on single model (VaR)
- Never understood underlying weakness of model
- Believed that the model reflects reality

Governance

“High” Performer



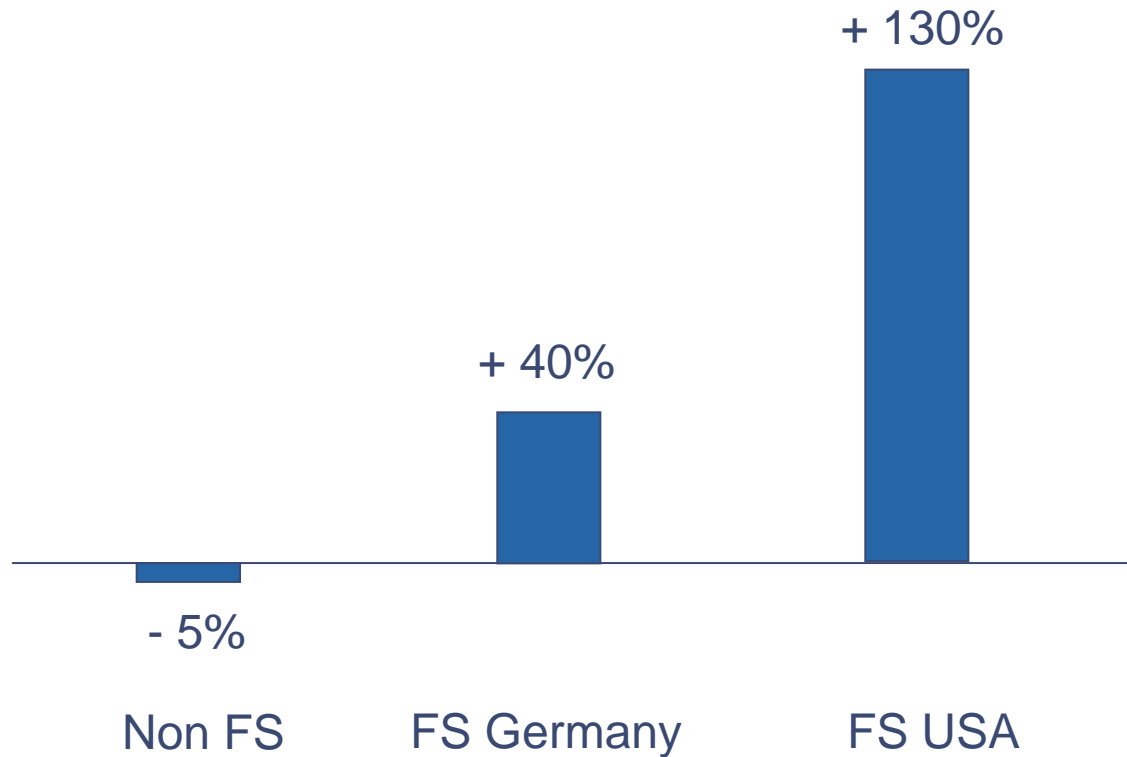
- Risk management has been focus of management and supervisory board
- Risk manager had high standing and could afford to be independent of business
- Meaningful reports to enable senior management risk supervision

“Low” Performer



- Limited time on executive/ supervisory board for risk
- Executives with no banking background did not grasp complexity of business
- Little interest of executives to deal with esoteric topic
- Risk manager seen as business preventer and unclear accountability

All of this results in higher risk of senior executive positions in FS which is reflected in cost of D&OI



Thank you for your interest.