



Session 24: Evolution of Risk Management and Strategic Risk

Moderator:

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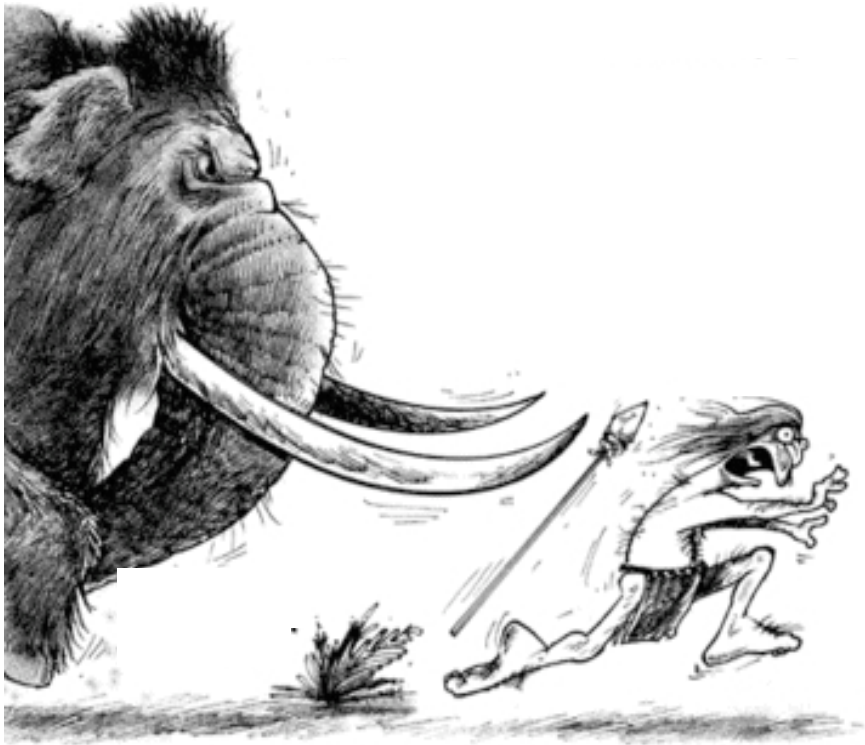
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EVOLUTION OF RISK MANAGEMENT & STRATEGIC RISK

Nick Silitch, Chief Risk Officer – Prudential Financial Inc.

EVOLUTION OF RISK MANAGEMENT & STRATEGIC RISK

Early Risk Management and risk strategy



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Necessity gave way to the creation of the Risk Management function



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Castle and moat



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The preservation of life gave way to the preservation of capital



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More fiduciary responsibility made Risk Management more complex



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Financial crises throughout history...

18th Century



- Crisis of 1763 - Amsterdam, collapse of Leendert Pieter de Neufville's bank, spread to Germany and Scandinavia
- Crisis of 1772-1773 - London and Amsterdam, collapse of the bankers Neal, James, Fordyce and Down
- Panic of 1792 - New York
- Panic of 1796-1797 - Britain and U.S.

19th Century



- Panic of 1819 - U.S. recession with bank failures; culmination of U.S.'s first boom-to-bust economic cycle
- Panic of 1825 - Britain, many banks failed, nearly including the Bank of England
- Panic of 1837 - U.S. recession with bank failures, followed by a five-year depression
- Panic of 1847 - U.K.
- Panic of 1857 - U.S. recession with bank failures
- Panic of 1866 - Europe
- Panic of 1873 - U.S. recession with bank failures, followed by a four-year depression
- Panic of 1884 - U.S. and Europe
- Panic of 1890 - U.K. and Argentina
- Panic of 1893 - U.S. recession with bank failures
- Australian banking crisis of 1893
- Panic of 1896 - U.S. acute recession

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Financial crises throughout history...

20th Century



- Panic of 1901 - a U.S. economic recession that started a fight for financial control of the Northern Pacific Railway
- Panic of 1907 - U.S. economic recession with bank failures
- Shōwa Financial Crisis -1927 Japanese financial panic that resulted in mass bank failures across the Empire of Japan
- Great Depression - the worst systemic banking crisis of the 20th century
- Secondary banking crisis of 1973-1975 in the U.K.
- Japanese asset price bubble (1986-2003)
- Savings and loan crisis of the 1980s and 1990s - U.S.
- Finnish banking crisis of 1990s
- Swedish banking crisis of 1990s
- Rhode Island banking crisis of 1990s
- Peruvian banking crisis of 1992
- Venezuelan banking crisis of 1994
- 1997 Asian financial crisis
- 1998 collapse of long-term capital management
- 1998 Russian financial crisis
- Argentine economic crisis (1999-2002)
- 1998–99 Ecuador banking crisis

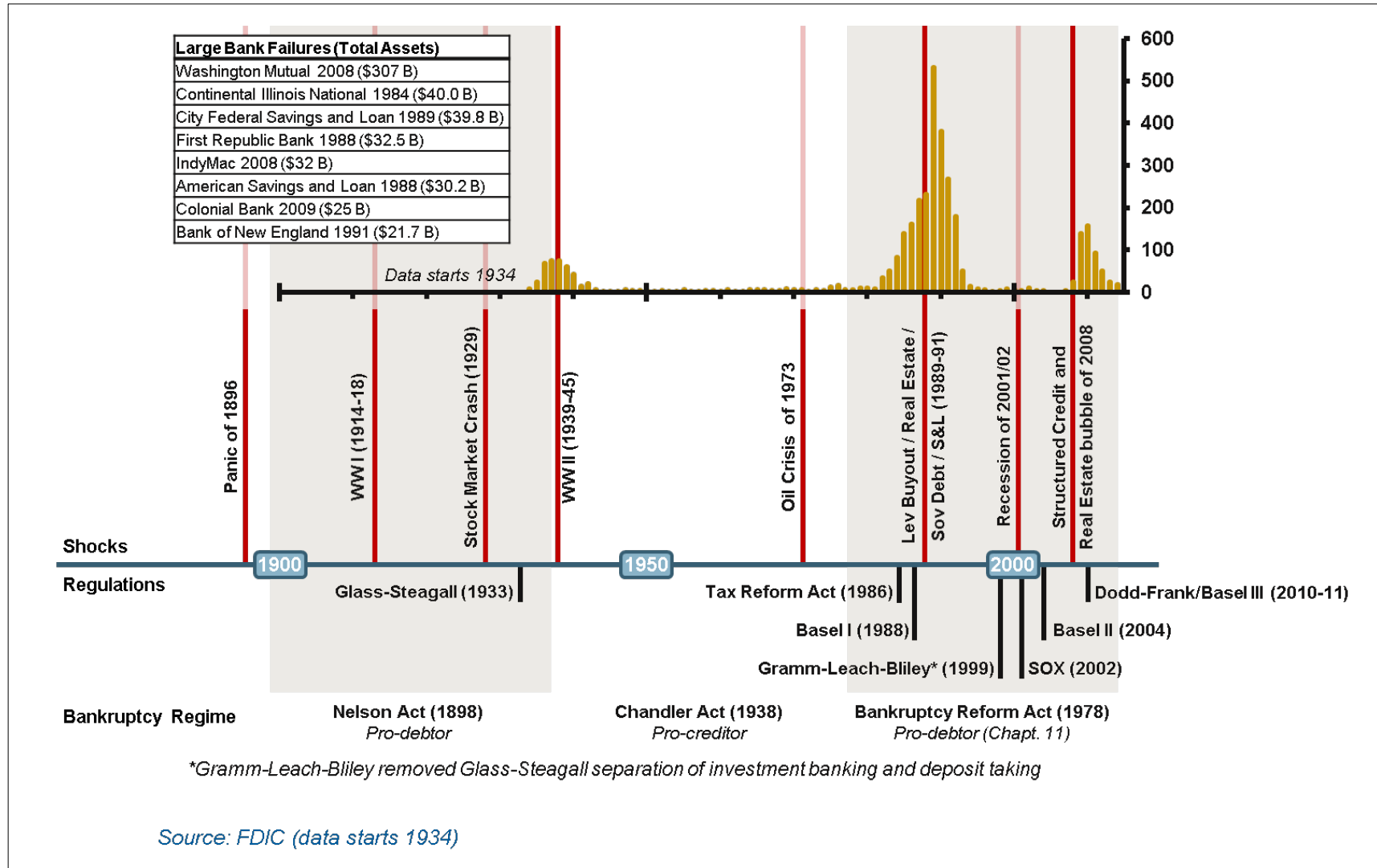
21st Century



- 2002 Uruguay banking crisis
- 2003 Myanmar banking crisis
- Late-2000s financial crisis, including: subprime mortgage crisis in the U.S. starting in 2007
- 2008 U.K. bank rescue package
- 2009 U.K. bank rescue package
- 2008-2009 Belgian financial crisis
- 2008-2012 Icelandic financial crisis
- 2008-2009 Russian financial crisis
- 2008-2009 Ukrainian financial crisis
- 2008-2012 Spanish financial crisis
- 2008-2011 Irish banking crisis
- Venezuelan banking crisis of 2009-2010

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Financial crises throughout history...



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Evolution of risk profile & business - FINANCE



REGULATIONS

Basel I & Section 20
unwind of Glass-
Steagall



STANDARDS

Globalization of
industry & standards



REQUIREMENTS

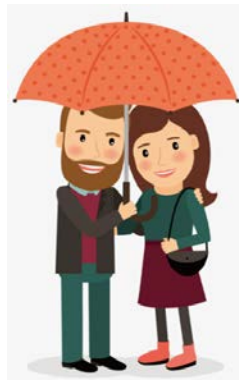
Merger of market-making and
proprietary activities with fiduciary
role introduced complexity/size and
scale driving more complex
instruments; risk management
strategies and profiles

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Evolution of risk profile & business - INSURANCE



Risk was syndicated...



Risk was simple...



Then, it shifted from protection of life and commerce toward the merger of protection of life and commerce with evolution of capital markets

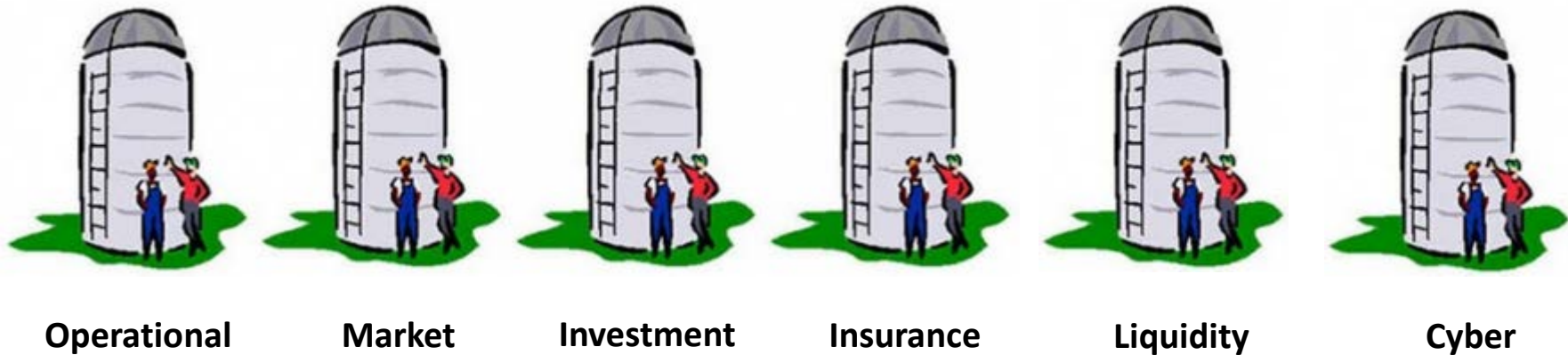
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And as society evolved, so did Risk Management



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Risk silos



Stochastic and deterministic models were developed to improve the understanding of nuances and how risk manifests through time and stress.

But we're not done yet...

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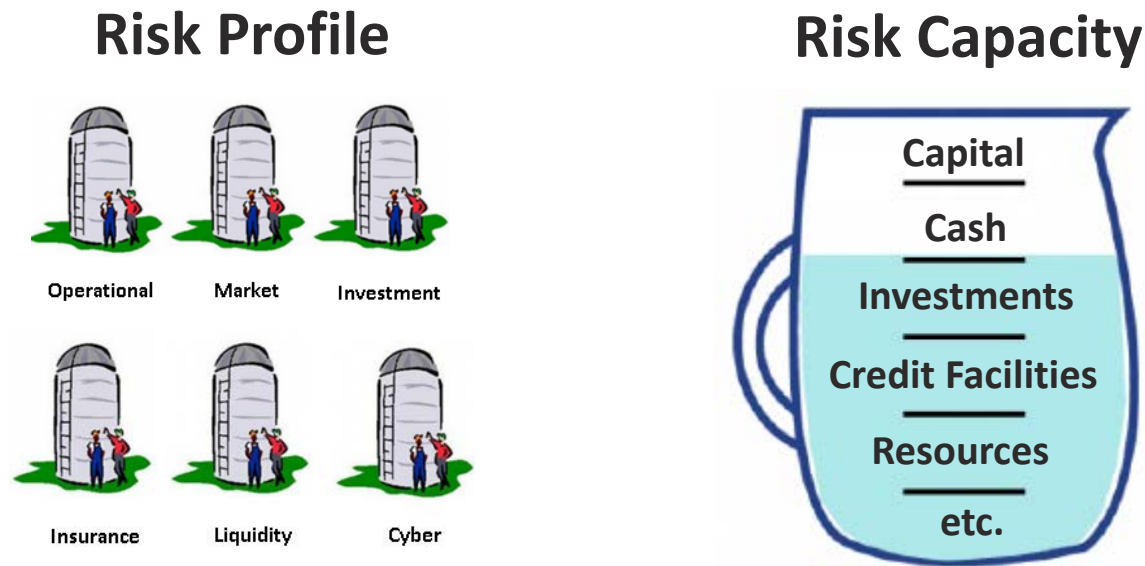
Us vs. them mentality – Risk Management vs. the business



How to Change?

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What's needed for change



Common agreement on how to balance company objectives
with influence from stress testing and internal and external stakeholders

&

Risk Appetite

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Challenges and what's next



**“The wheel was great, but
what have you done for me lately?”**

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Strategic Risks – How things can change what we do and how we do them

