



Global Risk Institute

IN FINANCIAL SERVICES

The purpose of the Global Risk Institute is the continuous improvement of the financial services sector through applied research into the integrative management of risks, the advancement of risk education, the professional development of risk practitioners, executives and boards, and the ongoing examination of the mutual interests of the financial services sector and public policy makers in Canada and around the world.

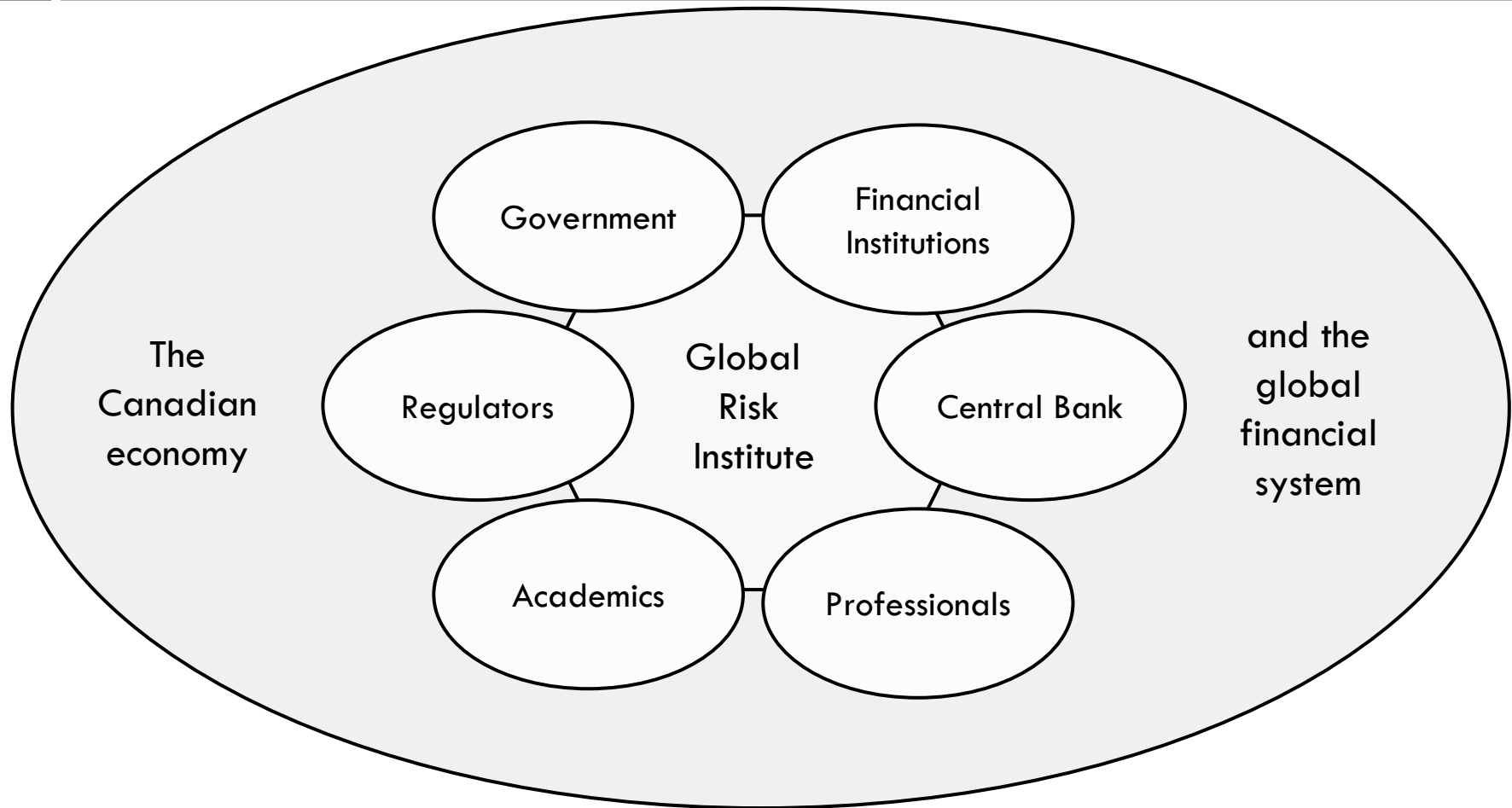
The Context

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- ✧ The Financial Services sector is a major economic engine
 - ▣ 6% of national GDP, creates \$80B+;
 - ▣ Provides over 750,000 jobs – and growing;
 - ▣ Contributes > \$10 billion in taxes to federal coffers
 - ▣ 12% of GTA jobs (370,000 in all) – and 22.4% of its GDP
- ✧ Globally oriented: over \$60 billion in acquisitions outside Canada since 2000.
- ✧ Canadian banking ranked best in the world three years running; and
- ✧ The Canadian economy was less affected than the ROW.

Strategic Relationships

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Comparisons are suggestive

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Canada

- ✧ Leverage capped at 20%
- ✧ Responsible levels of loss-bearing capital
- ✧ System-wide regulation
 - ▣ LTV ratios
 - ▣ Mortgage amortization
- ✧ Sound supervision
- ✧ Parliamentary effectiveness*
rated tops

Europe and USA

- ✧ USA high 20's; EU into 40's
- ✧ Exposed to cumulative effects
- ✧ De-regulation
 - ▣ Glass Steagall; EU
 - ▣ Cynical disregard
- ✧ Ignore/flout the regulations
- ✧ US rated 24th in world in
parliamentary effectiveness

* WEF, quoted in Economist, August 6th 2011

Three lessons stand out

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- ✧ The risks were not understood.
 - ▣ The interconnectedness of companies and economies – pushed by globalization – was not realised
 - ▣ Leverage became dangerously high, e.g. Lehman's went from 24:1 to 31:1 in four years
- ✧ There were regulatory and supervisory problems.
 - ▣ There were gaps in regulations;
 - ▣ Supervision was flawed; responses cynical (at best)
- ✧ “Conspiracy of Fools” governance
 - ▣ Lehman's again – and the example of its independent directors
 - ▣ Global Risk 2011 by WEF

The Questions facing GRI

How can a relatively modest organization address such big issues? How can GRI derive the most value from stakeholder investments? What is the optimum strategy for local and global contributions?

The Corporation

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- ✧ Global Risk is an independent, federal, non-share corporation
- ✧ Three categories of voting member:
 - ▣ Governments: Canada and Ontario (2)
 - ▣ Founders: banks and insurance companies (2)
 - ▣ General: banks, insurance companies, asset managers (14)
- ✧ Board of Directors - 13
- ✧ Small, tightly focussed professional core in Toronto
- ✧ Multi-faceted advisory councils on research and education
- ✧ Distributed research and education capabilities
- ✧ Financed at over \$4M; room for growth

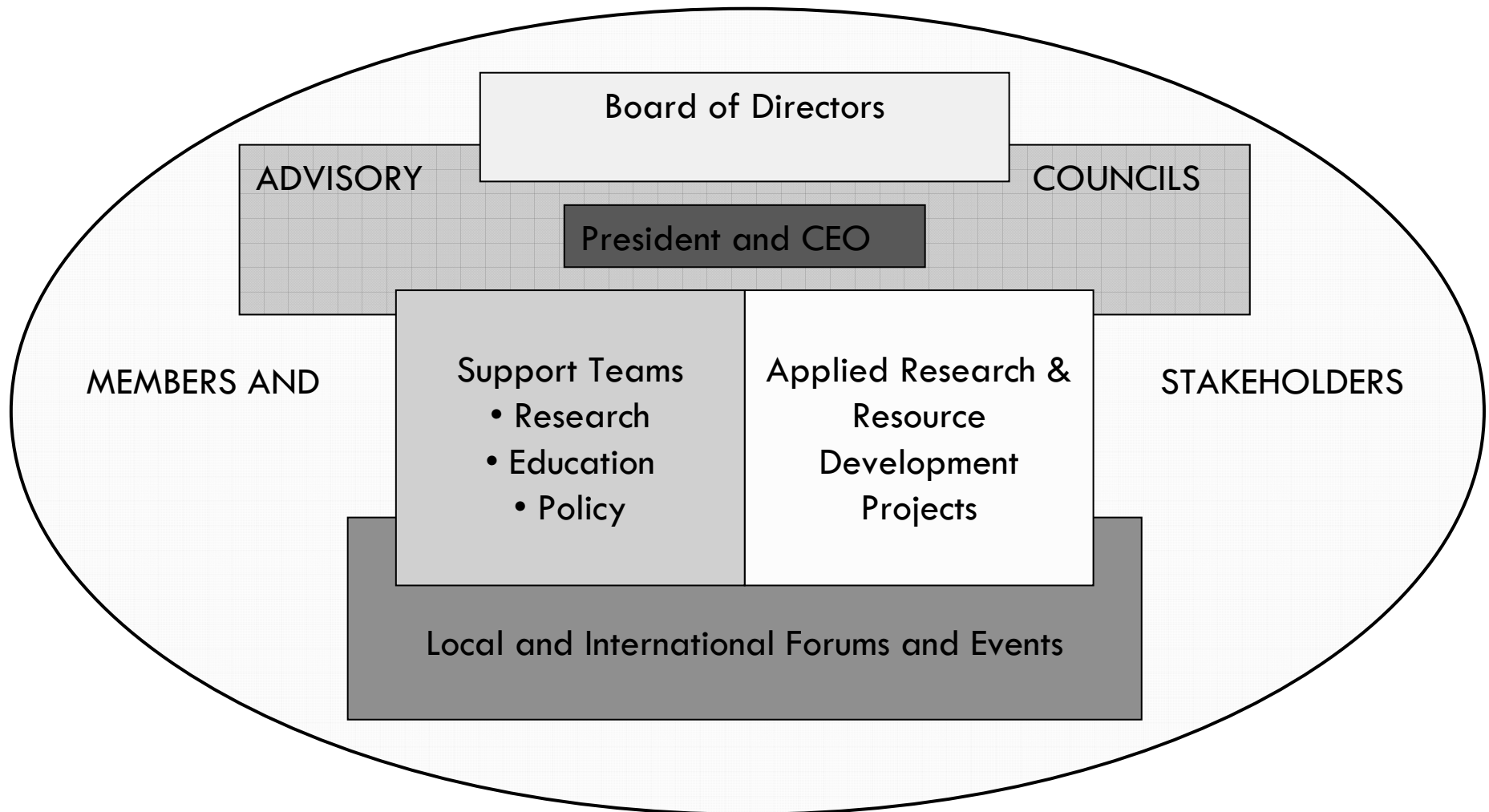
Three Strengths

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- ✧ Independence. GRI is not controlled by a single entity – each investor has a single vote.
- ✧ Access. GRI is able to consult the highest levels of decision making in industry and government.
- ✧ Confidence. GRI has ten-year commitments from its initial investors, enabling it to take a long-term view

Operational Relationships

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Major Aspirations

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- ✧ Risk research
 - ▣ Theme: interconnected and systemic risks that affect multiple entities and economies
 - ▣ Applied; focussed; directed research projects
 - ▣ Global Risk Institute Partners Program
 - ▣ Cadre of researchers in support roles
 - ▣ International participation
- ✧ Risk education
 - ▣ Theme: educated, sophisticated people with an integrated understanding of risk
 - ▣ Deep pool of talent for the sector
 - ▣ Risk literate senior executives; corporate directors
 - ▣ Academic and professional partners
- ✧ Risk regulation
 - ▣ Theme: FI and regulator consensus; linked to corporate oversight
 - ▣ Objective, critical stance by GRI
 - ▣ Driven by research and input from the sector

**Knowledge
and
understanding
are THE
solution**

The Forward Agenda

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- ✧ Fund applied research that yields knowledge applicable to decisions, learning and policy across the sector;
- ✧ Integrate research and learning to get leverage on resources and expand the talent pool;
- ✧ Collaborate with global partners on international forums;
- ✧ Develop sector-wide positions on key issues, take them to the policy makers;
- ✧ Contribute an informed, third-party view to the discussion between government and industry partners;
- ✧ Expand executive and corporate director understanding of risk - foster critical examination and linkage to regulatory supervision; and
- ✧ Emphasize knowledge and understanding as THE solution

Multi-faceted, Applied Research

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- ✧ Funded 'chairs' at universities
- ✧ Directed research projects – external
- ✧ Directed research projects – internal
- ✧ Secondment projects managed at GRI
- ✧ To address longer term, broader issues
- ✧ To handle shorter term, narrow issues
- ✧ To complete short term, focused issues
- ✧ To combine research and professional development

Education and learning

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- ⌘ Educated, sophisticated knowledge workers, executives and directors are the best defence, *the key to sector-wide risk mitigation*
- ⌘ Corporate directors need special attention – board oversight has been problematic in the past
- ⌘ University degree programs and courses – must be constantly attuned to industry's needs – and accessibility enhanced

More members; more impact

The GRI is fortunate in having been launched by 18 strongly supportive organizations – but the sector contains many, many more. Increasing membership will build leverage on resources and clout when speaking to policy makers and regulators.



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Global emphasis; local execution

The success of the Global Risk Institute will depend, ultimately, on the support of the entire financial services sector – and that includes you!



**Global Risk
Institute**
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RISK. UNDERSTOOD.

