Reorganization of the Financial System

Academia Engelberg
14. October 2015
Switzerland

Prof. Dr. Thorsten Hens
SFI, Universität Zürich
Institut für Banking und Finance

Agenda

1. Roles of the Financial System
2. What went well?
3. What went wrong?
4. The Future
5. Literature

Roles of the Financial System

- Intertemporal substitution
- Risk diversification
- Information aggregation

Intertemporal Substitution

Risk Diversification

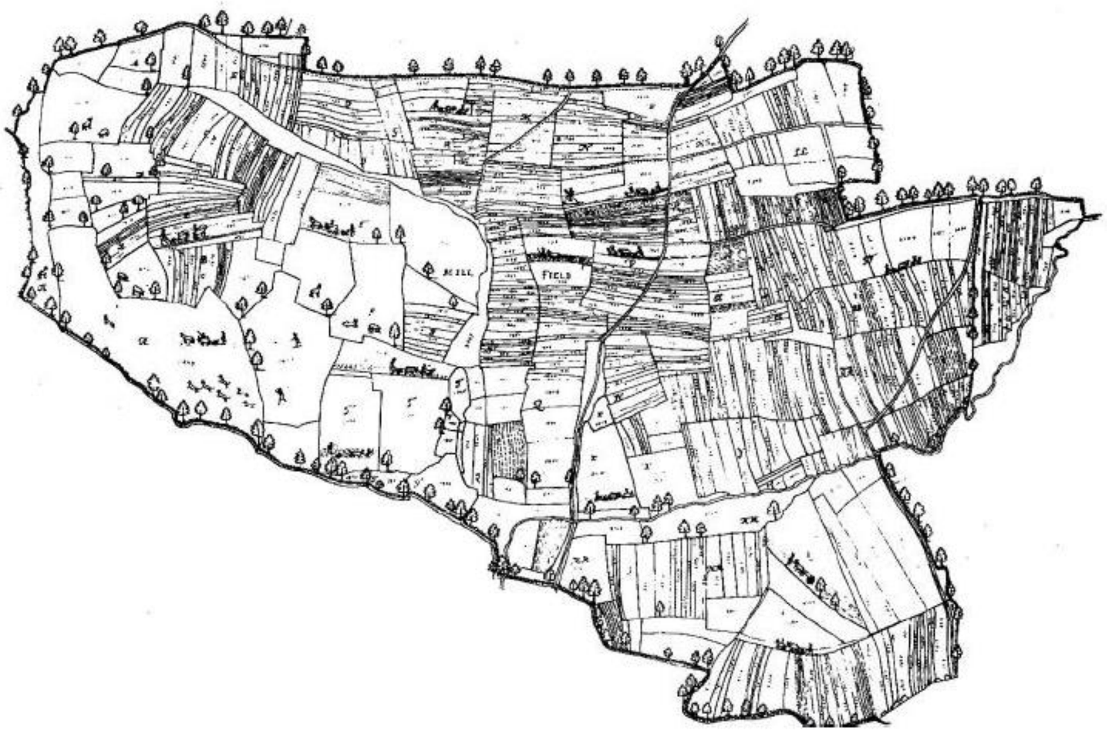
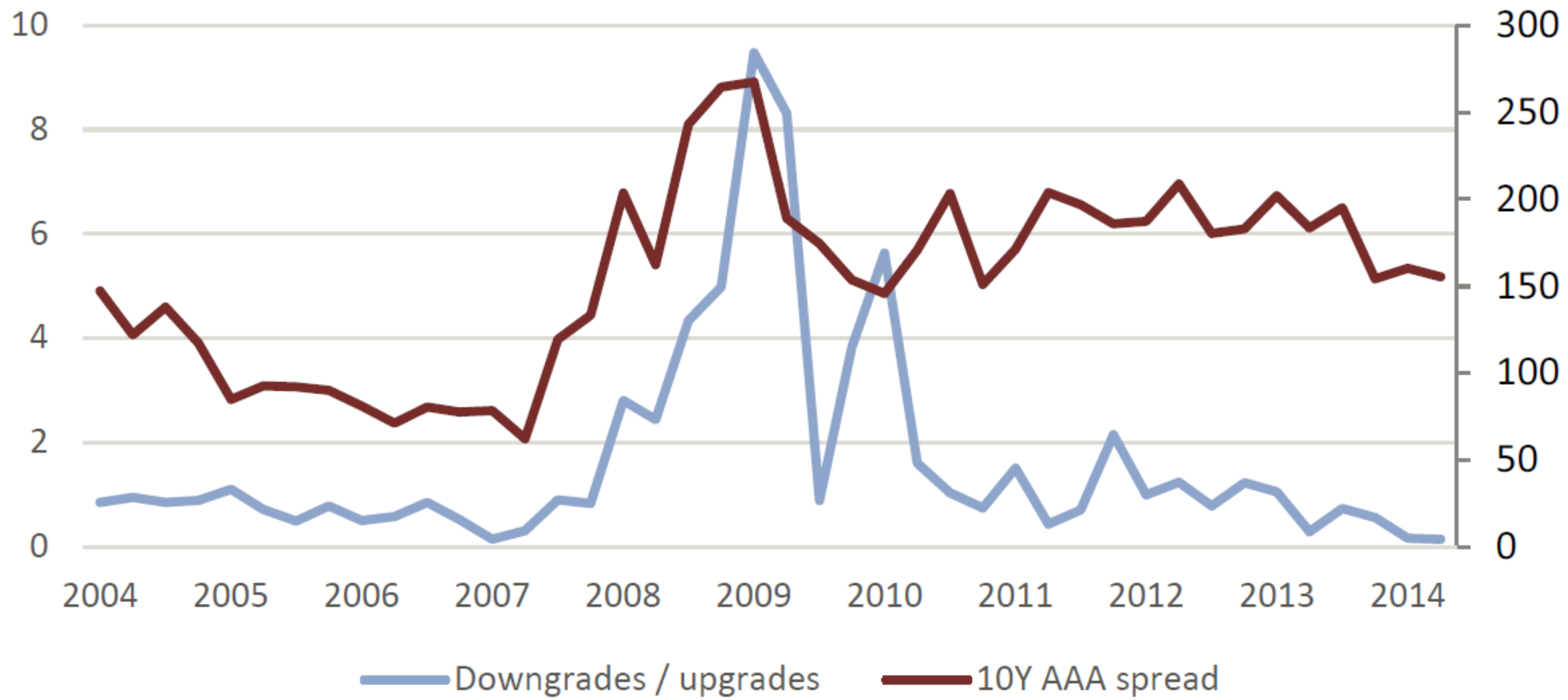
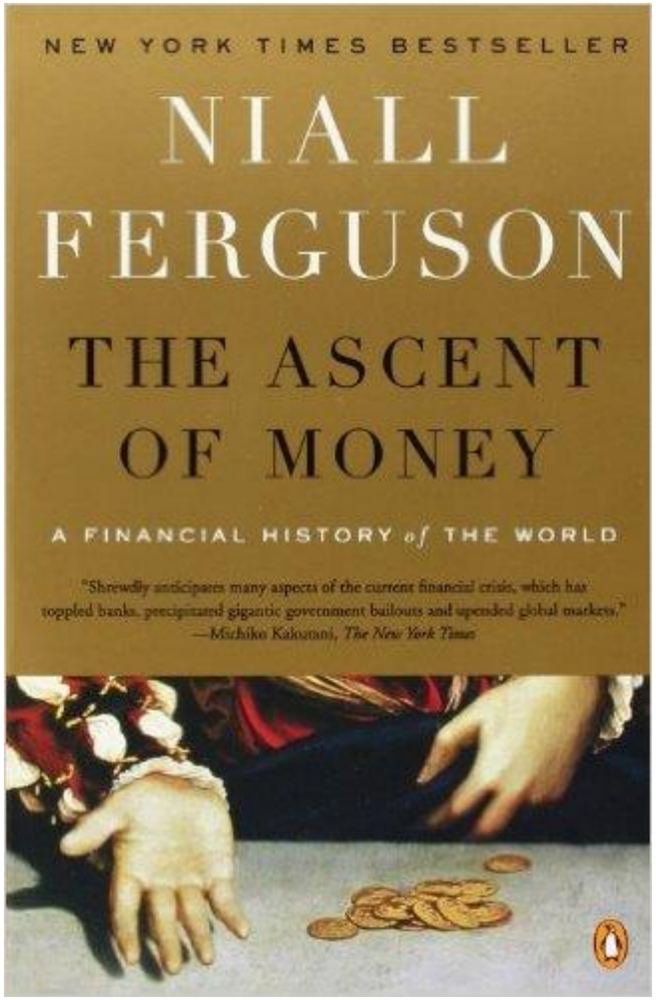


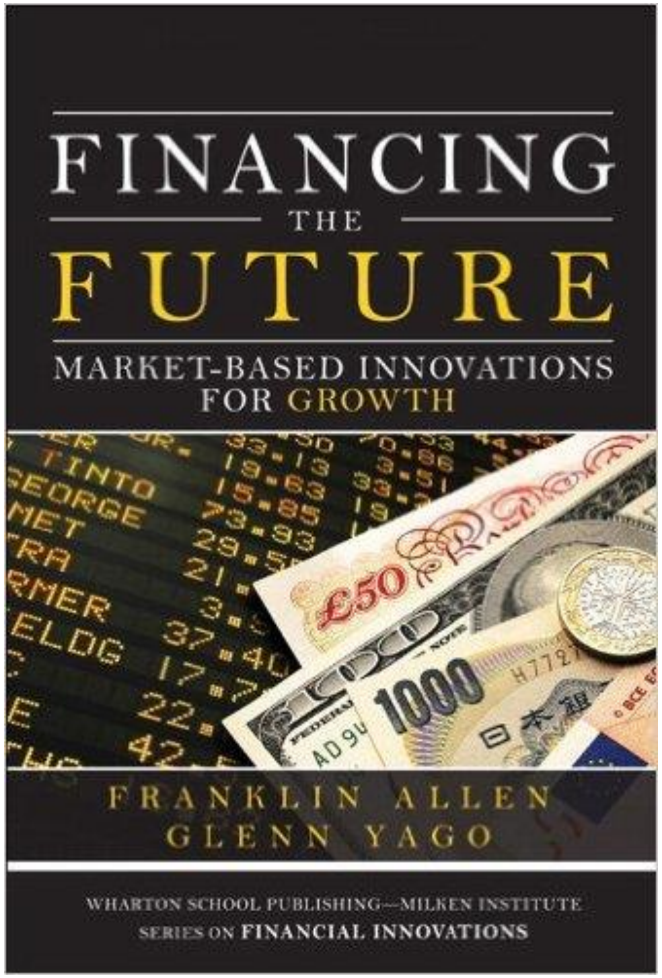
Figure 1.2: **Fragmentation of farmland in Laxton.** Allocation made in order to give a fraction of each type of land to each family. Reprinted from *The Open Fields*, by C. S. and C. S. Orwin, 1954, Oxford Clarendon Press.

Information Aggregation



Reference


NEW YORK TIMES BESTSELLER
NIALL FERGUSON
THE ASCENT OF MONEY
A FINANCIAL HISTORY of THE WORLD
"Shrewdly anticipates many aspects of the current financial crisis, which has toppled banks, precipitated gigantic government bailouts and upended global markets."
—Michiko Kakutani, The New York Times


FINANCING THE FUTURE
MARKET-BASED INNOVATIONS FOR GROWTH
FRANKLIN ALLEN
GLENN YAGO
WHARTON SCHOOL PUBLISHING—MILKEN INSTITUTE SERIES ON FINANCIAL INNOVATIONS

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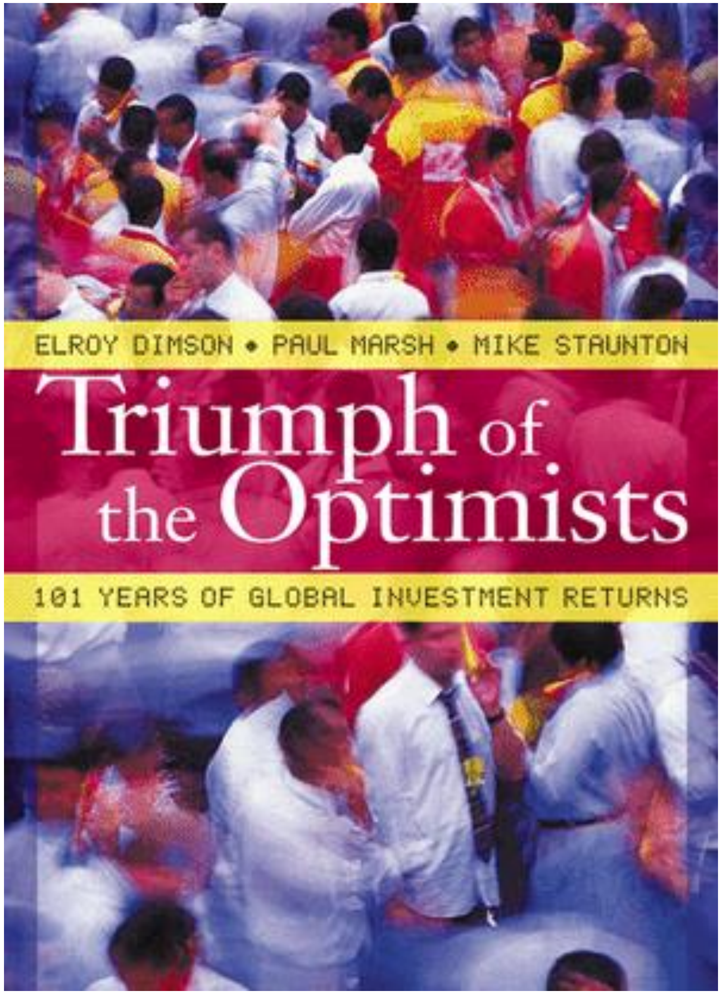
What went well?



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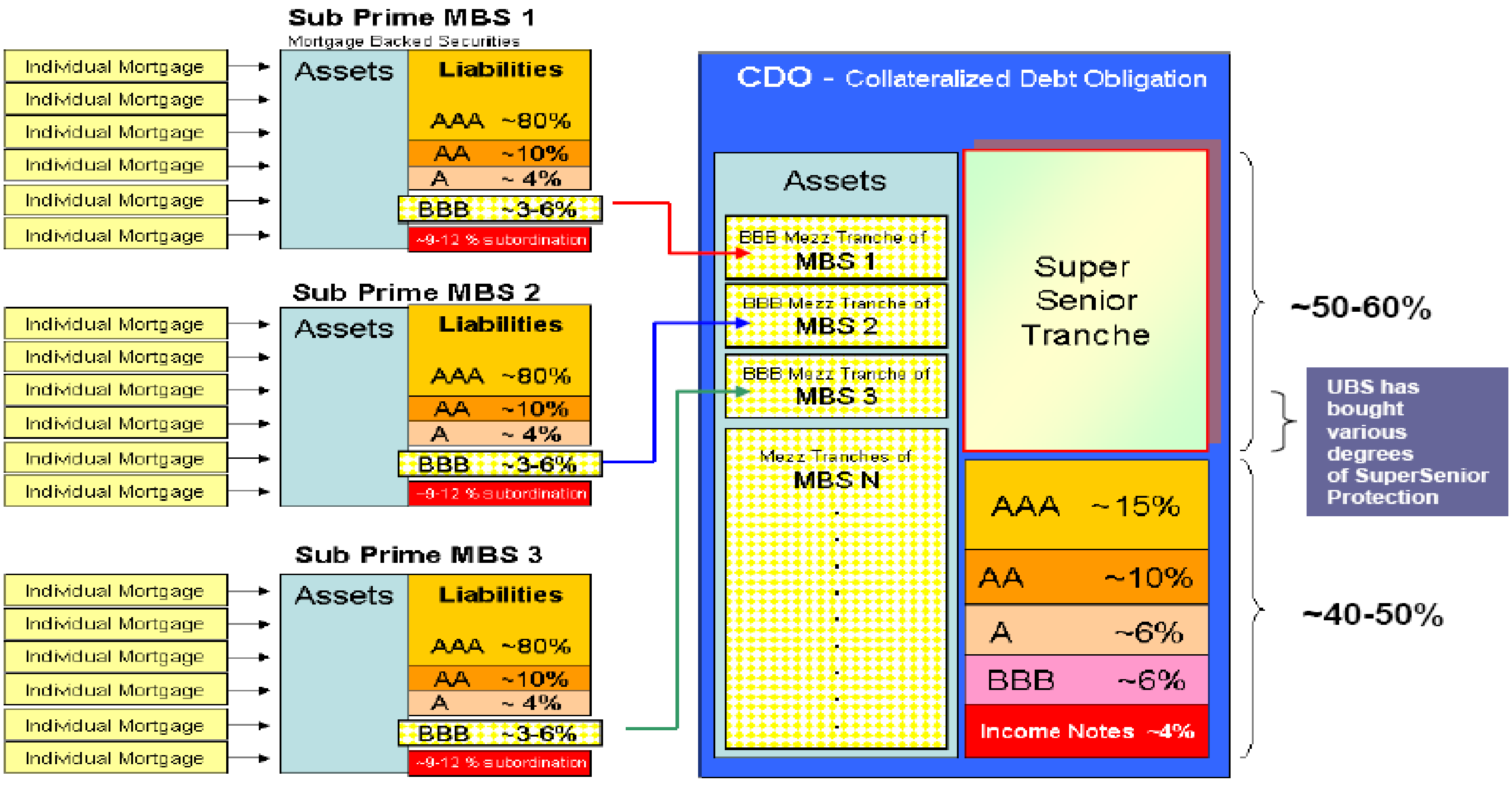
What went wrong - recently?

"I THOUGHT WE WERE JUST BUYING A HOUSE!"

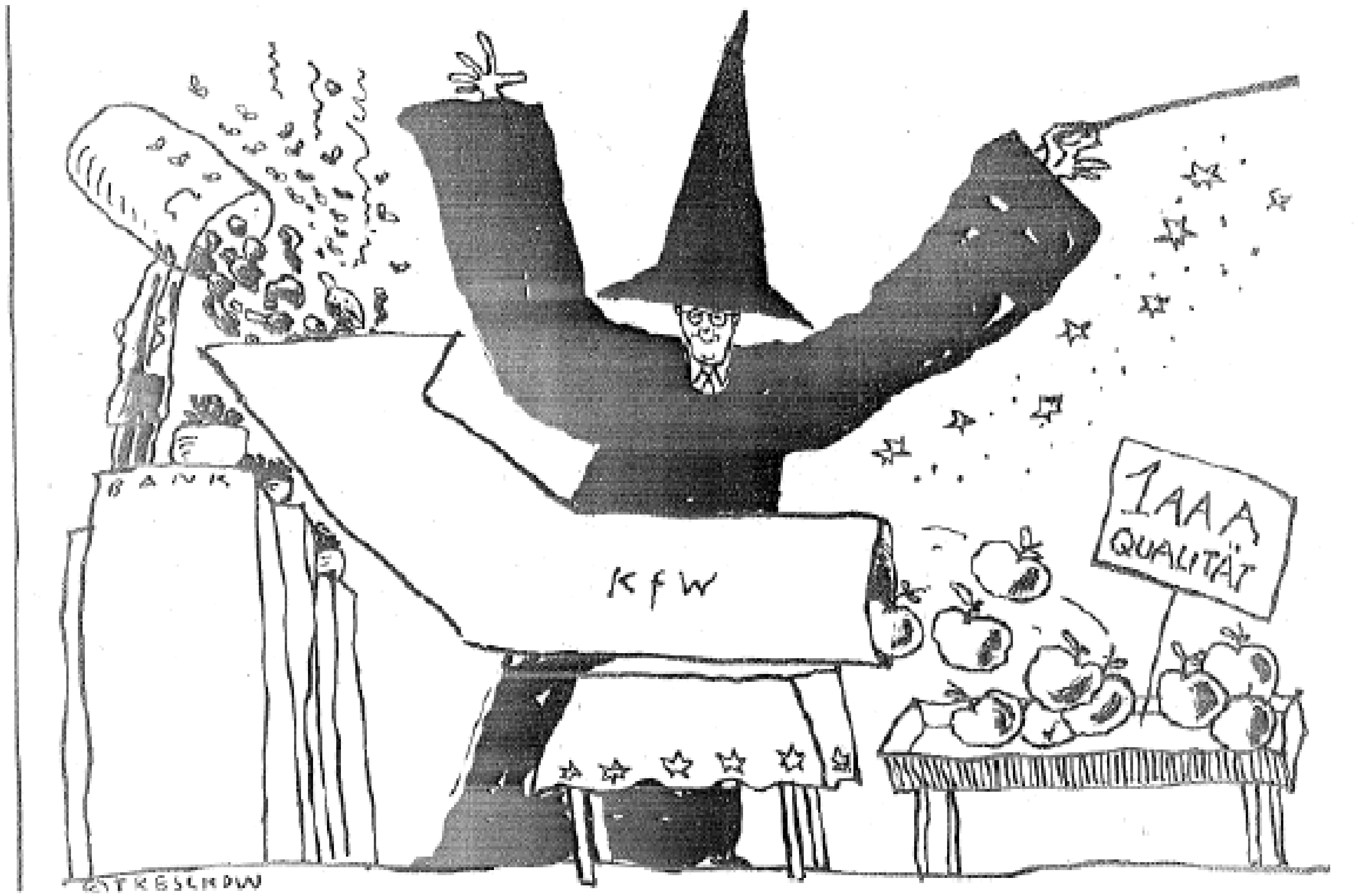
Subprime Mortgages

Securitization



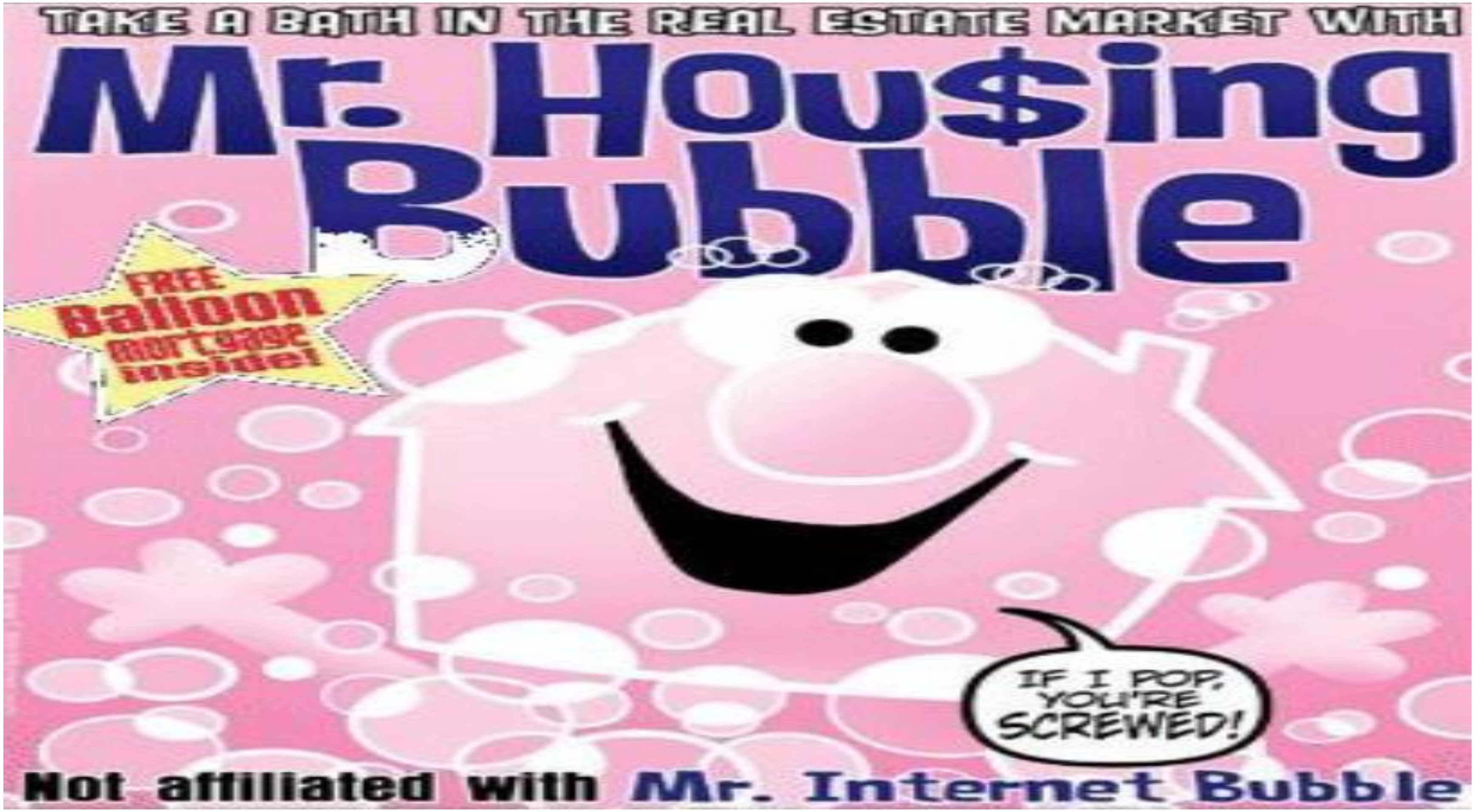
While the junior notes behind the BBB Mezzanine Tranche are typically very thin, the total credit support for the Mezz.Tranche are typically in the range of 9-12% in form of Income Notes, Excess Spread and Over Collateralization

Securitization

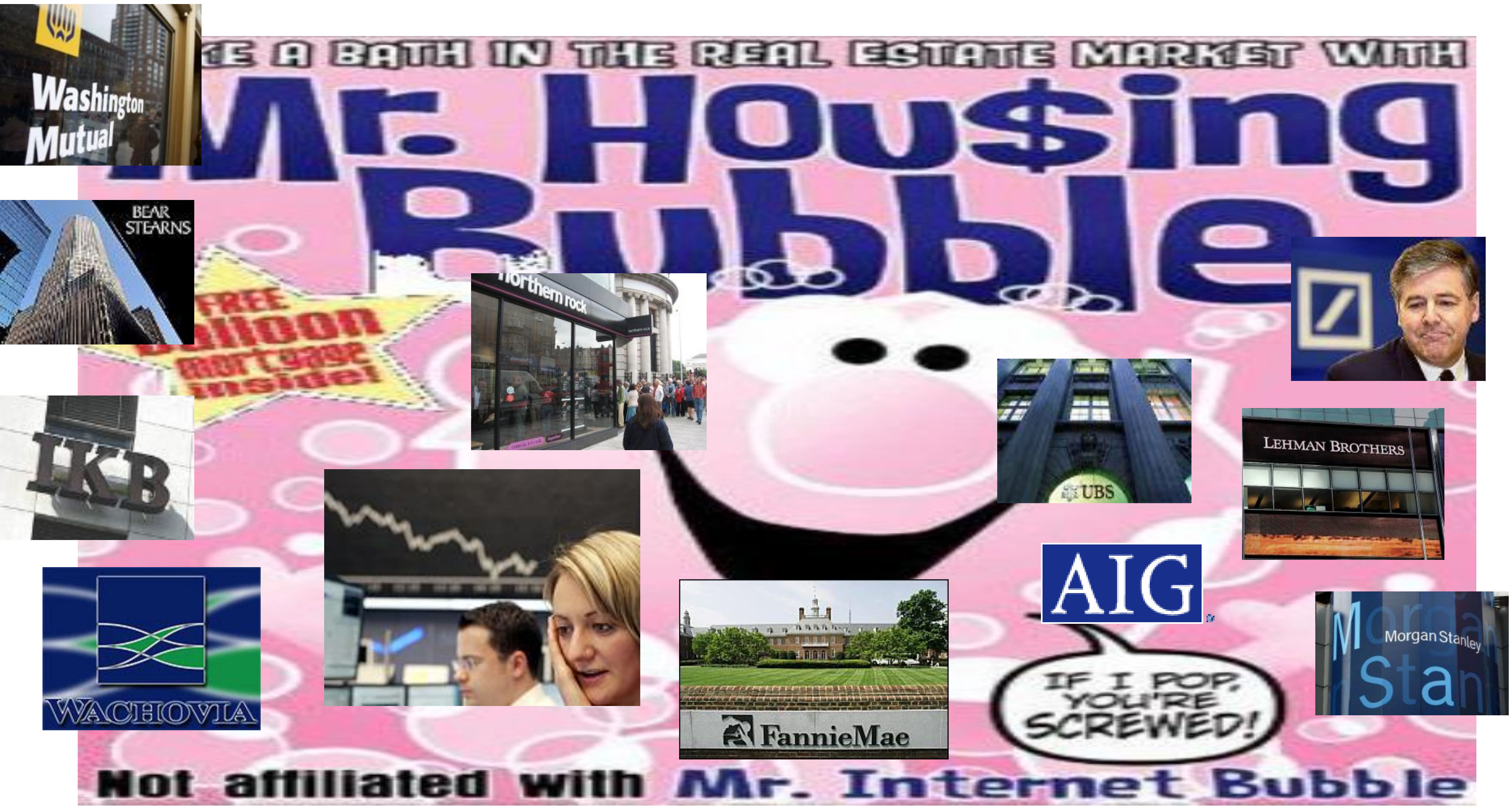


Frankfurter Allgemeine Zeitung, May 16, 2003

The Housing Bubble



Financial Crisis



Recues

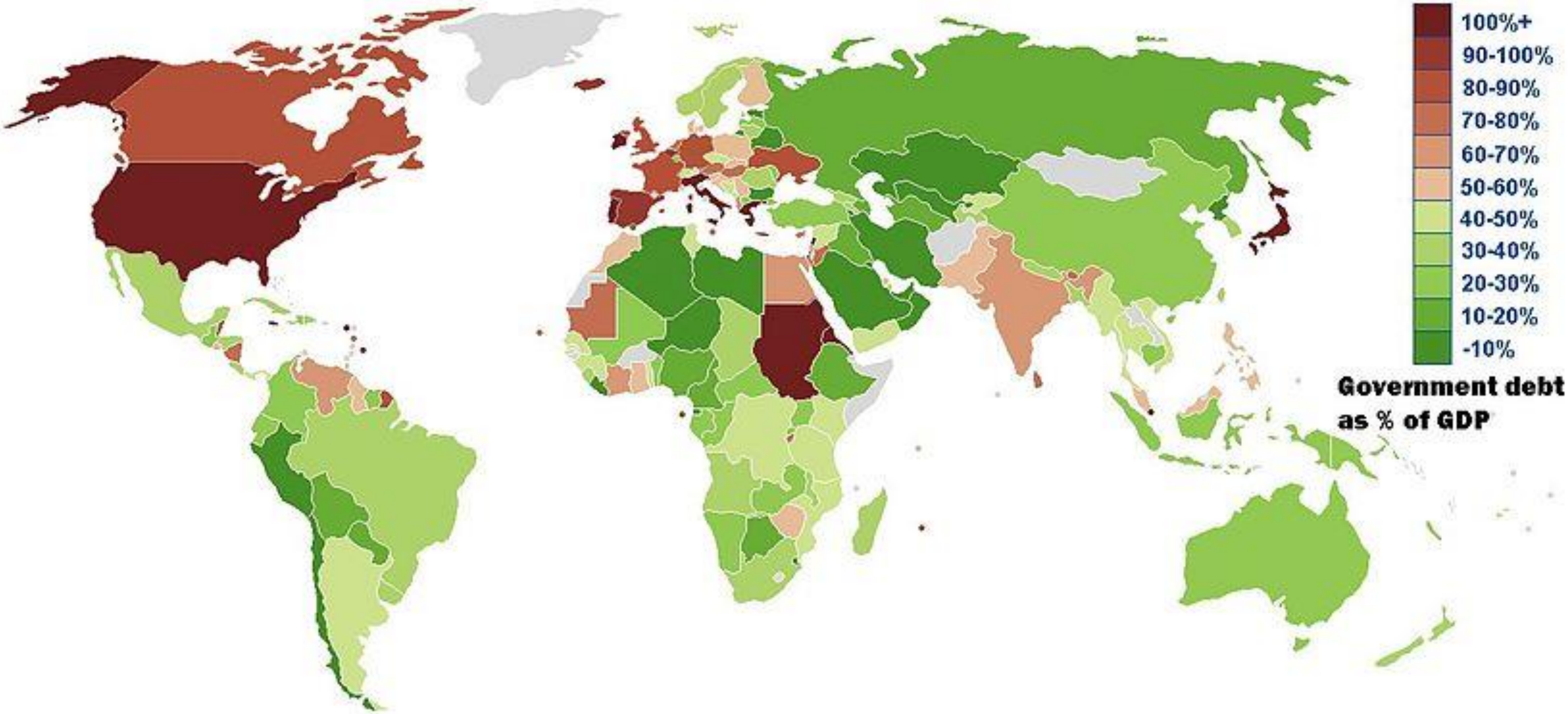
Bad Bank

Nationalization

Freddie Mac®

Social Unrest

Government Debt



Quantitative Easing

History of Bubbles & Crashes

- 1663

- 1730
- 1840

- 10.1929

- 19.10.1987

- 11.09.2001

- 15.09.2008

- 22:15 06.05.2010

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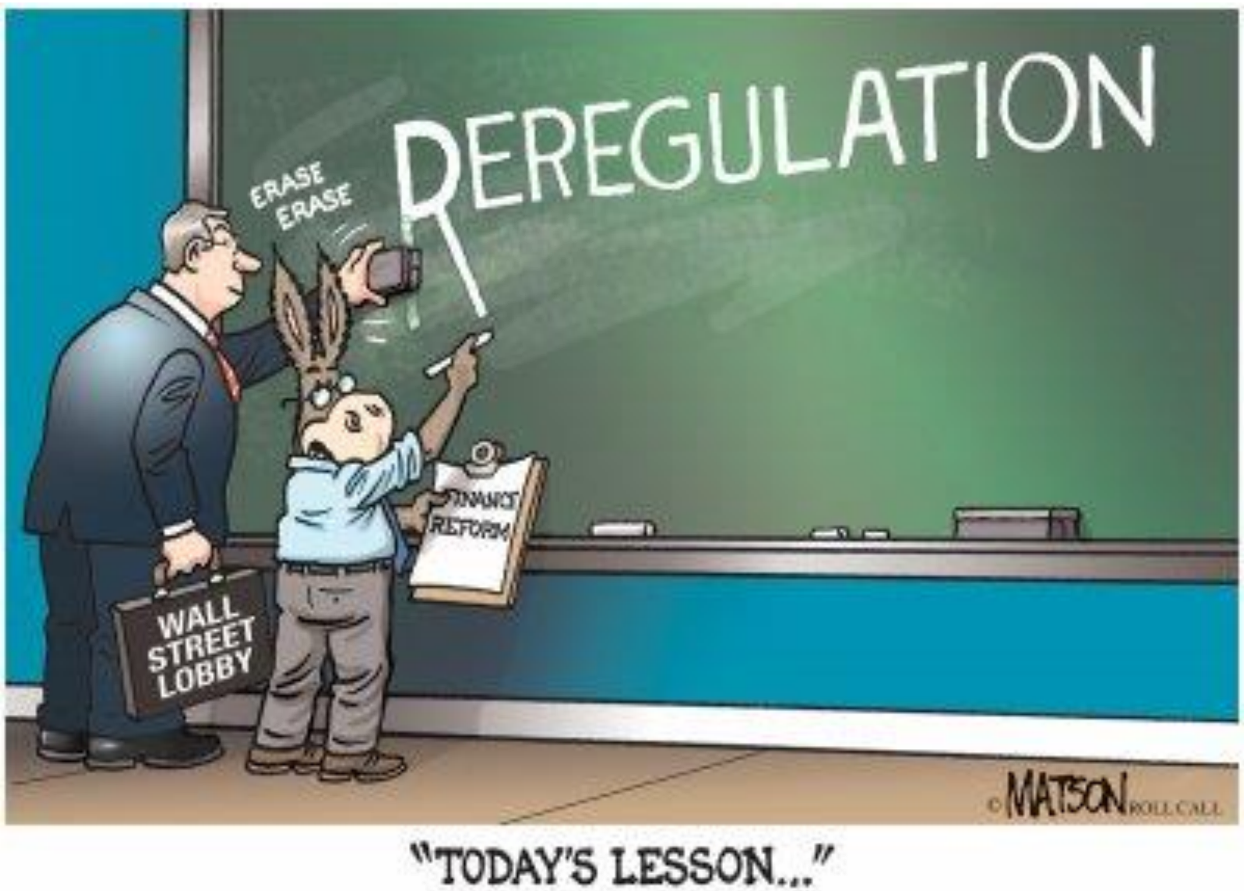
Correcting the existing system

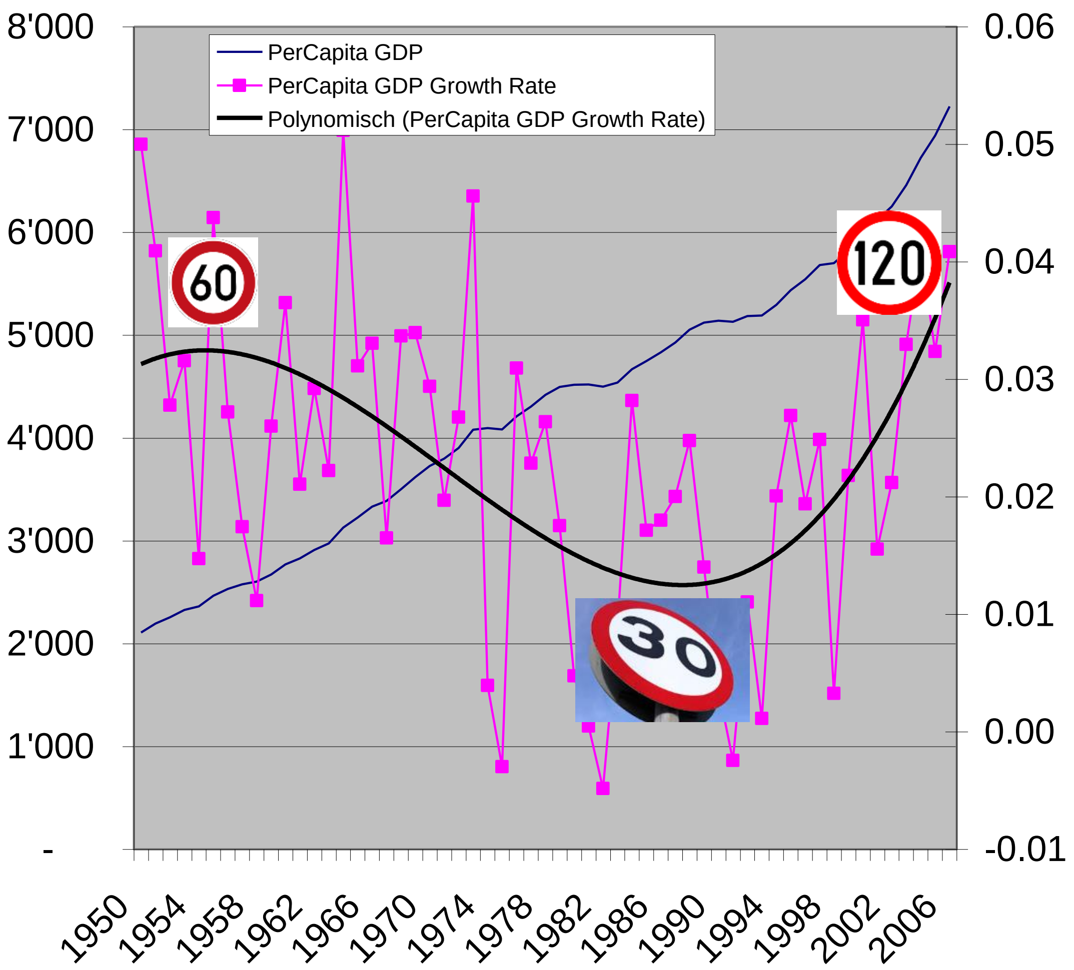
– Securitization
– Bank Bonuses
– Retrocessions
– Required Capital
– Dark Pools
– Shadow Banking
– HFT
–…

§ Dodd Frank Act
§ MiFID
§ FIDLEG
§ FINRAG
§ …

Cycle of Re-De-Regulation



Cycle of Re-De-Regulation



A Restart: Fintech

wikifolio

The Bitcoin Bubble

So what is the problem?

Homo Sapiens

Homo Oeconomicus

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Literature

Allen, Franklin (2010) «Financing the Future».

Dimson, Marsh and Staunton (2013) «Triumph of the Optimists»

Ferguson (2009) ”The Ascent of Money: A Financial History of the World”.

Galbraith (2010): «Eine kurze Geschichte der Spekulation»

Gart (1993): “Regulation, Deregulation, Reregulation: The future of the banking” insurance and securities industries”