

Moving From Micro to Macro



Questions

- Its accepted that higher capital may not address liquidity needs. Does less need for liquidity mean less need for capital?
- Does a longer required time horizon for stress capital needs mean one could allow a longer time to recapitalize and for resolution plans?
- What are systemic threats of each business model?
 - Exchanges = Credit transformation?
 - Banks = Maturity transformation?
 - Insurance = Lack of coverage & Political disagreement on priority of claims?

Micro To Macro

- How to address the reasonableness of the correlations in normal times vs. stressed times (Will they be the same across regimes?)
- Instead of simplistically cataloging/aggregating all risks into frequency/severity factors (or models) to calculate capital, recognize and focus on which parts are addressed via capital and which through processes.
- How and when to separate stress testing, outcome based, capital requirements from those based on a defined risk tolerance and presumed risk distribution.
- A mapping of risk and its management tools that is useful across differing business models with different relative risk exposures and time horizons (Aggregating ORSA information)

Visual Possibilities

Where is the Jelly Bean?

- A time dimension over which risk exposures are manifested, as well as for the corrective action(s) that can/will be taken. What does risk look like at one month, one year and three to five years into the future?
- A visual output/representation via network theory tools to reflect the character of the mapping instead of the traditional reliance on spreadsheets, formulas or pages of text. Can the map show a systemic landscape of risks and their current linkages? And, could it also be interactive and show different levels of resolution (e.g., like Google maps) and serve as a mass collaboration tool to communicate and sense and respond to emerging risks?
- A public mapping/database of financial and economic variables that apply to a company's unique risk profile? Can this mapping also reflect all past observed correlations (including regime shifts) and the ability to dynamically alter them as well?



Thank you



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