Financial Crisis and Risk Management

It is popular belief that one of the main causes of the global financial crisis is that financial institutions acted imprudently because of inadequate controls and adverse management compensation systems. In this talk we will argue - to the contrary - that the crisis resulted from lack of awareness of the consequences of mixing optimal risk management practices with inadequate regulation that created enormous capital market imperfections. We shall also provide prescriptive views on what an optimal regulatory system will look like in the future, where private control and management of financial institutions is maintained.