

CURRENT MULTI NATIONAL FINANCIAL CRISES

An Attempt to trace its
Development

PRESENT SCENARIO

- SCENARIO NOT VERY JUBILANT
- GENERAL CONSENSUS EMERGING ON NEED FOR TIGHTER REGULATION- ESPECIALLY ON FINANCIALS
- ACTUARIES FIND TIMES HARDER THOUGH THE PROBLEMS ARE ONE ATTRIBUTABLE TO POLITICAL ECONOMY

MONEY AND MARKETS

- INVENTION OF MONEY MADE DEVELOPMENT POSSIBLE
- MARKETS FACILITATED BETTER EXCHANGE OF GOOD AND SERVICES
- THE TWO TOGETHER GIVEN BETTER LIVING CONDITIONS
- BUT THERE EXISTS A LARGE SOCIAL GAP

MONEY

- FACILITATES ECONOMIC ENGINEERING
- FACILITATES ENTERPRISIE MOTIVATION
- FACILITATE MARKET EQUILIBRIUMS TO BE STRUCK
- FAILS TO ADDRESS EQUITY AND FAIRNESS IN TRANSACTIONS

MARKETS

- NOT REALLY FREE – PERFECT MARKET IS UTOPIA
- MARKETS DO REFLECT NEEDS AND PRODUCE SIGNALS
- MONEY AND MARKETS TOGETHER HELPED HUMANITY TO MARCH FORWARD

MONEY - PRODUCTION

- PHYSICAL CURRENCY CREATED BY GOVERNMENTS
- BANK CREDITS
- INTERNATIONAL CREDITS
- REGULATABILITY OF MONEY FLOWS

CAPITAL & CAPITAL MARKET

- NEED FOR CAPITAL
- DOMESTIC SAVINGS
- MOTIVATION OF ENTERPRISE
- INVESTORS AND SPECULATORS
- DEMAND/SUPPLY MANIPULATION
- BALANCE BETWEEN INVESTMENT AND SPECULATION
- MARKET VOLUME AND LIQUIDITY

DERIVATIVES

- CREATION OF PROMISES FOR TRADE
- REFERRAL ASSETS – MONETARY & PHYSICAL
- DO HELP ENTERPRISE GROWTH TO AN EXTENT
- OVERSUPPLY IN THE ABSENCE OF MATCHING GROWTH, DANGEROUS

CDOs – Collateralized Debt Obligations

- Asset Backed Security and Credit Product
- Assets are held as collateral
- Sells packages of cash flows to investors
- A Special Purpose Entity acquires a portfolio of credit against assets like Mortgage backed securities held by it
- Issues Bonds and Securities with entitlement to proceeds from the assets
- Price depends on nature of rights to proceeds
- CDO investor has no right on the assets though

CDS – Credit Default Swaps

- A contract whereby the buyer of CDS makes a series of payments to seller
- Payments stop on happening of an event related to a specified asset or entity or end of term
- The seller promises a settlement in the event of deterioration of the value of Specified Asset or failure of entity
- If no such risk materializes the seller keeps the payments (premiums)

Alarm Bells from BASEL

- Need for tighter Banking Regulation
- Liability – fully recognise it
- Assets – place its value realistically
- Evaluate Enterprise Risk
- Capital Adequacy to address all risks comfortably
- Absence of General Consensus

SUMMARY

- Weakness in System real – Recognize it
- Device tighter local Regulations
- Evolve Commonly Acceptable International Regulatory Standards
- Institute Penalties and Compensations
- Ensure Regular Periodical Review

- THANK YOU !