



Centre for Risk Studies
Workshop 9 April 2013

Understanding Financial Catastrophe Risk Developing a Research Agenda

Centre for
Risk Studies



UNIVERSITY OF
CAMBRIDGE
Judge Business School

Workshop on

Understanding Financial Catastrophe Risk

Developing a Research Agenda

Objectives:

- To review the overall priorities for research in general, and to identify the main research challenges facing the industry
- To guide the Centre for Risk Studies in where it can best contribute to this with its research activities over the next 3-5 years

Financial Catastrophe

A New Research Programme at Centre for Risk Studies

- 3 to 5 year programme of research
- Recognition that FinCat is a significant societal and business problem
- A number of FinCat-related initiatives are taking place at Judge Business School
- This is a multi-disciplinary problem and JBS mandate is to enable cross-faculty research coordination
- We believe there is potential for some of the techniques developed by the Risk Centre to contribute
- There is already a lot going on – we are looking to identify the appropriate areas to contribute, rather than duplicating any activities

A Review of Research into Financial Catastrophe

- As with any new research programme, it begins by taking stock of the current state-of-the-art:
 - extensive literature review
 - identification of current research activity
 - evaluating and benchmarking different models
 - Review of analytical ‘toolkits’ available
- Survey of leading opinions on **Understanding Financial Catastrophe Risk: Developing a research agenda**

Survey of Leading Opinion on FinCat Research Needs

Each respondent was asked to identify:

- Major Research Needs

- Short description of the major areas where research is most needed in your opinion

- Highest Priorities

- List the top 3 highest priority areas in your opinion

Research Review Contributors

http://www.risk.jbs.cam.ac.uk/news/events/other/2013/130409_understanding.html

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Understanding Financial Catastrophe Risk: Developing a Research Agenda

Date: 28.03.13 - 30.3.2013, followed by dinner in the Senior Combination Room at Christ's College, Cambridge

Location: Room W2.01, Cambridge Judge Business School, Trumpington St, Cambridge CB2 1AC

Attendance by invitation only.

Overview

An interdisciplinary forum of thought leaders in the field of understanding financial catastrophe. It includes people working on complex systems, economics, finance, historians and others. This is an interactive day of facilitated presentations and discussions with the object of getting the group to define and prioritise what a research agenda should be for academic in the field of financial catastrophe. The invited participants will include risk management professionals, policy-makers and other practitioners managing the risk of financial crises.

Download the provisional agenda (pdf, 177KB) (last updated: 2 April 2013)

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Leading Opinion Survey

- 38 survey responses
- Response from
 - Finance & business school academics
 - Economists
 - Mathematicians
 - Historians
 - Modellers
 - Central bankers
 - Investment bankers
 - Retail bankers
 - Investment advisors
 - Insurance portfolio managers
 - Chief Risk Officers
 - Financial risk managers
 - Corporate risk managers
- Respondents from UK, US, Germany, Spain, Italy, Netherlands, Mexico

Workshop Output: Published Working Paper



Feedback themes

- Metrics
- Data
- Scenarios
- Models
- Communication
- Definitions
- Uncertainty
- Validation
- Methodology
- Interactions
- Inter-disciplinary learning
- Policy Impacts
- Regulatory controls
- History
- Causes
- Stress Tests
- Too-Big-To-Fail
- Forecasting & Early Warning
- Behaviour & Social Psychology
- Trust

Two Different Groups Trying to Understand Financial Catastrophe



“Mechanics”

Can we stop the economic engine from breaking down, by designing a better one?



“Truck Drivers”

How do I run a business that uses this engine, knowing it breaks down sometimes?

Two Themes



Theme A: Morning with the Mechanics

■ **Research to Support Policy Issues for Financial Stability**

- What research will best assist in the design and regulation of the banking system to reduce the frequency and severity of future financial crises



Theme B: Afternoon with the Truck Drivers

■ **Research Contributions to Improving Corporate Risk Management**

- What research will best help the businesses operators improve their risk management of potential future financial crises

Chatham House Rules

- Participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s) may be revealed.
- We encourage openness and the sharing of information

Agenda

09:30 Round Table Introductions

10:30 Coffee Break, Common Room

Chair: Lord John Eatwell

Theme A: Research to Support Policy Issues for Financial Stability

11:00 *A Critical View of the Ongoing Crisis*

Prof. Michael Dempster,

11:30 *Operationalising Macroprudential Policy at the Bank of England*

Dr. David Aikman

12:00 *Catastrophe Insurance Insights on Financial Catastrophes*

Dr. Gordon Woo

12:30 Summary Discussion

Chair: Lord John Eatwell

13:00 Lunch break, Common Room

13:55 Attendee group photo, Common Room

Theme B: Research Contributions to Improving Corporate Risk Management

14:00 Intro to Afternoon Session

Chair: Peter Nakada

14:15 *Inflation as a Driver of Risk*

Dr. Pippa Malmgren

14:45 *Some Thoughts on Today's Modelling Shortfall*

John Hibbert

15:15 Tea Break

15:30 *Financial Networks and Cartography*

Dr. Kimmo Soramäki

16:00 *Centre for Risk Studies Research Programme on Financial Catastrophe*

Dr. Andrew Coburn

16:30 Discussion of Workshop Themes

Chair: Peter Nakada

17:30 Workshop Close: Conclusions & Outputs

Prof. Danny Ralph