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How Do You Reconcile Debt in a Risk-Averse Society? (Should Lenders Fan the Flames of Demand?)

A Discussion at The Financial Services Club

Risk & Reward or Risk-Averse?

- What appetite for risk?
- Who is or wants to be risk neutral?
- Do we overstate expected risk because we are becoming more conservative and want to be risk averse?
- Or are we misled about the actual likelihood of various risks to protect those who should be providing leadership and guidance?
- Will we produce a cotton-wool generation?

Saving Money or Saving Lives?

- Is there a preference for saving money or saving lives?
- Is this different if you are NASA or the NHS?
- Have attitudes changed towards using military force as a means to an end?
- Does this translate into attitudes towards money and credit?

Why Credit in the First Place?

"Annual income twenty pounds, annual expenditure nineteen nineteen six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery." - Mr Micawber – Pickwick Papers

The Odds are Always Against Us

- Different circumstances demand different approaches towards risk
- “Prospect Theory” – The likelihood that people will gamble more and more often to improve their lot in life
- Risk tolerance – Accounting for age or dependent on gender?

The Results of Impatience – Or Critical Services to Meet Demand?

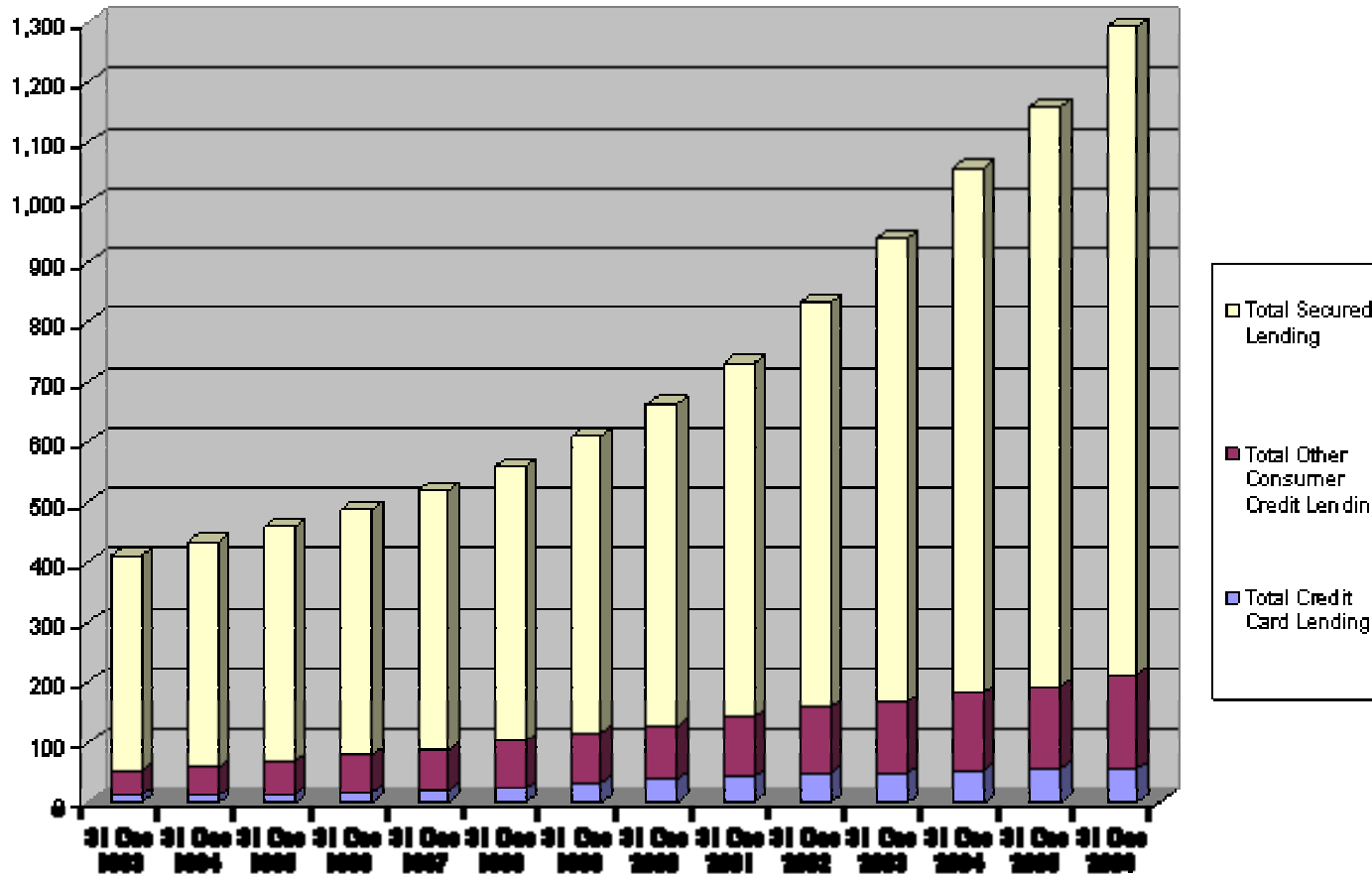
- Credit Cards
- Mortgages
- Personal Loans

- Information at the heart of decision-making
 - Credit Scoring etc for the lenders
 - T's&C's for the borrowers

 - Is enough done by both sides to make the best use of that information

UK's Rising Debt Mountain

Total UK Personal Debt £bn



The Bare Facts

- UK insolvencies seen over 110,000 in 2006, possibly rising over 150,000 in 2007
- 8 out of 10 borrowers given credit without the proper checks on the ability to repay
- Mortgage repossessions up 15%
- UK consumer debt twice the levels of the rest of Western Europe
- More credit cards in the UK than people

Is it a universal problem for society?

- Does the virus know demographic boundaries?
- Apparently so
- Low-income groups are either less discerning when it comes to credit products, or are they just less well-informed?
- How to get redress?
- Better transparency not the only answer
- Education the key

What Do the Lenders Want to Take Credit For?

- Lenders need to empower consumers with choice
- Lenders need to be competitive, transparent
- Are lenders making the best use of the record profits being seen at this possible peak in the earnings cycle?
- Definitely need to dampen not fan the flames – certainly in various parts of the economy
- If we really are risk-averse, where are savings?