Insurance Council of Australia

2009 Regulatory Update

Views from ASIC

Jeremy Cooper

Deputy Chairman

Australian Securities and Investments Commission

Wednesday, 4 February 2009

Four Seasons Hotel, 199 George Street, Sydney

Table of Contents

1. Introduction

1 Thank you to the Insurance Council for providing us with this opportunity in early February to think about what the year ahead might bring. I don't know what this year will be like for the insurance industry, but it's going to be another great one for regulators!

2 Let's look at a few reasons why 2009 is likely to be a bit different:

- Governments around the world are forecast to raise about US$3 trillion in bond issues;
- UK official cash rates, at 1.5%, are at the lowest level since the Bank of England was established in 1694;
- The fall in market capitalisation of global equities markets from their peak on 31 October 2007 to the trough on 20 November 2008 is estimated as US$36.1 trillion[1] - this was the equivalent in value to a bit over 34 weeks worth of global GDP at market exchange rates;[2]
- Citi is now worth less than one-ninth of the value of the Industrial and Commercial Bank of China;
- The ratio of US public debt and private debt to GDP reached 358% in the third quarter of 2008, the highest in US history. The previous peak of 300% was reached in 1933. Nearly all of this debt is private, peaking at 294% of GDP in 2007;
- AAA-rated General Electric's stock is trading at about US$12.00;
- Economists around the world are working on a credible model for 'charging' negative interest rates to give more horsepower to monetary policy that has hit the 0% interest barrier; and
- The only event that comes close to the cost of the current financial crisis is World War II with the inflation-adjusted cost borne by the United States coming to US3.6 trillion in today's dollars. Bloomberg calculates that the US taxpayer is on the hook for a total of US$7.76 trillion of liabilities, which equates to US$24,000 for every man, woman and child in the country.[3]

3 We've just welcomed in the Chinese year of the Ox, which seems very appropriate for 2009 – apparently the ox represents calmness, hard work and risk aversion (contrast to 2008 which was the year of the Rat – charming, cunning, selfish and greedy).

4 Today I would like to give you a flavour of some of the issues we have been considering at ASIC that involve the insurance industry and a few other bits and pieces as well.

2. ASIC's priorities

5 As you are all probably aware, last year ASIC set up specific stakeholder teams to work closely with each market segment so that we can be more proactive and prepared in 2009 and beyond.

6 We've set up a dedicated team focussed on insurance industry stakeholders led by Greg Kirk who is based in Sydney and should be your first point of contact with ASIC.

7 ASIC's ongoing work is in line with clear priorities, including maintaining confidence and integrity in the capital markets, protecting retail investors and consumers and facilitating global capital flows.

8 This year, our overall focus will inevitably be drawn to regulatory responses to the global financial crisis (**GFC**) and pursuing our goals in the context of what the GFC has thrown up. Also, the Australian insurance industry is clearly a mature industry warranting a light touch regulatory approach. Therefore, it is unlikely that this industry will occupy a lot of ASIC's time in 2009 in sorting out problems.

3. Encouraging online innovation

9 In 2009, ASIC will continue to facilitate the use of technology to improve information use for both consumers and industry.

10 Australia has the second highest Internet user per capita at 79.4% of the population.[4] ASIC consumer testing also suggests that people with access to the Internet find web pages easier to use than a product disclosure statement (**PDS**) and people tend to rely on websites as a trusted source of information; they see it as their first port of call.

11 You'll see that we have brought our PDS processing online and we are looking at making registration for credit providers and brokers online, when this comes within ASIC's jurisdiction later in the year.

12 We have also been watching with interest developments in this space in the US, including the use of XBRL[5] to make reported information more searchable for consumers and the SEC Office of Internet Enforcement that follows up on leads from its online complaints centre and conducts surveillance for potential Internet securities-related fraud.

13 ASIC published Consultation Paper 93: *Facilitating online financial services disclosures* (CP 93) in April 2008 to stimulate

discussion about how to facilitate online disclosure. In the paper, we proposed limited relief for electronic disclosure, including by hyperlink and providing a website address where consent was given and certain conditions were met and relief for opt-in online disclosure of super annual reports.

14 The majority of the responses we got in response to this consultation paper recommended that we go further in facilitating online disclosure.

15 Therefore, we are currently considering this feedback in light of the Government's current proposals for reform of disclosure documents, and of course, other pressing policy issues coming out of the GFC. It is likely that we will consult again on revised proposals this year, including making all financial services guides available online as the default setting.

4. Professional indemnity insurance

16 We are also now a year into the implementation of the *Corporations Act* requirements for professional indemnity (**PI**) insurance for financial services licensees. By now, all new licensees have been getting PI insurance cover for over a year and pre-existing licensees have been required to be covered since July 2008. We are keen to hear feedback about the practical operation of this policy and we do take this feedback on board.

17 We are well aware of the hardening market cycle here, but remain confident that licensees are now able to find a minimum standard of cover.

18 A survey of our licensees suggests that, at the moment, most licensees who need PI insurance are able to get it and there are still a reasonable range of providers, but of course this might change as policies come up for renewal this year and we will continue to monitor this.

19 ASIC aims to take a practical approach to implementation of this policy. We are keen to work with the insurance industry to see what insurance products can be developed for this policy to achieve its purpose and what is practically available in the marketplace for different types of licensees. We said that we would review this policy and this will be a priority for ASIC over the coming years.

20 PI insurance for licensees continues to be a hot topic as it is now looking likely that the proposed new Commonwealth regime regulating credit will include a requirement for credit providers and brokers to have PI insurance coverage.

5. EDR schemes and FOS monetary limit

21 ASIC is also considering the input from PI insurers into our consultation on policy reform of external dispute resolution processes for financial services licensees and the approval of terms of reference for the harmonised and merged Financial Ombudsman Scheme (**FOS**).

22 As you will be aware, our recent consultation on our EDR scheme policy elicited quite colourful and polarised responses. Clearly, one of the most contentious issues is our proposal to increase the monetary limit for investment complaints that can be heard by FOS (previously heard by FICS) to $280,000.

23 As we outlined at ASIC's oversight hearing before the Joint Committee on Corporations and Financial Services in December 2008, we recognise that the global financial crisis throws up issues for this proposal:

- On one hand, that there is likely to be a hardening insurance market making it more expensive and difficult to get insurance cover; and
- On the other hand, consumers are likely to be suffering greater losses and there is likely to be an increase in claims brought to EDR schemes. So, there is an argument that this is precisely when we need EDR schemes to be able to hear these claims. Consumers might also be less able to fund the costs of litigation.

24 We understand that the number of claims can as much as double in times of economic downturn and, historically, consumers who have suffered financial losses often because of economic and market conditions, have sought to find an avenue of redress by making a complaint to their adviser or financial services provider.

25 As the industry is well aware, it could be a key year for disputes, with the UK statutory Financial Ombudsman Scheme reporting a prediction of a 44% rise in claims in 2009. The ombudsman expected that consumer complaints would rise in areas including mortgages (expected to increase by 78%), current accounts (by 38%), pensions and investments (by 41%) and motor insurance (by 57%). Australian EDR schemes are also already reporting increases in complaints.

26 Therefore, we aim to continue working with the industry to understand the implications for an increase in monetary limits and the hardening insurance cycle. However, our aim is still to bring the limits up to an appropriate level.

27 To give you a taste of what we are talking about, consider the level of retail investment in self-managed super funds (**SMSFs**). In July 2008, the average SMSF fund balance was $756,000 and there were 378,656 funds. Approximately 55% of SMSFs (211,000) got advice from a licensed adviser and 74% of their assets were under advice.

28 What this means is that a very large number of Australians are getting advice about their superannuation savings that are roughly twice the size of the monetary limit under the relevant EDR scheme (ie limit of $150,000 and average post-GFC SMSF account of $300,000 per member).

29 The retail/wholesale distinction under the *Corporations Act* is, of course, set at $500,000.

30 We have required FOS to submit its Terms of Reference to us by 1 July 2009, so our aim is to have the revised policy published in April 2009.

6. Complaints more generally

31 Greg Kirk's team is also looking at dispute resolution processes of insurers more generally. ASIC often gets complaints from consumers that they are confused about the processes they have to go through between complaints handling, internal dispute resolution and external dispute resolution.

32 One issue we are considering in our dispute resolution policy consultation is imposing a time limit on the length of time a claim can remain in internal dispute resolution and applying this to encompass any internal, tiered processes as well.

33 We are looking to improve this and ASIC will be checking compliance in this area. We have not formed any specific views as yet, but we look forward to your cooperation on this and our work on reviewing EDR schemes.

7. Financial hardship

34 Another issue that has come up relating to the operation of dispute resolution processes for insurance companies is in the area of financial hardship. For example, where an insurer accepts a claim by an insured, but the insured wants to pay the excess in instalments, citing financial hardship reasons. Alternatively, the issue might come up in the context of third party uninsureds that cannot recompense the insurer and seek a waiver.

35 Where a person is experiencing difficulty in paying a debt, but expects to be able to pay the debt if other arrangements are made, insurance companies have committed, under the current version of the General Insurance Code of Practice, to consider options to enable payment in instalments or postponing payment. If the insurer and the third party can't reach an agreement, the insurance company has committed to give them information about internal dispute resolution processes.

36 The Insurance Ombudsman Scheme overview of the Code for 2007/2008 made it clear that its view is that insurance companies should be referring this issue to IDR as soon as there is a dispute with the third party.

37 We understand that it is hard for insurance companies in practice to determine exactly what is financial hardship and what falls on the other side of the line.

38 Financial hardship is a concept that is perhaps more developed in banking and credit. We would encourage industry and consumer groups who have been active in this area to develop a coherent and workable industry solution to the challenges financial hardship presents. This could also be considered as part of the General Insurance Code of Practice Review later this year.

39 Financial hardship is also an issue that ASIC is likely to be looking at in the context of credit disputes coming within the jurisdiction of EDR schemes under the proposed new Commonwealth regime for regulation of credit.

8. Product comparison - price

40 Another significant issue on our radar screen is how consumers evaluate and compare insurance products. It is important for consumers to be able to compare products as easily as possible, as the Treasurer has put it, so they can 'vote with their feet'.

41 In ASIC's view, there are three important pieces of information that consumers need to choose a policy:

- price;
- cover; and
- claims handling history.

42 Many insurers now allow consumers to get a quote for their products online. But, ASIC is hearing that the major insurers generally do not allow their prices to be published by online comparison websites or aggregators. ASIC recognises that there are benefits to consumers in using online insurance aggregators. A

small piece of research commissioned by ASIC recently suggested that many people do use the internet for initial investigations about insurance products.

43 ASIC acknowledges the current limitations around online insurance aggregators, including their potentially limited ability to take all features expressly into account. We also recognise that insurance might be a complex product to capture in a form that is comparable for consumers. That said, similar arguments were raised about mortgages and credit cards, yet these products have been covered by online comparison sites for many years.

44 The market in the UK seems more developed for online insurance aggregators, although we understand that the operators of such websites in the UK are more likely to be paid commissions than in Australia.

45 Several of the major online comparators, including RateCity and CANNEX have taken the view that they require an Australian financial services licence to provide their comparison services, while other providers think that they only provide factual information and do not need a licence. Whether they require a licence will depend on the types of products they cover.

46 ASIC has found that some websites purport to be making comparisons, but are actually just advertising a limited range of products without reference to price or quality. ASIC is monitoring websites like this for misleading or deceptive conduct as well as providing advice without a licence. We're keen to hear any complaints you have about these websites.

47 It is unlikely that the larger, more thorough and reputable comparison websites would offer insurance comparison services for consumers without cooperation from the industry in getting reliable and up-to-date data. There is a danger that smaller, less helpful and possibly misleading players might come in to fill the vacuum. Clearly, there is demand for these services from consumers.

48 ASIC includes links to the major websites including CANNEX, Infochoice and RateCity on its consumer website, FIDO, as a useful tool for consumers to investigate products. There are often few alternative sources of information for consumers about price without making full applications to a number of companies or relying on marketing materials.

49 More than any other group in its jurisdiction, ASIC gets complaints from insurers about misleading advertising by competitors. These complaints are almost always about advertisements that claim that savings can be made. However, it is often difficult for ASIC to

assess whether the advertisements are in fact misleading – and this is because insurance pricing is perhaps not as accessible as it could be. If ASIC has trouble determining whether an insurance advertisement is misleading, you can imagine the difficulties faced by consumers. This is another reason why we think online insurance aggregators, or something similar provided by the insurance industry, could be a step in the right direction.

50 Depending on continued consumer and Government interest in the benefits of these tools, this might be an area in which ASIC takes an interest in the future. We are keen to support innovation in using online technology to enhance effective communications with consumers.

9. Product comparison - claims data

51 In addition to information about price, consumers need to compare cover to make decisions about insurance.

52 It is often difficult for consumers to compare policy coverage without reviewing the fine print of multiple insurance policies; something they almost never do. However, information about the proportion of claims paid by an insurance company gives a consumer a good idea of the practical usefulness of the coverage provided by an insurer in a way that might be more easily comparable.

53 We understand that some insurance companies do put information about their claims payment history on their website (eg Suncorp). But other sectors are perhaps more active in this space. For example, many health insurers promote the proportion of premium income they return to consumers as claims paid.

54 We also do not have much data on consumers switching from one policy to another. There are probably fewer barriers to switching for insurance products, as compared to some other financial products, so we would be interested to more fully understand consumer behaviour in this area.

10. General Insurance Code of Practice review

55 Another issue for ASIC in 2009 will be participating in the review of the General Insurance Code of Practice. We understand this is proposed to start in June. We are very supportive of this code. The code review working group will be a good forum for addressing some of the issues I am talking about today and other concerns in the industry generally. For example, we have

previously floated ideas about cost comparison and claims handling with the working group.

11. Underinsurance

56 As you know, another area of interest for ASIC is reducing the risk that consumers are underinsured. We issued reports about underinsurance in home insurance in 2005 and 2007. Again, this is likely to become a bigger issue as consumers look at ways to cut back spending in the current economic environment.

57 Some of the reasons that we and the ICA have explored for underinsurance problems include:

- Consumers relying on government assistance;
- Difficulties in calculating values (eg buildings); and
- Failure to account for cost increases eg renovations.

58 One pleasing development has been the introduction of total replacement policies (by at least AAMI, Comminsure and for several Wesfarmers and ANZ products) and extended replacement policies (Suncorp, GIO, TIO and RACT (Tasmania)). This seems to support the case that the replacement product is both commercial and sustainable. While it is not for ASIC to cut the industry's lunch (so to speak) we would favour of a move to this style of product across the board because it seems a more appropriate allocation of the risk of underinsurance.

59 In 2005, we recommended that industry adopt more web-based calculators to help consumers make a realistic estimate of rebuilding costs. We ran some tests on these calculators and found that the results vary widely between simple calculators and more comprehensive ones that ask consumers to input in much more information (eg as much as $130,000 on a $350,000 rebuilding job).

60 We understand that now, in 2009, there are some good calculators out there, asking questions about standard of construction, slope of the land, size of rooms, period of construction etc (eg Allianz).

61 We also acknowledge that the ICA has set up a Financial Literacy Taskforce looking at underinsurance.

12. Flood insurance

62 An ongoing issue in 2009 is likely to be flood insurance, particularly with the cyclone season upon us and a possible La Nina event coming up. Even once the industry is able to price this

risk and provision for it, floods present the difficult issue that a small proportion of people live in areas of very high risk that can only be covered at high cost and the remainder of the population are at a low risk that could be met at relatively low cost. There are also likely to be some areas where the risks are simply too great for consumers to get cover.

63 We acknowledge the important work of the Insurance Council in developing a national flood database. We understand from this work that the proportion of policies offering flood cover has increased from 8% in 2006 to 32% in January 2009.

64 A thorny issue is how to structure the cover for flood – should it be offered as an extension, making the high costs to certain consumers explicit, or should policies include flood cover in flood-prone areas so that costs are spread more evenly?

65 Consumers are increasingly aware of this issue, but it is important that marketing and disclosure materials make it crystal clear to consumers whether or not they are covered for flood. This includes making it clear what grade of cover they are getting.

66 Interestingly, the Insurance Ombudsman Service, in its 2008 Annual Review, reported that the number of home building disputes about exclusions in policies jumped from 49% of all home building disputes in 06/07 to 79% in 07/08. About 60% of these complaints were settled in favour of the insurer, which possibly suggests some lack of understanding of coverage by consumers.

67 We support efforts to put out short, consumer-friendly PDSs using diagrams and plain English. Another good initiative is consumer-testing PDSs to see what does and doesn't work.

13. Ideas about new insurance products

68 Robert Shiller[6], in his recent book *The Subprime Solution,*[7] suggested that a new type of insurance might be the solution to one of the problems facing consumers in the wake of the subprime crisis. He called it 'home equity insurance' which essentially insures a homeowner against a diminution in the value of their family home. It would have protected a large number of US homeowners against the negative equity situation they now find themselves in. Shiller suggests that such policies would be structured around aggregate values in relevant markets (ie a city index of comparable home prices) to overcome the moral hazard of homeowners becoming lazy about maintaining the value of their own homes. One particular benefit of such insurance would be the

amelioration of panic selling that often drives falling real estate prices.

69 Given that a home loan for the average consumer is their biggest financial commitment and corresponding risk, it is surprising that there are not more tools available to mitigate that risk. This is particularly so in the Australian market where home loans are structured at variable interest rates and fixed rate loans, while available, are written for a much shorter tenor than the traditional home loan term. In some ways, Australian fixed rate mortgages create a number of complex decisions and risks for borrowers; they have to pick the right time to fix, are exposed to break costs if they exit early and there is a mismatch between the average time it takes to pay off a house and the period for which they are able to fix.

70 In Denmark, for example, the risks facing a mortgagor are quite different. Under the Danish mortgage system that has been in place since 1797, a special mortgage bank writes the loan (at a fixed interest rate for say 25yrs) and then sells a corresponding covered bond that matches the principal, maturity and cashflow of the mortgage into a domestic market for these instruments. Importantly, the issuing bank remains responsible for the bond (unlike in the securitisation model at the centre of the subprime crisis). The magic in the model for homeowners is that they can go into the bond market and buy back their matching bonds, the market price of which will fall below face value as interest rates rise or, potentially, as house prices fall. This actually allows them to reduce the amount they owe on their home loans, significantly altering the risk profile of home ownership.

14. Why do we keep hearing the name Ponzi?

71 The *Madoff* affair[8] raises an interesting story: the story behind the curious name 'Ponzi' as in 'Ponzi scheme'.

72 Charles Ponzi,[9] born to a fairly wealthy family in 1882 in Italy, arrived in America in 1903 boasting that he had $2.50 in his pocket and $1 million in hopes.

73 He then got into a bit of mischief defrauding customers at various odd jobs, forging himself a bank cheque and smuggling in illegal immigrants. He ended up in jail.

74 Perhaps inspired by his jail experience, after his release from prison, Ponzi started his now famous 'Ponzi scheme' in Boston using international reply postage coupons.[10] These coupons could be sent to someone overseas where the recipient could exchange

them for stamps and post something back; a form of 'reply paid' operating internationally.

75 The coupons were supposed to be exchanged at a uniform rate in each of the 63 member countries. However, the First World War caused some severe exchange rate dislocations. In countries like Spain, Ponzi noticed that coupons were very cheap in $US terms. For example, a coupon that cost US$0.01 in Spain might be redeemed for stamps worth $US0.06 in the US. On the face of it, this was a very profitable arbitrage.

76 He then started the 'Securities Exchange Company' and offered investors a 50% return within 45 days. At the height of his success in July 1920, he was getting millions from investors who were mortgaging their homes and life-savings. However, it became obvious that there were simply not enough postal coupons on issue to be funding his scheme[11] and his liquidity was propped up by new 'investors' putting their money in.

77 The whole thing came crashing down and he was arrested in August 1920 with liabilities of $7 million and was sentenced to five years jail for mail fraud. It transpired that he had only ever bought about US$30 in coupons.[12] One of the cruellest aspects of the Ponzi story was that three-quarters of the poorly paid Boston police department rushed to invest their savings in the scheme.

78 His name would be taken to describe schemes that 'take from Peter to pay Paul'. In the words of B.Ramalinga Raju, Chairman of India's Satyam Computer Services: "It was like riding a tiger, not knowing how to get off without getting bitten."

79 Insurance companies can become Ponzi schemes if new policyholders are required in order to pay the liabilities of existing policyholders – eg the HIH under-provisioning.

80 Robert Shiller has suggested that the Ponzi concept extends beyond such isolated frauds, and that the entire US housing system could be seen as a Ponzi structure because people bought their homes on the assumption that the price would go up, even if the payments were more than the rental value. This behaviour assumed that there would always be another buyer who also expects higher profits (sometimes called the 'greater fool' theory).

81 Economist Nouriel Roubini has also used the term 'Ponzi', this time to describe borrowers who could not service the interest or principal payments on their home loans.

82 So, for a variety of reasons, 2008 has reminded us to be on the lookout for Ponzi structures large and small.

15. IMF proposal – insurance against recessions!

83 In a recent Staff Position Note issued by the International Monetary Fund,[13] it was suggested that governments could provide insurance against extreme recessions by offering contracts with payment, for example, contingent on GDP growth falling below a threshold level.

84 The IMF suggested that banks could then insist on firms having such insurance as a condition of getting a loan. Widespread use of this insurance would create an automatic stabiliser because payments would be made when most needed (ie in bad economic times). It would also provide a market-based view of future economic output and likelihood of a downturn (ie as participants priced the risk and wrote and purchased cover).

85 The IMF pointed out that counterparty risk was an obvious concern (ie a government unwilling or unable to pay up) and that the contingent liabilities arising under such insurance would have to be included in the government's budget and fiscal models.

16. Developments in financial services regulation

86 I have been asked to make some observations about the future of financial services regulation in the wake of the global financial crisis, particularly in the US, and whether those might translate to Australia in some way. The first observation is that there seems to be unanimous recognition that the Australian regulatory system has worked very effectively. There is no move, as far as I aware, for changes, other than in discrete areas that have already been announced or acted on, such as margin lending and short selling.

87 In the United States, the Government Accountability Office (**GAO**) has recently set out a framework for Congress to use to evaluate future financial system regulatory reforms.[14] The GAO set out five key issues in the US system:

- Failure to assess systemic risks across the entire financial system posed by interconnected financial conglomerates.
- Risks posed by large unregulated participants (eg non bank lenders).
- Increasingly complex investment products.
- Challenges for accounting and audit standards.
- A fragmented regulatory structure that makes it difficult to coordinate with other regulators around the world.

88 These issues are not new, but it is good to see that this analysis is being considered in discussions on future changes to the system. The report then identifies nine criteria that should be used to test future reform proposals:

- clearly defined regulatory goals;
- appropriately comprehensive;
- system-wide focus;
- flexible and adaptable;
- efficient and effective;
- consistent regard to consumer and investor protection;
- regulators with sufficient independence and authority;
- consistent financial oversight; and
- minimal taxpayer exposure.

89 The challenge for legislators and regulators in the months and years to come will be the need to balance all of these competing factors and not to overreact to recent events.

End Notes

[1] World Federation of Exchanges.

[2] Based on data from the IMF's World Economic Outlook database in October 2008.

[3] According to Tim Price (who writes in Best Ways to Invest) and Jim Bianco of Bianco Research.

[4] Gullone Group survey May 2008.

[5] Extensible Business Reporting Language.

[6] Robert J Shiller, Arthur M. Okun Professor of Economics at Yale University.

[7] Shiller, Robert J, *The subprime solution: how today's global financial crisis happened, and what to do about it*, Princeton University Press, 2008, ISBN: 978-0-691-13929-6.

[8] Investment manager Bernard Madoff confessed recently to running a Ponzi scheme, losing investors such as Steven Spielberg and Carl Shapiro as much as US$50bn. This modern scheme exhibited a lot of the common factors of Ponzi schemes. Madoff was a former NASDAQ chairman who advised the government of market issues. He was also allegedly close to many SEC officials; his niece was an SEC compliance lawyer and married a former member of the team that inspected Madoff's books in 2003. An air of secrecy ensued as some investors were denied participation, and those accepted told not to talk to outsiders. Redemption of US$7bn by investors pulling back from volatile stockmarkets forced Madoff to admit that his coffers were empty. As Warren Buffett said, "It's only when the tide goes out that it is clear who is swimming naked".

[9] See Zuckoff, Mitchell. *Ponzi's Scheme: The True Story of a Financial Legend.* Random House: New York, 2005, ISBN: 1-4000-6039-7.

[10] On 26 May 1906, over 60 countries met in Rome and agreed to update the Universal Postal Convention of 1897 under which these postal coupons could be exchanged. The cost of the coupon was set at 28 centimes which could be exchanged for a 25 centime (or equivalent) stamp in the country where the exchange was requested. The regulations supporting the Convention prescribed the rate of exchange between the currency and postal coupons of each nation.

[11] In July 1920, the *Boston Post* published an article quoting Clarence Barron, owner of the *Wall Street Journal*, to the effect that Ponzi would have needed 160 million postal coupons in circulation to make his scheme work. In fact, there were only 27,000. Barron concluded that the scheme was obviously a fraud.

[12] http://www.sec.gov/answers/ponzi.htm.

[13] *'Fiscal Policy for the Crisis'*, IMF Staff Position Note, December 299, 2008, SPN/08/01 authored by Antonio Spilimbergo, Steve Symansky, Olivier Blanchard, and Carlo Cottarelli.

[14] United States Government Accountability Office Report to Congressional Addresses January 2009, *Financial Regulation – A Framework for Crafting and Assessing Proposals to Modernise the Outdated US Financial Regulatory System* GAO-09-216.