INPRS

INTERNATIONAL NETWORK OF PENSIONS REGULATORS AND SUPERVISORS

In cooperation with

Organisation for Economic Co-operation and Development

OECD OCDE

Organisation de Coopération et de Développement Économiques
Under the aegis of the Center for Co-operation with Non-Members

and the Partners for Financial Stability Program

EAST•WEST MANAGEMENT INSTITUTE

USAID

Room Document N°4, Session 2
FINANCIAL SECTOR CONVERGENCE AND FINANCIAL MARKET SUPERVISION IN THE OECD AREA

OECD Secretariat

REGIONAL MEETING FOR THE EASTERN AND CENTRAL EUROPEAN COUNTRIES

Hosted by
The Government of Estonia

Tallinn, Estonia
7-8 February 2002
Sakala Keskus
Rävala pst. 12, 10143 Tallinn

Background

1. The paper is organised as follows. The introduction discusses the implications of financial sector convergence for the conduct of supervision and draws a distinction between consolidated supervisory agencies and consolidated supervision. The next section reviews the variety of organisational structures for financial supervision in OECD countries, based on comparisons with stylised regulatory regimes. In this context, the section discusses the many meanings ascribed to the concept of consolidated supervision. The following section then addresses the practical modalities of consolidated or group-wide regulation in OECD Member countries, Singapore and Hong-Kong.

Introduction

2. Consolidation within institutional sectors and convergence across institutional types are increasingly blurring traditional lines of demarcation among the four pillars of the financial system (banks, insurance companies, pension funds, and securities firms), as institutions have sought opportunities to cross-sell products, expand across borders and achieve scale economies. As financial groups and conglomerates centralise their internal controls, risk assessment and management, it becomes more difficult to oversee them on a purely institutional basis, due to the increased complexity of the corporate structure and the inter-linkages therein. Monitoring of any firewalls in such circumstances becomes increasingly important, yet increasingly difficult as well. Thus, while there is some question as to whether "conglomeration" of financial services institutions has actually enabled financial groups to diversify their risks and increase their cost efficiency, there is little doubt that the formation of integrated financial services groups has complicated the task of supervision. At a minimum, the existence of intra-group exposures increases the need for information sharing, co-ordination and co-operation among supervisory authorities with responsibility for different institutional components of a financial group, so that a group-wide perspective may be achieved. However, it is still a matter for consideration whether the need for group-wide oversight necessarily requires that the relevant supervisory agencies themselves need to be consolidated, or interestingly, whether regulation/supervision needs to be conducted on a consolidated basis.

3. The challenge in the design of regulatory and supervisory regimes is to create a framework that allows the objectives of supervision to be attained efficiently and effectively. Ideally, the supervisory regime will be flexible, adaptable both to changes in the business practices of regulated entities and in the structure of the financial system (including domestic and international components), while taking into account the effects of supervision on competition. Relevant criteria for assessing the efficiency of a given regime in meeting its objectives include regulatory neutrality (the view that regulation that attaches to a particular activity should be the same regardless of the service provider), cost effectiveness (i.e. lowest practicable regulatory burden), transparency, and accountability. The fact that supervision of the financial services sector varies greatly in detail across countries suggests that there is more than one (and by implication no consensus as to the existence of a single "best") approach to achieving the desired end. Further, in exploring the link between the structure of supervisory agencies and the conduct of supervision on a consolidated basis, one might note that the existence of a consolidated structure for supervisory agencies is neither necessary nor sufficient for consolidated supervision.

Organisational structures for financial supervision

4. In the typology of Goodhart et al (1998), there are three broad approaches to the structure of financial supervisory regimes: (1) institutional/sectoral (i.e., supervision is focused on the type of institution), (2) functional[1] (i.e., supervision is directed at the underlying business activities, regardless of the service provider), and (3) objectives-based (i.e., supervision is organised according to the objectives of supervision). All three models are found in practice, and increasingly one finds consolidated approaches that entail some combination of these three. Among OECD countries, single prudential financial supervisory authorities that cover most traditional sectors (banking, securities and insurance) have been established to date in a number of countries (**Denmark**, **Hungary**, **Iceland**, **Ireland, Japan**, **Korea**, **Norway**, **Sweden** and the **United Kingdom**), and are either pending or under active consideration in others (e.g. **Austria**, **Germany and Switzerland**). In other countries, one can also find single authorities that either supervise the banking and securities sectors (**Finland**, **Luxembourg**, and **Mexico**) or the banking and insurance sectors (**Australia** and **Canada**) for at least some objectives of financial policy (prudential oversight). Still, other jurisdictions have introduced supervisory regimes based on the objectives of supervision or provided formal structures for cross-sectoral supervisory co-operation. The Monetary Authority of **Singapore** stands out as a special case, having been established since its inception as a central bank and fully integrated supervisory agency covering all financial sectors.

5. In several countries, there is still separate sectoral supervision of the banking, insurance and securities business of financial groups, subject to a MOU or other agreement. In other cases, the <u>prudential</u> supervision of banking and securities firms (but not insurance) is combined, and in others, prudential oversight of securities firms and insurance (but not banking) is performed by the same agency (Exhibit 1). However, responsibility for other objectives of financial supervision may be vested with other supervisory bodies.

6. Many factors play a role in shaping the ultimate supervisory regime a given country adopts. As noted in Goodhart, *et al* (1998, Chapter 8), regulation of the financial services industry must ultimately satisfy the environment in which it is to be implemented, taking full account of the business practices of regulated entities and the unique circumstances of the country. Relevant country-specific factors include the different initial conditions on which the financial services industry is structured in the country; political and social structures and government, industry and societal relations; and the relative importance of a country's financial services industry.

[1] In the terminology used in this note, the term "functional" supervision is applied to financial products/services. In some sources, one finds the same term applied to objectives of regulation.

Exhibit 1
Financial Supervisory Agencies
(1999 percentages)

Prudential Supervisors	Percentage
Single Agency:	
Central Bank	4
Other	14
Separate agencies:	
Banks alone	48
Banks & securities, insurance alone	12
Banks & insurance, securities alone	18
Securities & insurance	4

Source: Christian Hawkesby, "The Institutional Structure of Financial Supervision: A Cost-Benefit Approach," *The Journal of International Banking Regulation* (July 2000).

7. Taking as given the importance of country-specific factors in the proper design of supervisory frameworks, it is not surprising to find that the structure of supervisory agencies for the financial services industry differs across countries. There is no universally applied model, even among OECD countries with similar legal frameworks. While a number of countries have reduced the number of regulatory agencies and, in some cases, established a single unified supervisory agency, it is not uncommon to have separate supervisory agencies for banks, insurance companies,[2] pension funds, and securities firms. Many alternative models exist and they can be made to work effectively under normal circumstances. However, an important question to raise in the design of supervisory agencies is whether all structures are equally effective and efficient under all circumstances. More specifically, does the organisational structure of financial supervision have a bearing on the efficiency and effectiveness of regulation and supervision in achieving the desired objectives?

8. Proponents of consolidated approaches to financial supervision believe that multiple agency supervisory regimes have the potential to generate differences in supervisory approaches to, and competitive inequalities imposed on, institutions through the application of inconsistent rules to products and services that are otherwise functionally equivalent. They further argue that such inequalities give rise to increased incentives for regulatory arbitrage and create confusion for consumers and investors. Indeed, an oft-cited rationale for the establishment of consolidated supervisory agencies is their potential for delivering a consistent approach across a range of institutional types. By contrast, critics of the consolidated approach to financial supervision argue that most financial services groups are characterised by a predominance either of the banking, insurance or securities business. Thus, they argue, the “best” approach to supervision is ‘specialised supervision’, which would enable supervisory personnel to take better into account the specific features of each kind of institution.

[2] In many countries, the supervision of pension funds is closely related to that of insurance companies and in some countries the same agency is responsible for oversight of both types of institutions.

9. Some analysts note the differences between regulation (the establishment of specific rules of behaviour), monitoring (observing whether institutions adhere to the rules) and supervision (the more general oversight of financial institutions' behaviour). They argue that consolidation in regulation is a precondition for full consolidation in supervision, at least concerning some of its main forms. Consolidated regulation, for example, is one of the main issues discussed in the debate on the proposal for a new EU Directive on pensions (especially as far as investment regulation is concerned), the idea being to level the playing field for the various operators competing on the pension markets. It is not the intention of this note to argue in favour or against this point.

10. It is important to acknowledge that differences in the regulatory treatment that applies to various service providers can have a major effect on the business practices of service providers and on the nature of supervision. However, arguments for or against consolidated approaches to supervision are in some ways separable from the organisational structure of supervisory agencies. Just as it is possible for independent supervisory agencies to co-ordinate their activities to supervise institutions on a consolidated basis, it is possible for consolidated agencies to supervise institutions on an institutional/sectoral basis. The existence of one or the other organisational structure does not preclude the conduct of supervision on one or the other basis. It is conceivable that certain organisational structures might be better suited for particular approaches to supervision, but this remains to be seen. Less controversial is the view that supervisory arrangements should depend not only on how to achieve an efficient production of supervisory tasks, but also how to provide for the efficient production of financial services. To some extent, this will depend on what the goals or objectives of supervision are perceived to be.

Objectives of supervision

11. Here, too, one finds historical differences across sectors and countries, reflecting in part country-specific factors such as the size and importance of the financial system (*i.e.* bank dominated versus capital markets dominated).[3] In many jurisdictions, the structure of financial supervision historically was based largely on sectoral divisions among financial service providers for prudential oversight and conduct of business purposes and to perceived differences in the risk profiles of service providers for the prevention of systemic risk. That is, while prudential standards can be applied to banks, insurance companies and securities firms alike, the application of prudential guidelines typically varies according to particular characteristics of each sector. In many countries, for instance, bank supervision has sought to limit the probability that institutions will become insolvent, but with a view more toward ensuring the stability of the system as a whole rather than strictly attempting to preserve individual banks. This arrangement owes largely to the fact that the systemic risk dimension has been perceived as being more relevant for banks in general and for large banks in particular than, say, for insurance companies. By contrast, supervisory oversight of the latter has tended to stress the financial soundness of individual insurers to ensure the protection of policyholders, as well as pursuing certain issues of fairness. Oversight of securities firms has been oriented more towards protection of consumers and investors, via rules on information disclosure, rules concerning so-called "Chinese walls" and other aspects related to trading. Securities firms have also historically been considered to have more systemic importance than insurers in many jurisdictions (Skipper, 1996), although admittedly those impressions are changing.

[3] See the discussion by Jeffrey Carmichael, Chairman of the Australian Prudential Regulation Authority, in "Financial Regulation in the 21st Century" *Journal of Banking & Financial Services* (August 2000), pp. 32-34.

12. As noted previously, consolidation within sectors and convergence across institutional types has resulted in more complex risks and increased linkages within and among banking systems and international financial markets. Partly as a consequence, while formal differences remain across countries, there has been a convergence toward common priorities in financial policy. For example, most jurisdictions now stress the importance of enhancing competition, improving the efficiency of their financial sectors, adhering to internationally agreed standards, and avoiding risks to their reputations. The consensus approach now has the following core objectives:

- *systemic stability*, which means ensuring the safety of the financial system as a whole plus the reliability and integrity of payment systems. The main goal is to protect the financial system from pressures brought about by problems with an individual institution or system;

- *prudential oversight*, which covers the safety and soundness of individual institutions, in the absence of systemic consequences, with a view toward protecting consumers and investors from losses in the event of an institution's insolvency; and

- *conduct of business regulation*, which focuses on market misconduct, addresses information asymmetries, and covers other aspects of the ways in which financial institutions carry out their business activities with clients.[4]

13. Other general objectives include achieving equity in the distribution of financial resources and ensuring the efficient use of those resources.

Stylised Models of Financial Supervisory Agencies

14. A few researchers have examined the issue of whether there is an optimal organisational structure for financial supervision. Taylor (1995), in his *"twin peaks"* concept, argues for the establishment of a single conduct of business agency and a single prudential supervisory agency to ensure the soundness of the system as a whole and control all risks for all types of financial institutions. According to Goodhart *et al* (1998), the twin peaks approach is "too all embracing" and fails to recognise the "significant differences between institutions and types of business". Their alternative calls for a structure of financial supervision based on a broader range of *"objectives"*, comprising: 1) a systemic regulator (which covers banks and other depositories); 2) a separate prudential regulator for securities firms, insurance companies and other non-bank financial institutions; 3) a conduct of business regulator for retail financial business; 4) a separate conduct of business regulator for wholesale financial business; 5) self regulation for exchanges; and 6) a competition authority, which need not be limited to financial businesses.

15. Both of these approaches link the structure of supervision to the perceived objectives it is being designed to achieve. In an exclusively *objectives-based* supervisory regime, a single agency would have responsibility for prudential oversight of all financial institutions, regardless of the scope of the institutions' business activities (exhibit 2, column 2), while other agencies would pursue other objectives, again for all service providers.

[4] The New Zealand approach to banking supervision stands in marked contrast to most others, relying heavily on mandatory levels of public disclosure in lieu of strict regulatory protection of bank creditors, including depositors.

Exhibit 2
Stylised Model of Financial Supervision by Objectives

Payments system overseer	**Prudential supervisory agency**	**Market conduct supervisory agency**
Payment system oversight	*Prudential oversight*	*Conduct of business*
Commercial banks	Commercial banks	Commercial banks
Insurance companies	Insurance companies	Insurance companies
Investment banks	Investment banks	Investment banks
Asset management companies	Asset management companies	Asset management companies

16. In the academic literature, *supervision by objectives* is joined by two other approaches: the *institutional/sectoral* approach and the *functional* approach. In a pure *institutional/sectoral* regime, as the term suggests, supervision is based on the type of financial institution for all objectives of supervision (exhibit 3). Thus, specialist supervisory agencies would be responsible for different types of institutions (e.g. banks, insurance companies, and investment banks) and different types of institutions could be subject to different rules based on perceived differences in the nature of the risks they face. This is true in practice, in the sense that prudential oversight of banks, for example, tends to focus on the management of credit and market risks, while supervision of life insurance companies is directed at actuarial and technical insurance risks.

Exhibit 3
Stylised Model of Financial Supervision by Sector

Bank supervisor			**Insurance supervisor**			**Securities supervisor**		
Prudential Oversight	Systemic stability	Market conduct	Prudential Oversight	Systemic stability	Market conduct	Prudential Oversight	Systemic stability	Market conduct
Banks			*Insurance companies*			*Securities firms*		
Deposit taking, lending, etc.			Deposit taking, lending, etc.			Deposit taking, lending, etc.		
Insurance activities			Insurance activities			Insurance activities		
Investment banking activities			Investment banking activities			Investment banking activities		
Asset management			Asset management			Asset management		

17. It should be noted that the templates for financial supervision are meant for illustrative purposes and do not necessarily correlate exactly with the models found in practice. For example, the stylised model of financial supervision by sector depicts a hypothetical world in which financial service providers are free to offer the broadest array of products and services. The main purpose of the illustration is to show that

regardless of the activities provided, there is a single designated supervisory agency for each category of service provider. Thus, banks are supervised by a bank supervisory agency, regardless of their product mix, which in practice can include the distribution of insurance products, but would not include the production of the latter.

18. With a pure *functional* supervisory regime, the approach is inverted in the sense that supervision would be directed at particular business activities such as "traditional" banking (e.g. retail deposits), life insurance, and securities trading and underwriting, regardless of the service provider (exhibit 4). That is, a given business activity would be supervised in the same way regardless of whether it were being carried out, for example, by banking entities, life insurance companies, or securities firms. This hypothetical model is subject to the same caveat as the preceding model.

Exhibit 4
Stylised Model of Functional Supervision of Financial Services

Central Bank	**Bank supervisor**	**Insurance supervisor**	**Investment bank supervisor**
Payments system activities	***Deposit taking, lending etc.***	***Insurance activities***	***Securities activities***
Banks	Banks	Banks	Banks
Insurance companies	Insurance companies	Insurance companies	Insurance companies
Securities firms	Securities firms	Securities firms	Securities firms

19. In addition to the three models presented above are various “consolidated” or “integrated” supervisory structures. One possibility is a “twin peaks” approach, as recommended by Talyor, which embodies just two supervisory authorities—for example, one bearing responsibility for payments system stability, while the other agency bears responsibility for other objectives of financial supervision (exhibit 5).

Exhibit 5
A Stylised “Twin Peaks” Model of Financial Supervision

Financial Supervisory Agency		**Payments System Overseer**
Prudential oversight	*Conduct of business*	*Payment system stability*
Commercial banks	Commercial banks	Commercial banks
Insurance companies	Insurance companies	Insurance companies
Investment banks	Investment banks	Investment banks
Asset management companies	Asset management companies	Asset management companies

20. Exhibit 6 carries the degree of integration a step further, showing a fully unified institutional structure for financial supervision in which a single agency bears responsibility for all objectives of financial supervision.

Exhibit 6
Stylised Model of a Fully Integrated Financial Supervisor

Integrated financial supervisory agency		
Payment system oversight	*Prudential oversight*	*Conduct of business*
Commercial banks	Commercial banks	Commercial banks
Insurance companies	Insurance companies	Insurance companies
Investment banks	Investment banks	Investment banks
Asset management companies	Asset management companies	Asset management companies

Structures for financial supervision in OECD countries

General Considerations

21. The organisational structures for financial supervision among OECD Member Countries and CMF Observers are variations on these five themes. For example, the Monetary Authority of **Singapore**, being at once a consolidated regulator covering all financial sectors and a *de facto* central bank, has an organisational structure for financial supervision of the form illustrated in Exhibit 6. The **United Kingdom** has an arrangement which is roughly similar to the "twin peaks" approach depicted in Exhibit 5, with the Financial Services Authority having four statutory responsibilities: (1) maintain confidence in the UK financial system, (2) secure the appropriate degree of protection for consumers, (3) promote public understanding of the financial system, and (4) reduce the scope for financial crime.[5]. However, as will be discussed below, there are MOUs between the FSA and other agencies such that the actual conduct of supervision is more complicated than the simple model would suggest.

22. Thus, despite the structural similarities between the stylised models presented above and the supervisory structures in place in the various countries under consideration, there are several key differences. In particular, as was suggested in the case of the **United Kingdom**, the responsibilities assigned to various supervisory agencies in Member countries are not always so cleanly delineated as might be suggested by the structures depicted in the charts. In many cases, responsibilities overlap and "*memoranda of understanding*" or other various means of co-ordination and co-operation between agencies have been established. A prime example is systemic stability, the responsibility for which often is shared among various agencies including the central bank, ministry of finance, and prudential supervisor (where these are not the same entities).

23. The stylised representations of financial supervisory arrangements also fail to capture the institutional structures in a number of OECD countries in which regional (state, provincial, etc.) agencies also have supervisory responsibility for certain financial institutions. For example, in the **United States** the

5 . See the discussion in "A new regulator for the new millennium", Financial Services Authority (January 2000).

financial supervisory apparatus is largely separated along institutional/sectoral lines. However, banks in the United States may have state charters and, thus, in addition to federal supervision would also be subject to supervision at the state level, while insurance is always subject to oversight by state (and District of Columbia and protectorates) insurance commissioners. In **Canada**, certain financial entities (namely securities firms and exchanges) are subject to supervision by provincial authorities. In **Germany**, state governments oversee the eight bourses in the country. Practitioners play a significant role in a few countries, and in some jurisdictions (e.g. **Switzerland**) external auditors are essential components of the supervisory approach to assessing the risks of financial conglomerates.

24. Apart from typically having responsibility for payments system oversight, the central bank's role in supervision also tends to vary across OECD countries. In 1998, the **United Kingdom** and **Australia** joined other countries such as **Canada** (1987), **Denmark** (1988), **Norway** (1986), and **Sweden** (1991) in establishing a consolidated prudential supervisor that is separate from the central bank. Subsequently, **Iceland** (1999) and other countries world-wide have made similar moves—part of what appears to be a gradual trend away from having central banks bear responsibility for banking supervision, instead vesting this responsibility in a separate integrated authority. There is, however, no clear consensus regarding the role of the central bank in prudential supervision of banks, an issue of particular relevance for euro-zone countries. With the transfer of monetary policy powers to the **European Central Bank** (ECB), some researchers questioned whether the national central banks needed to continue bearing responsibility for prudential oversight. The ECB itself has argued that, at least in the euro-zone, "arguments in favour of a separation of prudential supervision and central banking lose most of their force, while those in favour of combining these functions become even more prominent".[6] In particular, the ECB notes that the intricate linkages that comprise the payments infrastructure of the euro-zone necessitate some involvement of the national central banks in prudential matters. As shown in Exhibit 7, although a number of countries around the world have removed responsibility for prudential from their central banks, but central bank involvement in prudential supervision remains the norm for many others.

Exhibit 7
Prudential Supervision of Banks
(1999 percentages)

	Central Bank	Non-Central Bank
Banks alone	51	6
Banks & securities	6	5
Banks & insurance	13	11
Banks, insurance, & securities	2	6
Total	72	28

Source: Directory of Financial Regulatory Agencies (1999) London: Central Bank Publications
Sample size: 123 countries.

Financial services integration and prudential supervision

25. A review of the experience of OECD countries and CMF Observers suggests that institutional structures for financial supervision of financial groups run the gamut. Many alternative models exist, each having been established in view of the legislative and political context of a particular country. For example, single regulators cover all sectors (at least for prudential supervision) in **Denmark**, **Hungary**,

6 . See the discussion in "The Role of Central Banks in Prudential Supervision", European Central Bank, Room Document No. 1, CMF 92nd Session.

Iceland, **Japan**, **Korea**, **Norway**, **Sweden** and the **United Kingdom**). In some other countries (*e.g.* **France**, **Germany**, **Italy**, the **Netherlands**, **Greece**, and **Portugal**), supervision continues to be conducted largely along institutional/sectoral lines, while a few others (*e.g.* **Belgium** and **Luxembourg**) divide their supervisory functions into two parts (banking and securities supervision in one agency and insurance supervision in another).

26. Many researchers contend that the institutional structure of regulation should reflect the institutional structure of the financial services industry it covers. Numerous characterisations of the financial services industry are possible in this regard. The simplest characterisation is by sector or type of institution; i.e. banks, versus insurance companies, investment banks, etc. Such a sectoral classification is most applicable when financial institutions confine their activities to narrowly defined lines of business or when "high Chinese walls" exist. Within institutional sectors, further distinctions can be drawn between wholesale and retail focused institutions, reflecting the different needs of sophisticated institutional investors versus non-professional clients and investors. Another approach is to group institutions according to whether or not they are perceived to be of systemic importance. Finally, notice must be taken of the rising trend in mergers, increased concentration and internationalisation of financial service providers.[7]

27. Although interfaces between different categories of financial service providers can occur at various points in the product creation-distribution chain, attention is most often focussed on "convergence" at the distribution level. A variety of terms have been used to describe convergence at the distribution level, and because most references have been to bank-insurance linkages, the term "*bancassurance*" is perhaps the most common (Van den Berghe and Verweire, 1998). The term *bancassurance* is typically applied to the case of a bank cross-selling insurance products through its own distribution channels, usually its branch network. Other labels include "*assurfinance*", "*assurbanque*", and "*allfinanz*". The term *assurfinance* refers to a similar situation in which an insurer cross-sells financial products. The term "*allfinanz*" (and "all finance") may be applied to the same strategies, but are sometimes broadened to describe an arrangement that combines distribution across all major service groups. [8]

28. The structural forms financial service providers use to achieve convergence vary across jurisdictions, reflecting in part differences in the approach to regulation and supervision. Even within jurisdictions, regulations covering the <u>production</u> of various financial products and services differ from those covering the <u>distribution</u> of financial products and services. Cross-distribution is often allowed, as well as cross-investment (in the broad sense, including cross-creation of subsidiaries), but not cross-production/underwriting (see Annex tables 1 and 2). For instance, according to the Insurance Directives of the European Union, banks and insurance companies may only be combined within a financial conglomerate under the condition that the insurance activities are conducted in a separate legal entity. Other jurisdictions also place some restrictions on permissible financial activities for various entities. In fact, according to the Institute of International Bankers global survey, few, if any, countries permit insurance underwriting within a bank (IIB, September 2000). Many countries do allow joint arrangements, but only through subsidiaries or affiliates.

29. The regulatory and supervisory environment is obviously a major determinant of the structures financial service providers use to deliver integrated financial services. Other relevant factors include the historical context of a country's financial services industry, legal, cultural, and tax considerations, the degree of market concentration, the existence of scale or scope economies, risk management strategies, and perceived cost efficiencies. In view of these factors, consideration is given to establishing ownership

---

7 . See, for example, the analysis of the implications for financial policy of consolidation in the financial sector as embodied in the Ferguson Report "Consolidation in the Financial Sector", Group of Ten, Bank for International Settlements (Basel, January 2001).

8 See the discussion by Harold D. Skipper, Jr. in "Financial Services Integration Worldwide: Promises and Pitfalls", paper presented to the OECD Insurance Committee.

versus control of the group as well as the degree of economic versus legal integration. At the far end of the spectrum is the *pure financial conglomerate* or the *fully integrated* financial services provider,[9] which combines the production and distribution of all financial products and services in a single corporate entity, with all activities supported by a single pool of capital.[10]

30. Most financial groups found in practice fail to satisfy the final criterion—a shared capital base. Take, for instance, the *universal bank* structure that characterises a number of continental European financial institutions. The universal bank structure typically combines commercial banking and investment banking activities in one corporate entity, but other financial services, especially insurance, are carried out in wholly owned but separately capitalised subsidiaries. The same is true of the group structure found commonly in the **United Kingdom** and **Ireland,** whereby a single bank or insurance parent conducts other financial service activities in separately capitalised subsidiaries. The *financial holding company* structure, whereby a single holding company is created to hold most or all of the shares in separately incorporated and capitalised subsidiaries, is less integrated still. There may be single or multiple types of financial service providers in the group. This structure is found commonly in the **United States**. Other less integrated arrangements also exist, including joint ventures, cross-shareholdings, distribution alliances and other formal arrangements, and there is also convergence across products, whereby a given service provider sells products containing features traditionally associated with products of another service sector.

31. The formal structure institutions use to provide integrated financial services must comply with legal and regulatory requirements, but the formal structure might not be fully reflective of a group's operational structure, in the sense that there could be complex intra-group risk exposures. Two financial groups with the same type and number of financial service entities would present very different challenges to supervisors to the extent that the business activities of one were aligned precisely with legal entities, while in the other, business lines cut across legal entities and (perhaps) across sectoral lines. The possibility exists in such a case for large risks to exist at the group level that do not appear at the level of individual entities. Large, integrated financial services groups can be particularly complex, as these entities often have centralised management and corporate control functions and adopt integrated approaches to their product markets. This is especially true of groups with business lines that cut across geographic regions and national borders.

32. Recent years have witnessed the formation of a growing number of large, internationally active financial groups with operations in several financial sectors. Insurance companies are the dominant entities in some of them (*e.g.* the Axa Group). Others (*e.g.* Nordea) are bank-dominated, while others are large players on all financial sectors (*e.g.* Citi Group, ING Group, CSFB and Deutsche).

---

9 See Saunders, A. and I. Walter (1994). "*Universal Banking in the United States*". New York, Oxford University Press.

10 For various institutional and regulatory reasons cited above, this degree of integration is largely hypothetical, at least in formal legal terms, as few countries would permit insurance underwriting within a bank.

33. What happens to the effectiveness of regulation and supervision as the boundaries between financial service providers disappear? Two of the models of financial supervision presented earlier in this note—*institutional/sectoral* and *functional* approaches—are based on the traditional boundaries between banks, insurance companies, investment firms and pension funds. When financial institutions are specialised in narrow business areas, there is essentially little difference between the two approaches. In fact, the two approaches are equivalent when there are strict barriers to cross-production or high Chinese walls such that there is a one-to-one mapping between institutions and activities. For example, if regulations prohibit the production (the usual case) and distribution of insurance products by banking institutions and vice versa, and place similar restrictions on other financial institutions, then the same supervisory agency would have responsibility of banks as would occur in a functional regime (exhibits 8 and 9).

Exhibit 8
Model of Financial Supervision by Sector with Strict Firewalls

Bank supervisor			**Insurance supervisor**			**Securities supervisor**		
Prudential Oversight	Systemic stability	Market conduct	Prudential Oversight	Systemic stability	Market conduct	Prudential Oversight	Systemic stability	Market conduct
Banks Deposit taking, lending, etc.			*Insurance companies* Insurance activities			*Securities firms* Investment banking activities		

Exhibit 9
Model of Functional Supervision of Financial Services with Strict Firewalls

Central Bank	**Bank supervisor**	**Insurance supervisor**	**Investment bank supervisor**
Payments system activities	***Deposit taking, lending etc.***	***Insurance activities***	***Securities activities***
Banks	Banks	Insurance companies	Securities firms
Insurance companies			
Securities firms			

34. However, when financial institutions are diversified and the scope of their activities is broad, the distinction between the two models becomes more significant. In fact, if an exclusively institutional/sectoral approach were applied under these circumstances, similar activities conducted by different types of service providers might be treated differently, which imposes a competitive inequality and increases the chances for regulatory arbitrage. The most obvious shortcoming of a purely functional approach would be that the solvency position of an institution as a whole could be obscured, as no single regulator would exercise prudential oversight of the institution in its entirety.

35. The risks associated with integrated financial services groups have been well documented in the academic literature and are especially well known in the financial supervisory community.[11] They include a lack of transparency stemming from complex intra-group exposures, a risk of contagion due to non-existent or ineffective firewalls, the risk of multiple gearing, problems arising from unregulated group members, and the potential for regulatory arbitrage within financial services groups that house more than one type of institution. Consequently it has become more widely accepted among members of the supervisory community that large, complex institutions with systemic importance should be treated differently than small institutions, and that some type of "group-wide" approach is needed for complex groups.

36. Given the potential shortcomings of exclusively institutional and functional approaches to prudential supervision when institutions are diversified, the tendency towards globalisation and conglomeration in financial services has perhaps strengthened arguments in favour of supervision based on the objectives of regulation, or at least, upped the ante for group-wide approaches. Some observers suggest that a fully integrated supervisory agency is needed both to address the special risks posed by integrated financial services groups and to maintain a level playing field for different categories of institutions offering what are essentially the same products and services. At a minimum, the conglomeration trend places increased importance on the exchange of information between different specialist supervisory agencies, on greater co-ordination of regulatory requirements and liaison of activities, and on effective procedures for co-ordinated action in the event problems do arise.

37. In practice, supervisory arrangements tend to vary across countries and regions. In many countries, regulatory and supervisory arrangements for financial services are still structured for the most part along traditional institutional lines, with differential treatment of the four pillars of the financial services industry and lacking special regulatory initiatives with respect to financial conglomerates or other complex groups. Even in countries where so-called "single" regulators have been established, the legal configurations of the supervisory agencies differ and the range of activities undertaken varies considerably across countries. Some integrated supervisors focus solely on prudential oversight of selected categories of financial service providers (typically banks and insurance companies). In other cases, agencies have responsibility for a wider range of service providers (e.g., securities firms in addition to banks and insurance companies), or cover a broader range of activities (e.g., bearing responsibility for consumer protection and conduct of business regulation in addition to prudential oversight). Nonetheless, the evolution in policy is clearly in the direction of special treatment of complex financial groups.

---

[11] See, for example, the report by the Tripartite Group of Bank, Securities, and Insurance Regulators (1995) "The Supervision of Financial Conglomerates". The Basle Committee, IAIS and IOSCO subsequently established the Joint Forum on Financial Conglomerates in 1996, which succeeded and took over the work on the topic by the Tripartite Group. The Joint Forum has issued a number of recommendations regarding core principles for capital adequacy, sharing of information and co-ordination between supervisory agencies. The EU has also sought to develop a set of minimum regulations applicable to the members of financial groups, as laid out in EU Directive (IP/01609) dated April 26, 2001. A main objective of the Directive is to eliminate double gearing and intra-group creation of capital among members of a financial group.

National experience

Europe

38. Consider the case of universal banks, which are found in numerous countries, albeit with varying combinations of financial activities permitted in the same legal entity. In most cases, especially in the EU area, commercial and investment banking activities are allowed within the same legal entity, with insurance activities permitted, but generally only through separately capitalised subsidiaries. This, for instance, is the case in **France**, which has both large banking (*e.g.* BNP-Paribas) and large insurance-dominated (*e.g.* Axa) groups**.** Financial sector regulation in France is conducted largely on a "sectoral" basis. The *Commission Bancaire* is the prudential supervisor for banks and securities firms. Market oversight and regulation of exchanges is the responsibility of the *Commission des Opérations de Bourse*, while the *Commission de Contrôle des Assurance* is responsible for insurance. There are no specific regulations governing the activities of financial groups, but the relevant authorities have convened an agreement to promote co-operation when circumstances dictate.

39. Similar arrangements with separate prudential supervisors are found in **Germany** and **Italy.** In **Germany**, financial regulation is not consolidated and no sectoral supervisor exercises a lead role in the case of financial conglomerates or groups. Banks are subject to oversight by the *Bundesaufsichtsamt für des Kreditwesen* (BAKred), in co-operation with the *Deutsche Bundesbank*, while insurance is regulated by the *Bundesaufishtamst für das Versicherungswesen* (BV). Securities activities are covered by the *Bundesaufsichtamt für des Wertpapierhandel* (BAWe). However, arrangements for cross-sector oversight were put in place with the establishment of the Forum for Financial-Market Supervision, in which the Federal Ministry of Finance, the German Federal Bank, and the Supervisory Offices for Insurance, Banking and Securities are represented. Against the backdrop of the alignment of financial products and increased co-operation among banks, insurance companies and investment firms and given the desire to strengthen Germany's position as an international financial centre, the Federal government proposed in January 2001 to merge the various supervisory authorities into one authority for financial market supervision (*"Bundesanstalt für Finanzmarktaufsicht")*, effective January 1, 2002.

40. In **Italy** the supervisory bodies for banking, insurance and securities are the *Banca d'Italia*, the *Istituto di Vigilanza sulle Assicurazioni Private* (ISVAP), and the *Commissione Nazionale per le Società e la Borsa*. There is recognition of the increased degree of convergence across certain financial products, but no explicit regulatory treatment has been established for financial conglomerates, although each conglomerate may be assigned its own lead co-ordinator. Even so, the structure of financial supervision in Italy is a bit more complicated than appears at first blush. While the three-way division of the financial market into banking, insurance and securities sectors remains in place, the actual distribution of responsibilities among the supervisory agencies is quite mixed (Exhibit 10).[12]

12. See Giorgio di Giorgio, Carmine Di Noia and Laura Piatti (2000). "Financial Market Regulation: The Case of Italy and a Proposal for the Euro Area". *Working Paper* No. 00-24, The Wharton Financial Institutions Center.

Exhibit 10
Model of Financial Supervision in Italy

Service providers	**Supervisory Objectives**		
	Systemic stability	**Transparency and proper behaviour**	**Competition**
Banks	**BI, Cicr. MT**	**BI, Cicr. CONSOB, MT (Antitrust)**	**BI (Antitrust)**
Insurance (life)	**Isvap, Cipe, MI**	**Isvap (Antitrust), Cipe**	**AA (Isvap), Cipe**
Investment Firms	**BI, MT**	**CONSOB, (Antitrust)**	**AA**
Investment Funds	**BI, MT**	**CONSOB, (Antitrust)**	**AA**
Pension funds	**Covip, ML, MT**	**COVIP, MT (Antitrust)**	**AA**

BI=Banca d'Italia; MT=Ministry of Finance (*Min. Tesoro*);
CONSOB=Securities Supervisor (*Commissione Nazionale pr le Società e la Borsa)*;
Isvap =Insurance Supervisor (*Istituto di Vigilanza sulle Assicurazioni Private*);
AA=Antitrust Authority (*l'Autorità Antitrust*);
ML=Ministry of Labour (*Min. Lavoro*);
Covip=Pension Fund Supervisor (*Commissione di Vigilanza sui Fondi Pensione*);
Source: "financial Market Regulation: The Case of Italy and a Proposal for the Euro Area" (June 2000) Giorgio di Giorgio, *et al*. Wharton Financial Institutions Center Working Paper No. 00-24.

41. Supervisory arrangements in **Spain**, which has a number of large banking groups with extensive cross-border operations (especially in Latin America), differ from the three previous organisational structures in the sense that explicit provisions are in place for a lead regulator in the case of financial groups or conglomerates. For example, if the dominant entity is an insurance undertaking, the supervisory body is the Directorate General of Insurance. Otherwise, regulation is conducted on a separate sectoral basis with the Banco de España, the *Dirección General de Seguros y Fondos de Pensiones*, and *Comisión Nacional del Mercado de Valores* having responsibility respectively for banks, insurance, and securities markets.

42. In the **Netherlands**, home to a number of large financial conglomerates, supervision still continues to be nominally divided along institutional lines, but specific arrangements were made for cross-sectoral aspects of supervision back in July 1999 with the establishment of the Board of Financial Supervisors (BFS). The BFS, in which the three primary supervisory agencies are represented equally, is not a separate supervisory authority with separate supervisory tasks per se. Rather, its legal basis is an agreement between the supervisory agencies specifying their responsibility vis-à-vis each other and vis-à-vis third parties. The BFS's domain does not include those two aspects of cross-sector supervision that are already satisfactorily embodied in the current model, *viz*. systemic supervision and securities-related supervision. Payment system oversight remains the responsibility of the central bank and securities-related supervision the responsibility of the securities supervisor (Exhibit 11). Prudential supervision and conduct

of business oversight also remain the responsibility of the relevant sectoral supervisor for individual institutions.

Exhibit 11
Model of Financial Supervision in the Netherlands

Sector	Financial Supervisory Objectives					
	Systemic stability plus payments	Prudential supervision		Conduct of business		
				Non-securities		Securities
		Sectoral	Cross-sector	Sectoral	Cross-sector	
Banks	DNB	DNB	BFS	DNB	BFS	STE
Insurance		VK		VK		
Securities		STE		STE		

DNB=*De Nederlandsche Bank*; VK=Insurance Supervisor (*Verzekeringskamer*); STE=Securities Supervisor (*Stichting Toezicht Effectenverkeer*); BFS=Board of Financial Supervisors (DNB, VK and STE jointly).
Source: "Reform of Financial Supervision in the Netherlands", (August 1999). Dirk Schoenmaker, Ministry of Finance, The Netherlands.

43. Supervision also continues to be separated largely along lines of the three pillars (banks, insurance companies and securities firms) in **Greece** and **Portugal**. However, Portugal last year established the Board of Supervisory Authorities, chaired by the Central Bank, which has responsibility for systemic stability and also bank-dominated groups. To facilitate the exchange of information among specialist supervisors, working groups have been created with representatives from each supervisory authority.

44. In **Finland**, the Financial Supervisory Authority, a separate legal entity responsible for the supervision of banks and securities companies, shares the support services of the central bank. Regulation of insurance companies in Finland is combined with the regulation of private sector pension funds in a separate authority. This arrangement partly reflects the fact that financial groups comprising banking and insurance are not prevalent in Finland. Similar arrangements are found in a number of other European countries (*e.g.* **Austria, Belgium** and **Luxembourg**). However, in **Austria** steps have been taken to introduce a consolidated supervisory agency in the coming year. **Switzerland** also has announced its intention to establish a consolidated supervisory authority in the next year or so. In the interim, the Swiss National Bank and the Ministry of Finance have concluded a memorandum of understanding detailing their respective responsibilities regarding supervision of financial conglomerates.

45. In **Luxembourg**, the competent authority for the supervision of banking and investment firms and financial asset markets is the *Commission de Surveillance du Secteur Financier*. Its four-part objectives are (1) to promote a considered and prudent business policy in compliance with the regulatory requirements; (2) to protect the financial stability of the undertakings of supervised and of the financial sector as a whole; (3) to ensure the quality of organisation and internal control systems; and (4) to strengthen the quality of risk management. The Commission has signed memoranda of understanding with

a number of supervisory authorities from the financial sector, which establish principles and modalities for co-operation between authorities on questions of prudential supervision. The Commission's Secretariat-General has the task of co-ordinating the Commission's outside contacts, including those with foreign supervisory authorities.

46. Integrated supervisors are found in a number of Scandinavian countries (**Denmark, Norway,** and **Sweden**), but there are marked differences between them. In **Norway**, a single financial supervisory authority (*Kredittilsynet*) was established in 1986, although there have been a number of organisational changes to keep pace with the structure of the industry. The Capital Markets Department is responsible for supervision of investment funds and securities firms, while the Finance and Insurance Department maintains responsibility for supervision of banks, insurance companies, finance companies and mortgage companies. The latter has historically operated along functional lines, but organisational changes over the years have resulted in the establishment of a functionally divided department that bears responsibility for both banks and insurance companies. There are four sections: Licensing, Laws and Regulation; Off-site supervision and Analyses; On-site inspection; and a special section (actuaries and lawyers) on Insurance regulation. With this structure, the same sections handle on-site and off-site supervision of both banks and insurance companies.

47. To ensure communication on relevant matters, there are quarterly meetings between the Chairman of the Board of *Kredittilsynet*, the General Director of *Kredittilsynet* and the Secretary General of the Ministry of Finance. Quarterly meetings also take place between the Chairman and General Director of *Kredittilsynet* and the Governor of *Norges Bank*, at which various topics of mutual interest are discussed. At the department level, there are monthly meetings to ensure that the exchange of information is as extensive as possible. Both organisations work on questions pertaining to financial stability and prepare semi-annual reports in this field. The reports are discussed among various staff of the organisations on both a formal and informal basis. Representatives from the Ministry of Finance participate in the informal discussions.

48. Prior to 1991, **Sweden** had two supervisory authorities—one for banking and securities and a second for insurance. In 1991 the two authorities were merged to form a single integrated agency—F*inansinspektionen*.[13] The authority has long maintained a risk-oriented approach to supervision, focused on internal control and management of primary risks, such as credit risks, market risks, and special insurance risks. The organisation historically was structured along the three pillars of credit markets, insurance market, and securities markets. Each of these divisions had three sections: licensing and regulating, financial analysis, and supervision. However, to adapt to the changes brought about by financial integration, deregulation, and technology, the operational structure of *Finansinspektionen* was changed effective 1 September 2000 to focus on three main processes: *supervision, regulating and licensing* and *financial stability analysis,* which cut through the formal organisational structure and are managed within the framework of a matrix management system. With the new structure, emphasis is placed on "group-wide" supervision and risk analysis. Each financial group considered to be important for stability is assigned a "lead supervisor" based on the group's dominant activity. The lead supervisor has overall responsibility for the group and is also responsible for co-ordinating activities with other supervisors and compiling a group-wide assessment. The lead supervisor also makes the necessary contacts with foreign supervisors. For example, Sweden has made specific arrangements with Norway regarding supervision of the insurance group IF, and has also entered into a special arrangement with Finland, Denmark and Norway regarding the banking group NORDEA. More generally, the Nordic countries have concluded a memorandum of understanding covering supervisory matters, which calls for increased information sharing and co-operation regarding planning and executing on-site inspections.

---

[13] See the discussion in Jarl Symreng "Integrated Supervision" (May 2001), paper presented to the Conference of European Insurance Supervisors, Budapest.

49. In addition to the universal bank structure, Europe also is home to large financial groups headed by a single bank or insurance parent. Institutions with this structure are common in a number of countries, including the **United Kingdom** and **Ireland**. Both countries have adopted an integrated structure for financial supervision. In the **United Kingdom**, the Financial Services Authority has largely completed structuring the new agency. The legislation under which it will operate—the Financial Services and Markets Act 2000—will come into force by end-November 2001. The agency will by then have a single handbook of rules and guidance for the firms it supervises. The FSA has a wider range of tools than the predecessor regulators and intends to use them consistently across all sectors it regulates. To that end, the agency is pressing ahead with its development of an integrated and risk-based approach to firm-specific regulation and to industry wide thematic issues. Institutions are to be assigned to one of five divisions (*Deposit Takers, Insurance Firms, Investment Firms, Major Financial Groups or Markets and Exchanges).* In this structure, regulation of the major banks, building societies, investment banks and insurance companies will be the responsibility of the Major Financial Groups Division. However, the agency will operate subject to a MOU with Her Majesty's Treasury and the Bank of England on their respective roles and responsibilities regarding the financial sector, and in certain circumstances the FSA notes that there may be a need to work closely with overseas regulators.

50. In **Ireland**, the shift to a new single regulatory authority for financial services was aimed in part at strengthening the objective of consumer protection, which historically was handled by the Ministry of Enterprise, Trade and Employment. The Irish Financial Services Regulatory Authority will report to the finance minister and will conduct prudential regulation of banks and other financial service providers as well as oversee consumer protection. Integrating prudential regulation and consumer protection is expected to ensure effective communication of information between the two and increase the focus on consumer issues.

51. Integrated financial supervisory agencies are also found in **Hungary** and **Iceland**. Increased financial convergence across sub-sectors of the financial services industry was a major factor behind the move to integrated financial supervision in **Hungary**. The first step was the creation of the Hungarian Banking and Capital Market Supervision (HBCMS) in 1997, via a merger of the former State Banking Supervision and the Securities and Exchange Commission. The HBCMS operated for a number of years as an organisation with a national scope of authority and considerably greater independence than the predecessor organisations. Two other supervisory bodies—State Supervisory Authority of Insurance and State Private Funds Supervision—also operated with a national scope of authority. The latter agency began with supervision of the voluntary (mutual) pension funds in 1994, but its authority was extended to private pension funds in 1997. The Hungarian Financial Supervisory Authority (HFSA) was established by the Act CXXIV of 1999 via merger of the existing supervisory bodies and began operation 1 April 2000. The merger of the existing agencies was intended to create a unified, integrated supervisory structure with the following objectives: maintaining market confidence, promoting public awareness, protecting consumers, and reducing financial crime. To facilitate the achievement of these objectives, the agency was given a new structure and changes in the character of supervision. While the supervisory process focussed previously on ensuring formal conformity with the law, the HFSA focuses on risk management and methods for promoting prudent operations, with lead supervisors appointed and assigned responsibility for given financial groups. Where financial groups contain foreign entities, "memoranda of understanding" are concluded with the appropriate foreign supervisors of the jurisdiction to which the owner of the group belongs.

52. In **Iceland**, *Fjármálaeftirlitiŏ* supervises the activities of banks, pension funds, financial companies, insurance companies and all other financial service providers. It has existed in this form since its creation in 1999. Prior to then, a special division of the central bank supervised banks and other financial institutions and a separate supervisory authority monitored the activities of insurance companies.

North America

53. Several countries with institutional/sectoral oversight regimes have established a "lead regulator" for financial groups, based on the parent or the dominant regulated entity in the group. Thus, for example, if a group's main activity is perceived to be commercial banking, then the banking regulator becomes the lead regulator, responsible for overseeing the group's operations as a whole and co-ordinating with other sectoral regulators. In the **United States**, for example, the Gramm-Leach-Bliley Act—signed into law on 12 November 1999—established the Board of Governors of the Federal Reserve System as "umbrella" regulator of *financial holding companies*, although the Board's authority with respect to functionally regulated subsidiaries (i.e., broker-dealers, insurance companies, and investment companies and advisers) is circumscribed. Direct supervisory responsibility for a particular activity is assigned to a given sectoral regulator, regardless of where in the corporate structure the function is located. When a holding company has a bank component, the Federal Reserve has "look through" authority with respect to the group (Exhibit 12). As regards its treatment of complex financial groups, supervisory staff in the Federal Reserve Board's Division of Bank Supervision and Regulation maintain a permanent presence on site at complex banking groups.

Exhibit 12
Simplified Model of Financial Supervision in the United States

	Financial Supervisory Objectives		
Service provider	*Payment System Oversight*	*Primary Prudential Supervisor*	*Conduct of Business*[1]
Banks	**FRB**		
State member		FRB	FRB
State non-member		FDIC, State Bk. Sup.	FDIC
National		OCC	OCC
Investment Banks		SEC[2]	SEC
Insurance companies		State Ins. Comm.	State Ins. Comm.
Savings and Loans		OTS	OTS
Complex Groups			
Bank component		FRB umbrella sup.	FRB umbrella
Bank		OCC	OCC
Inv. bank			SEC
Ins. Co.		State Ins. Comm.	State Ins. Comm.
No bank component			
Ins. Co.		State Ins. Comm.	State Ins. Comm.
Inv. bank			SEC
S&L		OTS	OTS

FRB=Federal Reserve Board; FDIC=Federal Deposit Insurance Corporation; Bk. Sup=Banking Superintendent; OCC=Office of the Comptroller of the Currency; OTS=Office of Thrift Supervision; SEC=Securities and Exchange Commission; Ins. Comm.=Insurance Commissioner.

1. All public offerings are subject to SEC disclosure requirements.

2. Registered broker-dealers are required to file quarterly risk assessment reports with the SEC regarding their material affiliates.

54. Supervision in **Mexico** is also divided along sectoral lines, although not to the same extent as in the United States, and emphasis is placed on improving communication and the exchange of information between the various supervisory authorities. In **Canada**, supervision of banks, trusts and insurance companies and pension funds is carried out at the federal level by an integrated authority—the Office of the Superintendent of Financial Institutions (OSFI), which was established in 1987. Stock exchange supervision in Canada is conducted by provincial authorities. Prior to a recent re-organisation, banks and insurance companies were overseen by different units within OSFI, but changes were introduced to enhance the co-ordination of supervision and achieve greater cross-sector consistency. In addition to these internal efforts at enhancing policy co-ordination, high-level meetings are held on a regular basis between OSFI and other government bodies to discuss problem institutions and other topics of mutual interest. A formal committee consisting of the Governor of the Bank of Canada, the Chairman of CDIC, the Deputy Minister of Finance and the OSFI Superintendent meets on a predetermined schedule to discuss systemic issues and other matters affecting the financial services industry. In addition to these meetings, the Deputy Superintendent of OSFI meets on a regular basis with the Governor of the Bank of Canada.

Asia-Pacific Region

55. Consolidated financial supervisory agencies have been established in most OECD countries in the Asia-Pacific region. For example, in **Australia**, where the financial services sector is dominated by conglomerates, the Australian Prudential Regulation Authority (APRA) was established in July 1998 via merger of bank supervision (previously the responsibility of the Reserve Bank of Australia) and the Insurance and Superannuation Commission (ISC), which had supervised insurance companies and pension funds. APRA was given responsibility for prudential supervision of the entire financial sector in Australia, while the Australian Securities and Investments Commission (ASIC) is responsible for market conduct and corporations law. The Reserve Bank maintains responsibility for payments and system stability, and may be involved in some of APRA's activities (*e.g.* on-site inspections), but otherwise has no supervisory responsibilities regarding individual institutions. APRA has memoranda of understanding with the Reserve Bank, the Treasury, and ASIC, which clearly specify the means by which the various bodies will co-ordinate their activities and share information. Legislation permits APRA to share information with other supervisory agencies (including foreign supervisors) if the need arises. There is also a statutory requirement for APRA to advise the Treasurer when it considers an institution it regulates to be in financial difficulty.

56. APRA's supervisory powers are similar across all supervised institutions, although supervisory standards and processes still tend to differ across sectors. An area where some degree of harmonisation has been achieved is in licensing. Australia announced in the past year its intentions to bring the insurance, pensions and securities industries under the same licensing and disclosure regime. Prudential rules, however, will still vary across institutional sub-sectors. The reasons cited for the change to a consolidated licensing regime include the view that the existing fragmented framework creates inefficiencies for financial service providers and confusion for consumers.

57. In **Japan**, the government agency responsible for both regulation and supervision of banks and insurance companies is the Financial Services Agency (FSA), which was established though a merger of the former Financial Supervisory Agency and the Financial System Planning Bureau of the Ministry of Finance. The Ministry of Finance's involvement in financial regulation is now limited for the most part to the resolution of failed financial institutions and financial crisis management, as well as to supervising the Deposit Insurance Corporation and the Insurance Policy Holder Protection Funds. Regulation and supervision of pension funds is primarily the responsibility of the Ministry of Health, Welfare and Labor as of January 2001. There are no formal procedures in place for policy co-ordination, but the necessary

information is exchanged between organisations. For example, issues pertaining to bank supervision are discussed between the FSA and the Bank of Japan.

58. In **Korea**, the consolidated financial supervisory agency is the Financial Supervisory Service (FSS), which was established by the Act Concerning Establishment of Financial Supervision Organisations to implement the directives of the Financial Supervisory Commission and the Securities and Futures Commission and to examine and supervise financial institutions. The FSS is a specialised government affiliated agency, but it is independent in the conduct of its responsibilities.[14] The FSS regulates all matters concerning financial institutions except competition policy, which is the responsibility of the Fair Trading Commission. There are no formal MOUs between the FSS and other government bodies. However, the agency and relevant government bodies (*e.g.* Bank of Korea and Ministry of Finance and Economy) hold meetings to discuss major policy issues.

59. The Monetary Authority of **Singapore** (MAS) is a fully integrated financial supervisor in the sense that all sectoral supervisors are housed under the same structural roof. Although separate laws govern the activities of different financial service providers and supervision has largely been conducted on an institutional/sectoral basis, staff in the various units work closely together and there is co-operation across sectors. Communication across staff responsible for different categories of institutions is helped by the fact that there is sufficient mobility—staff are encouraged to gain experience in other departments. The MAS' structure is a legacy; the agency was legally constituted as a statutory board under the Ministry of Finance for purposes of managing the exchange rate, a task that was considered to entail less conflict with an integrated structure. The MAS does not, however, require the MOF's approval on matters of policy. When matters dictate, meetings are held with the MOF or other government ministers, but there are no formal arrangements to do so.

Conclusions

60. A thorough understanding of financial supervisory regimes in the OECD area requires a look beyond the organisational structure of supervisory agencies to see how supervision is actually being conducted. In most countries, there continue to be differences in the rules applied to different types of financial businesses regarding their solvency, the types of assets they manage, and the management of their liabilities. Many supervisors argue that these differences are warranted by the different risks posed by various categories of service providers. To that end, regulatory standards for banks tend to be rather different than those for insurance companies. In particular, bank supervision tends to be focused on the asset side of the balance sheet (proper valuation of assets), with a view toward ensuring that there is adequate capital to cover the risks involved, while supervision of insurance companies is concerned more with safeguarding the interests of the insured and, hence, is focused on the liability side of insurers' balance sheets. Regulatory standards are different even for life insurance companies and pension funds, two long-term institutional investor sectors that are functionally more similar than banks and insurance companies (e.g. both offer a mix of insurance and saving). In particular, both the life and pension fund businesses are often conducted via products that employ mutual fund structures as investment vehicles (Davis 2000).

61. Regulatory initiatives range from so-called *"solo" regulation* (and supervision), in which attempts are made to insulate the principal regulated entity from other members of its group, to *consolidated regulation* (and supervision) whereby regulation is applied at the top tier of the group (*i.e.* parent or holding company level), covering all members that provide financial services. Historically, bank supervision tended to focus on banking institutions in their entirety, relying on "consolidated" reports of income and condition, while insurance regulators historically opted for the former approach with separate control per legal entity. However, financial convergence has increased the need for extra information (plus)

14. The FSS carries out its duties independently under authority delegated from the FSC, which oversees its operations.

about the nature of intra-group relationships and this has forced supervisors in the insurance sector to modify their approach accordingly—hence the *solo-plus* approach has been adopted.

62. Exhibit 12 shows the structures for oversight of financial conglomerates for selected countries in the OECD area plus CMF observers. Eleven countries thus far have established a single integrated supervisory framework or, at least, consolidated their supervisory structures into just two or three bodies (column 1). One finds, however, that the majority of consolidated supervisory agencies are either structured along institutional lines (e.g. **Korea** and **Norway**), or have a mixed approach (e.g. **Denmark**, **Singapore**, **Sweden**, and the **United Kingdom**). From a practical standpoint, it has proven exceedingly difficult to have one entity supervise all types of institutions. Thus, while the supervisory agency itself may be consolidated, operationally there often are distinct units that typically focus on particular types of institutions.

Exhibit 12
Regulation of Financial Conglomerates in Selected Countries

Single Regulator Oversees Activities of Financial Conglomerates as a Whole	Identity of Lead Regulator for a Financial Conglomerate Determined on the Basis of the Financial Conglomerate's Principal Activity	Financial Conglomerates Operate without a Single or Lead Regulator
Australia	Austria	Belgium
Canada[1]	Greece	Czech Republic
Denmark	Ireland	Finland
Hungary	Spain	France
Iceland	United States[2]	Germany
Japan	Switzerland	Hong Kong
Korea		Italy
Norway		Luxembourg
Singapore		Netherlands
Sweden		Poland
United Kingdom		Portugal
		Turkey

Source: Institute of International Bankers "Global Survey 2000" plus national supervisory agencies.

1. In Canada, the Office of the Superintendent of Financial Services oversees the operations of financial conglomerates at the federal level. Certain companies within a financial conglomerate (e.g., securities firms and insurance companies) may also be subject to supervision by provincial authorities.

2. In the United States, financial conglomerates that include banks and that are organised as "bank holding companies" (or whose bank holding company qualifies for treatment as a "financial holding company" under the Gramm-Leach-Bliley Act) are subject to umbrella supervision by the Federal Reserve Board, with the activities of subsidiaries of the bank/financial holding company regulated by the appropriate primary bank and "sectoral" regulators (e.g., the Office of the Comptroller of the Currency (OCC) in the case of national banks, a state banking agency in the case of state-chartered banks, the Securities and Exchange Commission (SEC) in the case of securities firms, and a state insurance commission in the case of insurance companies). Non-bank financial conglomerates (i.e., those comprised of only non-bank financial institutions such as securities firms, insurance companies and commercial finance companies) are not regulated at the group level, although the SEC requires registered broker-dealers to file with it quarterly risk assessment reports regarding their material affiliates. The Gramm-Leach-Bliley Act for the first time permits national banks, with the approval of the OCC, to establish "financial subsidiaries" through which they may engage in financial activities that are permissible for financial holding companies (including securities underwriting and dealing but excluding insurance underwriting and merchant banking). The activities of national banks and their financial

subsidiaries are subject to consolidated oversight by the OCC, with the appropriate sectoral regulator responsible for oversight of individual financial subsidiaries.

63. In practice, it has sometimes proved difficult for specialist regulators to agree on which should be the “lead” regulator. Citing these difficulties, some researchers have argued in favour of a unified approach, which they believe would offer better prospects for co-ordination of oversight and exchange of information than would occur with separate agencies (Abrams and Taylor, 2000). However, as noted previously, fully unified approaches to financial regulation and supervision are rare. There are a number of alternative institutional arrangements in place. The **Dutch** approach, with the three primary supervisory agencies participating in a common oversight board based on explicit agreements regarding their respective responsibilities, is one example.

64. An important consideration in the creation of consolidated financial supervisory agencies, especially integrated agencies, is how best to ensure their operational independence while preserving some measure of accountability. There is no unique answer to this question. In this regard, the objectives, powers and responsibilities of consolidated supervisory agencies are usually clearly defined by law, so as to remove them from direct government control, but with some mechanisms in place to ensure that proper checks and balances exist. Various approaches have taken to satisfy this requirement. In the majority of cases, consolidated supervisory agencies have been established as independent statutory authorities. However, even where consolidated supervisory authorities have been established as government agencies, they usually have been given a high degree of operational independence. The Financial Services Authority in the United Kingdom is an interesting example, having been established (at least initially) as a private sector company limited by guarantee.

65. The supervisory powers granted to consolidated supervisory agencies vary considerably across countries. This fact is not all that surprising, considering that the range of activities the agencies have been established to perform also vary. As mentioned, the Monetary Authority of **Singapore** is a fully integrated agency, embodying both central bank and supervisory functions. Some agencies focus solely on prudential oversight of certain classes of institutions (especially banks and insurers), while others are responsible for overseeing a wider range of institutions (investment banks, brokers and advisors) and hence activities (market conduct and disclosure). To exercise these responsibilities, the majority of agencies have been granted a core set of supervisory powers that may include authorisation/licensing institutions (although in some cases, the ultimate authority rests with the Minister of Finance), the power to conduct inspections and request information, and the authority to give directions, suspend operations and appoint an administrator. In the majority of cases, the work of external auditors is used by supervisory agencies to supplement their own inspection activities, but a few agencies do not use auditors at all (e.g. **Japan**, **Korea** and **Norway**).

66. All consolidated supervisory authorities are subject to some form of confidentiality requirements, but exceptions are granted to allow information to be shared with selected third parties. These third parties typically include the central bank, where this is a separate entity, the government, and in a number of cases, foreign supervisory authorities.

67. Formal meetings with the central bank, where it is not the regulatory authority itself, are common, as are other liaisons with different arms of the government, especially the Finance Ministry. There may be explicit requirements for the government, and sometimes industry, to be consulted on major policy changes, but apart from the limits on the agencies' powers discussed above, no other agency executes a "shadowing role" over consolidated agencies.

BIBLIOGRAPHY

Abrams, Richard K. and Michael W. Taylor (December 2000), "Issues in the Unification of Financial Sector Supervision", IMF Working Paper.

Australia. Treasurer (September 1997), "Reform of the Australian Financial System: Details of Measures" (Canberra).

Australia. Financial System Inquiry (1997), *Financial System Inquiry Final Report*, (Canberra: Australian Government Printing).

Australian Prudential Regulation Authority, *Meeting of Integrated Supervisors, Summary Report*. Sydney, May 1999.

Bank of Canada (1997), "Guideline Related to Bank of Canada Oversight Activities under the Payment and Clearing Settlement Act", (Ottawa).

Basle Committee on Banking Supervision. "Supervision of Financial Conglomerates," Papers prepared by the Joint Forum on Financial Conglomerates. Basle, February 1998.

Briault, Clive. (1999), "The Rationale for a Single National Financial Services Regulator," Financial Services Authority, *Occasional Paper Series, 2*. London.

Carmichael, Jeffrey "Financial Regulation in the 21st Century", *Journal of Banking & Financial Services*. August 2000, pp. 32-34.

Davis, E. Philip, "Portfolio Regulation of Life Insurance Companies and Pension Funds", paper presented to the OECD Insurance Committee, November 30, 2000.

Goodhart, Charles A.E., Philipp Hartmann, David Llewellyn, Liliana Rojas-Suárez, and Steven Weisbrod. 1998. *Financial Regulation, Why, how and where now?* London. Routledge, in association with the Bank of England.

Goodhart, Charles A. E., Dirk Schoenmaker (1995), "Should the functions of monetary policy and banking supervision be separated?" *Oxford Economic Papers, 47*, pp. 539-560.

Harris, Stephen L. (1997), "Recent Financial Regulatory and Structural Developments in OECD Countries", in *OECD Financial Market Trends: December 1997* (OECD: Paris).

Harris, Stephen L. (1998), "Recent Financial Regulatory and Structural Developments in OECD Countries", in *OECD Financial Market Trends: March 1998* (OECD: Paris).

Hawkesby, Christian. "The Institutional Structure of Financial Supervision: A Cost-Benefit Approach," *The Journal of International Banking Regulation* (July 2000), pp. 36-54.

Institute of International Bankers. *Global Survey of Regulatory and Market Developments in Banking, Securities and Insurance* (September 2000), New York.

Llewellyn, D. T. (1999) "The Economic Rationale for Financial Regulation", Financial Services Authority, *Occasional Paper Series, 1*.London.

Saunders, A. and Walter, I. 1994. *Universal Banking in the United States.* New York. Oxford University Press.

Schoenmaker, Dirk. "Reform of Financial Supervision in the Netherlands," Ministry of Finance, Netherlands. August 1999.

Skipper, Jr., H. D. 1996. "International Trade in Insurance," in Claude E. Barfield, ed., *International Financial Markets: Harmonization versus Competition*. Washington, D.C. AEI Press. pp. 151-223.

Skipper, Jr., H. D. 2000. "Financial Services Integration Worldwide: Promises and Pitfalls", paper presented to the OECD Insurance Committee.

"Structural Developments in OECD Member Countries," *Financial Market Trends*, OECD, No. 68 (November 1997), No. 71 (November 1998) and other editions.

Taylor, M. (1995). *"Twin Peaks": A regulatory structure for the new century.* Centre for the Study of Financial Innovation, London.

Van den Berghe, Lutgart (ed.) *Financial Conglomerates New Rules for New Players?* 1995. Boston. Kluwer Academic Publishers.

Van den Berghe, L.A.A. and Verweire, K. 1998. *Creating the Future with All Finance and Financial Conglomerates*. Boston. Kluwer Academic Publishers.

ANNEX

Table 1: Rules Governing Cross-Distribution and Cross-Production of Banking and Insurance Products

MEMBER COUNTRIES	DIRECT PRODUCTION		DIRECT DISTRIBUTION	
	OF AN INSURANCE PRODUCT BY A BANK	OF A BANKING PRODUCT BY AN INSURANCE COMPANY	OF AN INSURANCE PRODUCT BY A BANK	OF A BANKING PRODUCT BY AN INSURANCE COMPANY
Australia	F	F	A	A
Austria	F	*	A	*
Belgium	F	*	A	*
Canada	F	*	L	*
Czech Republic	F	F	A	F
Denmark	F	*	A	A
Finland	F	*	A	*
France	F	*	A	L
Germany	F	*	A	*
Greece	F	*	L	*
Hungary	F	F	A	A
Iceland	F	*	A	*
Ireland	E	*	A	*
Italy	F	*	A	A
Japan	F	*	F	L
Korea	F	F	F	F
Luxembourg	F	*	A	*
Mexico	F	*	L	F
Netherlands	F	*	A	*
New Zealand	..	..	..	..
Norway	F	*	A	*
Poland	F	*	A	*
Portugal	F	*	L[3]	*
Slovak Republic	F	F	A	F
Spain	F	*	A	A
Sweden	F	*	A	L
Switzerland	F	*	A	A
Turkey	E	*	A	*
United Kingdom	F	*	A	L
United States	E	*	L	*

Apart from these limitations, most of the Member countries apply prudential measures.
Prior authorisations are also frequently required.
A: Allowed
E: Exceptional
F: Forbidden
L: Limited
*: Forbidden in principle, except when the products are considered as allied to the insurance activity
1: With the exception of the Banca Nazionale delle Comunicazioni
2: Restrictions do not apply to intermediaries
3: Regulations distinguish between insurance intermediaries and insurance companies

Table 2: Rules Governing cross-investments

MEMBER COUNTRIES	CREATION OF		SHAREHOLDING		FINANCIAL GROUP IN WHICH A BANK OR AN INSURANCE COMPANY IS THE PARENT COMPANY OR A COMPANY OF THE GROUP
	AN INSURANCE SUBSIDIARY BY A BANK	A BANKING SUBSIDIARY BY AN INSURANCE COMPANY	OF A BANK IN AN INSURANCE COMPANY	OF AN INSURANCE COMPANY IN A BANK	
Australia	A	A	L	SL	A
Austria	A	A	A	A	A
Belgium	A	A	A	A	A
Canada	L	L	L	L	L
Czech Republic	A	A	A	A	A
Denmark	A	A	A	A	A
Finland	F	F	A	A	A
France	A	A	A	A	A
Germany	A	A/L	A	L	A
Greece	A	A	A	A	A
Hungary	A	A			
Ireland	A	A	A	L	A
Iceland	F	F	SL	L	SL
Italy	A	A	A	A	A
Japan	F	F	SL	SL	SL
Korea	A	L	A	L	SL
Luxembourg	A	A	A	A	A
Mexico	F	F	F	F	F
Netherlands	L	L	L	L	A
New Zealand	..	..	..	L	..
Norway	A*	A*	L	L	A*
Poland	A	A	A	A	A
Portugal	A+	A	A	*	A
Slovak Republic	A	A	A	A	A
Spain	A	A	A	A	A
Sweden	L	L	L	L	L
Switzerland	A	L	A	L	L
Turkey	A	A	A	A	SL
United Kingdom	A	A	A	A	A
United States	SL	SL	SL	SL	SL

Notes:
Apart from these limitations, most of the Member countries apply prudential measures.
Prior authorisations are also frequently required.
A: Allowed
F: Forbidden
L: Limited
SL: Strictly limited
+: Regulations distinguish between insurance intermediaries and insurance companies
*: Through a holding company only

Table 3: Main Ministry responsible for regulatory matters/Main supervisory authority*

COUNTRY	MINISTRIES			SUPERVISORY AUTHORITIES		
	MINISTRY RESPONSIBLE FOR BANK REGULATION	MINISTRY RESPONSIBLE FOR INSURANCE COMPANY REGULATION	MINISTRY RESPONSIBLE FOR PENSION FUND REGULATION	BANK SUPERVISORY AUTHORITY	INSURANCE COMPANY SUPERVISORY AUTHORITY	PENSION FUND SUPERVISORY AUTHORITY
Australia	Treasury (structure is more akin to 'Finance' in many countries)	Treasury	Treasury	Australian Prudential Regulation Authority (APRA)#	Australian Prudential Regulation Authority (APRA)#	Australian Prudential Regulation Authority (APRA)#
Austria						
Belgium	Ministry of Finance	Ministry of Economic Affairs	Ministry of Economic Affairs	Bank and Finance Commission	Supervisory Authority of Insurance	Supervisory Authority of Insurance
Canada	See Supplement Table 5					
Czech Republic		Ministry of Finance	Ministry of Finance	Czech National Bank*	Department of Insurance and Pension Funds of the Ministry of Finance	Department of Insurance and Pension Funds of the Ministry of Finance

*. The authority is independent
. While the "main" supervisory authority, the direct of APRA is only prudential regulation. Market disclosure of consumer protection issues are carried out by the Australian Securities & Investments Commission (as Table 4)

Table 3: Main Ministry responsible for regulatory matters/Main supervisory authority[*]

COUNTRY	MINISTRIES			SUPERVISORY AUTHORITIES		
	MINISTRY RESPONSIBLE FOR BANK REGULATION	MINISTRY RESPONSIBLE FOR INSURANCE COMPANY REGULATION	MINISTRY RESPONSIBLE FOR PENSION FUND REGULATION	BANK SUPERVISORY AUTHORITY	INSURANCE COMPANY SUPERVISORY AUTHORITY	PENSION FUND SUPERVISORY AUTHORITY
Denmark	Ministry of Economic Affairs	Ministry of Economic Affairs	Ministry of Economic Affairs	The Danish Financial Supervisory Authority*	The Danish Financial Supervisory Authority*	The Danish Financial Supervisory Authority*
Finland	Ministry of Finance	Ministry of Social Affairs and Health	Ministry of Social Affairs and Health	Financial Supervision	Insurance Supervision Authority	Insurance Supervision Authority
France						
Germany	Ministry of Finance	Ministry of Finance		Federal Banking Supervisory Office*	Federal Insurance Supervisory Office*	
Greece	Ministry of National Economy	Ministry of Development	Ministry of Development, Ministry of Labour and Social Security[¤]	Bank of Greece	Ministry of Development	Ministry of Labour and Social Security[¤]

¤ . Private Pension Funds have not yet been established and are not regulated.

Table 3: Main Ministry responsible for regulatory matters/Main supervisory authority*

COUNTRY	MINISTRIES			SUPERVISORY AUTHORITIES		
	MINISTRY RESPONSIBLE FOR BANK REGULATION	MINISTRY RESPONSIBLE FOR INSURANCE COMPANY REGULATION	MINISTRY RESPONSIBLE FOR PENSION FUND REGULATION	BANK SUPERVISORY AUTHORITY	INSURANCE COMPANY SUPERVISORY AUTHORITY	PENSION FUND SUPERVISORY AUTHORITY
Hungary	Finance Ministry	Finance Ministry	Finance Ministry	Hungarian Banking and Capital Market Supervision	State Supervisory Authority of Insurance	State Private Funds Supervision
Iceland	Ministry of Commerce	Ministry of Commerce	Ministry of Finance	The Financial Supervisory Authority*	The Financial Supervisory Authority*	The Financial Supervisory Authority*
Luxembourg[15]	Finance Ministry	Finance Ministry	Finance Ministry, Ministry of Social Security	Supervisory Commission of the Finance Sector	Insurance Supervision Authority	Supervisory Commission of the Finance Sector, Insurance Supervision Authority, Inspector General of Social Security
Ireland						

15. The Commissariat aux Assurances is under the authority of the Ministry in its overall scheme of monitoring the private sector

Table 3: Main Ministry responsible for regulatory matters/Main supervisory authority*

COUNTRY	MINISTRIES			SUPERVISORY AUTHORITIES		
	MINISTRY RESPONSIBLE FOR BANK REGULATION	MINISTRY RESPONSIBLE FOR INSURANCE COMPANY REGULATION	MINISTRY RESPONSIBLE FOR PENSION FUND REGULATION	BANK SUPERVISORY AUTHORITY	INSURANCE COMPANY SUPERVISORY AUTHORITY	PENSION FUND SUPERVISORY AUTHORITY
Italy	Ministry of Treasury	Ministry of Industry	Ministry of Treasury	Bank of Italy	ISVAP	Supervisory Authority of Pension Funds
Japan	Ministry of Finance	Ministry of Finance	Ministry of Health and Welfare; Ministry of Finance	Financial Supervisory Agency	Financial Supervisory Agency	Ministry of Health and Welfare
Korea	Financial Supervisory Commission	Financial Supervisory Commission	Financial Supervisory Commission	Financial Supervisory Service	Financial Supervisory Service	Financial Supervisory Service
Luxembourg						
Mexico	Central Bank and Ministry of Finance	Ministry of Finance	Ministry of Finance	Banking and Securities Commission	Insurance Commission	Insurance Commsission and Public Pension System Commission
Netherlands	Ministry of Finance	Ministry of Finance	Ministry of Finance, Ministry of Social Affairs	De Nederllandsche Bank - NV*	Verzekeringskamer*	Verzekeringskatter *
New Zealand						

Table 3: Main Ministry responsible for regulatory matters/Main supervisory authority*

COUNTRY	MINISTRIES			SUPERVISORY AUTHORITIES		
	MINISTRY RESPONSIBLE FOR BANK REGULATION	MINISTRY RESPONSIBLE FOR INSURANCE COMPANY REGULATION	MINISTRY RESPONSIBLE FOR PENSION FUND REGULATION	BANK SUPERVISORY AUTHORITY	INSURANCE COMPANY SUPERVISORY AUTHORITY	PENSION FUND SUPERVISORY AUTHORITY
Norway						
Poland	Ministry of Finance	Ministry of Finance	Ministry of Labour and Social Policy	Commission for Banking Supervision and as executive body - General Inspectorate of Banking Supervision (separate organisational unit within the structures of the NBP)	State Office for Insurance Supervision	Superintendency of Pension Funds
Portugal	Ministry of Finance	Ministry of Finance	Ministry of Finance	Banco de Portugal	Insituto de Seguros de Portugal	Institute de Seguros de Portugal
Slovak Republic	-	-	Ministry of Finance & Ministry of Labour, Social Affairs and Family	Slovak National Bank	Financial Market Authority	-
Spain	Ministry of Economy and Finance	Ministry of Economy and Finance	Ministry of Economy and Finance	Banco de España*	Insurance General Directorate	Insurance General Directorate

Table 3: Main Ministry responsible for regulatory matters/Main supervisory authority*

COUNTRY	MINISTRIES			SUPERVISORY AUTHORITIES		
	MINISTRY RESPONSIBLE FOR BANK REGULATION	MINISTRY RESPONSIBLE FOR INSURANCE COMPANY REGULATION	MINISTRY RESPONSIBLE FOR PENSION FUND REGULATION	BANK SUPERVISORY AUTHORITY	INSURANCE COMPANY SUPERVISORY AUTHORITY	PENSION FUND SUPERVISORY AUTHORITY
Sweden						
Switzerland	Ministry of Finance	Ministry of Finance and Police	Ministry of Home Affairs	Federal Banking Commission	Federal Office of Private Insurance	Federal Office of Social Insurance
Turkey	Prime Ministry, Undersecretariat of Treasury (Directorate General of Banking and Foreign Exchange) Banking Regulatory and Supervisory Authority	Prime Ministry, Undersecretariat of Treasury (Directorate General of Insurance)	Prime Ministry, Undersecretariat of Treasury (Directorate General of Insurance)Capital Market Board	Prime Ministry, Undersecretariat of Treasury (Board of Sworn Banking Auditors) Banking Regulatory and Supervisory Authority	Prime Ministry, Undersecretariat of Treasury (Directorate General of Insurance)	Prime Ministry, Undersecretariat of Treasury (Directorate General of Insurance) Capital Market Board
United Kingdom						
United States	Board of Governors of the Federal Reserve; Office of the Comptroller of The Currency (within the Treasury Department)		Treasury Department; Department of Labor	Board of Governors of the Federal Reserve; Office of the Comptroller of The Currency (within the Treasury Department)	State Insurance supervisors	Internal Revenue Service (Treasury); Pension and Welfare Benefits Administration (Labor)

COUNTRY	Table 4: Other Ministries/supervisory authorities with an important role as regards regulatory or supervisory matters (specify)*					
	MINISTRIES			SUPERVISORY AUTHORITIES		
	MINISTRY RESPONSIBLE FOR BANK REGULATION	MINISTRY RESPONSIBLE FOR INSURANCE COMPANY REGULATION	MINISTRY RESPONSIBLE FOR PENSION FUND REGULATION	BANK SUPERVISORY AUTHORITY	INSURANCE COMPANY SUPERVISORY AUTHORITY	PENSION FUND SUPERVISORY AUTHORITY
Australia				Australian Securities and Investments Commission (ASIC)	Australian Securities and Investments Commission (ASIC)	Australian Securities and Investments Commission (ASIC)
Austria						
Belgium	Banking and Finance Commission	Supervisory Authority of Insurance, Ministry of Justice, Ministry of Pensions, Ministry of Social Affairs and Work Accident	Supervisory Authority of Insurance, Ministry of Pensions			
Canada	See Supplement Table 5					

*. The authority is independent

COUNTRY	**Table 4:** Other Ministries/supervisory authorities with an important role as regards regulatory or supervisory matters (specify)*					
	MINISTRIES			SUPERVISORY AUTHORITIES		
	MINISTRY RESPONSIBLE FOR BANK REGULATION	MINISTRY RESPONSIBLE FOR INSURANCE COMPANY REGULATION	MINISTRY RESPONSIBLE FOR PENSION FUND REGULATION	BANK SUPERVISORY AUTHORITY	INSURANCE COMPANY SUPERVISORY AUTHORITY	PENSION FUND SUPERVISORY AUTHORITY
Czech Republic			Ministry of Labour and Social Affairs	Security Commission*	Security Commission*	Security Commission*
Denmark	Ministry of Economic Affairs	Ministry of Economic Affairs	Ministry of Economic Affairs	Danish Financial Supervisory Authority	Danish Financial Supervisory Authority	Danish Financial Supervisory Authority
Finland						
France						
Germany						
Greece						
Hungary	Hungarian National Bank	Hungarian National Bank	Hungarian National Bank			

COUNTRY	**Table 4:** Other Ministries/supervisory authorities with an important role as regards regulatory or supervisory matters (specify)*					
	MINISTRIES			SUPERVISORY AUTHORITIES		
	MINISTRY RESPONSIBLE FOR BANK REGULATION	MINISTRY RESPONSIBLE FOR INSURANCE COMPANY REGULATION	MINISTRY RESPONSIBLE FOR PENSION FUND REGULATION	BANK SUPERVISORY AUTHORITY	INSURANCE COMPANY SUPERVISORY AUTHORITY	PENSION FUND SUPERVISORY AUTHORITY
Iceland		Ministry of Justice Motor insurance and certain professional indemnity insurance				
Luxembourg						
Ireland						
Italy	Bank of Italy	ISVAP	Supervisory Authority of Pension Funds			
Japan						
Korea	Ministry of Finance and Economy	Ministry of Finance and Economy	Ministry of Finance and Economy			
Luxembourg						

Country	**Table 4:** Other Ministries/supervisory authorities with an important role as regards regulatory or supervisory matters (specify)*					
	Ministries			**Supervisory authorities**		
	Ministry responsible for bank regulation	**Ministry responsible for insurance company regulation**	**Ministry responsible for pension fund regulation**	**Bank supervisory authority**	**Insurance company supervisory authority**	**Pension fund supervisory authority**
Mexico						
Netherlands						
New Zealand						
Norway						
Poland	Partially Minister of the Treasury (all matters concerned on the state owed banks).	State Office for Insurance Supervision	Ministry of Finance	President of the National Bank of Poland	Ministry of Finance	President of the Council of Ministers (supervision of the Superintendency of Pension Funds)
Portugal						
Slovak Republic	Ministry of Finance	-	-	-	-	-
Spain						

COUNTRY	**Table 4:** Other Ministries/supervisory authorities with an important role as regards regulatory or supervisory matters (specify)*					
	MINISTRIES			SUPERVISORY AUTHORITIES		
	MINISTRY RESPONSIBLE FOR BANK REGULATION	MINISTRY RESPONSIBLE FOR INSURANCE COMPANY REGULATION	MINISTRY RESPONSIBLE FOR PENSION FUND REGULATION	BANK SUPERVISORY AUTHORITY	INSURANCE COMPANY SUPERVISORY AUTHORITY	PENSION FUND SUPERVISORY AUTHORITY
Sweden						
Switzerland						
Turkey			Ministry of Labour and Social Security			Ministry of Labour and Social Security
United Kingdom						
United States	Sub-national bank regulatory authorities; Federal Deposit Insurance Corporation; Banks are regulated by OCC. Office of Thrift Supervision;		State Insurance supervisors (annuities only)			Pension Benefit Guarantee Corp.*; State Insurance Supervisors. SEC for registered products. TreasuryIRS for tax favoured products – IRAs, 401 (K)etc.

COUNTRY	**Table 4:** Other Ministries/supervisory authorities with an important role as regards regulatory or supervisory matters (specify)*					
	MINISTRIES			SUPERVISORY AUTHORITIES		
	MINISTRY RESPONSIBLE FOR BANK REGULATION	MINISTRY RESPONSIBLE FOR INSURANCE COMPANY REGULATION	MINISTRY RESPONSIBLE FOR PENSION FUND REGULATION	BANK SUPERVISORY AUTHORITY	INSURANCE COMPANY SUPERVISORY AUTHORITY	PENSION FUND SUPERVISORY AUTHORITY
	Securities and Exchange Commission for securities products (stocks, bonds, mfs, variable sub-accounts) no responsibility for banks themselves. Sub of bank that sells securities is a separate securities firm (for bank Securities subsidiaries). Office of Comptroller of the Currency					IRS/treasury also oversee pensions (grant permission to open and close plans: i.e. determination letters