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SUPERVISION OF FINANCIAL SERVICES IN THE OECD AREA

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SUPERVISION OF FINANCIAL SERVICES IN THE OECD AREA[1]

Background and Summary

1. Over the past decade or so, a number of countries in the OECD area have implemented changes to the regulatory or legislative frameworks governing their financial services sectors, while others have announced plans to do so. In some cases, changes in the structure of financial sector regulation have, at least in part, been a response to a particular financial crisis, but more generally changes in regulatory/supervisory regimes have reflected efforts to realign organisational structures with a profoundly changed institutional environment. This note reviews the organisational structures for financial regulation/supervision among selected OECD countries. Particular attention is paid to arrangements for supervising financial groups. In some jurisdictions these arrangements are informal agreements among separate supervisors, but oversight of financial groups is entrusted to integrated supervisory agencies in others. Given the pace of change in this area, one must acknowledge that an attempt to take such a "snapshot" of the current state of affairs runs the risk of quickly becoming dated.

2. Financial supervisors in some OECD countries are given broad regulatory powers, but in others regulatory power is vested in an entity other than the financial supervisory agency, typically the finance ministry or its equivalent (see Annex table 3). Partly for this reason, it is necessary to look beyond the organisational structures of supervisory agencies to achieve a thorough understanding of financial supervisory regimes in the OECD area.

3. In most countries, there continue to be distinctions 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. Some supervisors would argue that the distinctions in regulatory treatment across institutions are warranted by the differences in the types of risk posed by various categories of service providers. Proponents of an integrated approach to financial regulation argue that the application of different rules to products and services that are functionally equivalent imposes competitive inequalities in institutions. They further argue that such inequalities give rise to increased incentives for regulatory arbitrage and create confusion for consumers and investors. Neither view is shared universally. In the OECD area, 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. In between is the so-called *"solo-plus"* approach used in the supervision of insurance groups, in which an extra level of supervision is added on top of the solo supervision to account for intra-group relationships.[2] 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, but while differences in the regulatory treatment of various financial service providers are discussed on a general level in this note, the paper neither argues for nor against consolidated regulation.

4. There is a range of supervisory arrangements in the OECD area. At one end is the so-called "solo" or "solo plus" regulatory. The goal under this approach is to protect is the customers and creditors of the regulated entity in a particular sector from monetary losses and delays if the firm were to fail, and to promote the orderly self-liquidation of the firm. This approach may also include the monitoring of the financial risks posed to the regulated firm by its material affiliates within a conglomerate structure. On the other end, the goal of "consolidated supervision" is the supervision of the top tier of the group (i.e. parent or holding company level), covering all members that provide financial services. While integrated

regulation is generally accompanied by consolidated supervision, sectoral regulation may or may not be accompanied by consolidated supervision. The differences in regulatory treatment and supervision that apply to various product and service suppliers can have a major effect on the business practices of the service providers; such differences, however, are not necessarily linked to the presence or absence of consolidated supervision or integrated regulation. This article argues neither for, nor against a particular approach.

5. What has sparked the debate regarding the organisational structure of supervisory agencies and the conduct of supervision is the ongoing consolidation within institutional sectors and convergence across categories of financial service providers. These developments have increasingly blurred 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. Financial institutions of all types are increasingly offering products and services (directly or through affiliates) that compete not only against those offered by similar types of institutions but also against those offered by other categories of service providers. These developments complicate the task of supervision. The choice of an appropriate supervisory framework is made even more difficult by the formation of complex financial services groups that provide a wide range of financial services. 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.

6. As noted in the January 2001 Group of Ten report on consolidation in the financial sector (the Ferguson Report),[3] the consolidation of a wide array of financial activities within large and complex organisations that include banking units not only blurs the traditional lines of demarcation among service providers but increases the potential for contagion effects from the non-bank to the commercial bank components of the same organisation. The Ferguson Report notes further that, while the net effects of financial consolidation on the risk of individual institutions and on systemic risk are unclear, the work-out or wind-down of a large and complex banking organisation would most likely be difficult and could be disorderly. In the past, the systemic risk dimension generally was perceived as being more relevant for commercial banks in general and large banks in particular than, say, for insurance companies and other non-bank intermediaries. More recently, however, advances in options pricing models and financial engineering techniques have given rise to innovative ways of repackaging and trading risks that have lessened the practical distinctions between financial products and changed the risk characteristics of service providers. Owing in part to the increased "convergence" among financial service providers and given the increased importance of market activities for all categories of financial service providers, perceptions of potential sources of and transmission mechanisms for financial instability have changed to include some non-bank financial institutions and markets in addition to commercial banks.

7. Setting aside questions as to whether the "conglomeration" of financial services institutions has actually enabled financial groups to diversify their risks, enhance revenues, and increase their cost efficiency and profitability, there is fairly widespread agreement that the potential for intra-group exposures within integrated financial services groups complicates the task of supervision. It increases the need for information sharing, co-ordination and co-operation among (domestic and international) supervisory authorities with responsibility for different institutional components of a financial group to ensure that a group-wide risk assessment and management is achieved. There is not, however, a consensus as to whether a need for group-wide oversight requires that the relevant supervisory agencies themselves need to be integrated or interestingly whether regulation/supervision needs to be conducted on a consolidated basis. Those in favour of the establishment of integrated supervisory agencies claim that such entities have a greater potential for delivering a consistent approach across a range of institutional types. By contrast, critics of the integrated structure of financial supervision argue that most financial services

groups are characterised by a predominance of either 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. This note supports the view that differences in the regulatory treatment that applies to various service providers can have a major effect on the nature of supervision, but the issue of consolidated regulation per se is not addressed in this paper. For now, it suffices to say that one size or style of supervisory agency does not fit all.

8. A central goal in the design of regulatory and supervisory regimes for financial services is to create a framework that ensures the safety of the financial system as a whole and allows other objectives of supervision (*e.g.* investor and consumer protection) to be attained efficiently and effectively. Ideally, the supervisory regime chosen 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), and will take into account the effects of supervision on competition. The range of supervisory regimes in practice would seem to suggest that there is no consensus as to the existence of a single "best" approach to, and organisational structure for, achieving the desired end. Some countries have reduced the number of regulatory agencies and, in some cases, established a single unified supervisory agency. In countries with smaller financial sectors, in particular, the informal contact that occurs within integrated agencies is an important consideration, as it helps facilitate the flow of information across departments. Still, across OECD countries, it is not uncommon to have separate supervisory agencies for banks, insurance companies and securities firms. Many alternative models exist and they can be made to work effectively under normal circumstances. One might ask, however, whether all structures are equally effective and efficient under all circumstances, or more specifically, whether the organisational structure of financial supervision has a bearing on the efficiency and effectiveness of regulation and supervision in achieving the desired objectives.

9. It seems logical to assume that the latter is not completely independent of the former, although the exact nature of the relationship is not clear. It seems certain that the organisational structure of supervision should have a bearing on the cost of supervision. Doubling the number of supervisory agencies may not double the cost of carrying out supervisory activities, but it's rather difficult to imagine that one could do so in practice without some increase in cost, if only because departmental overhead and certain other fixed costs would rise. Viewed from the other direction, the effect on costs of a reduction in the number of supervisory agencies is unclear. To the extent that a reduction in the number of supervisory bodies removes overlapping duties or there are economies of scale in carrying out certain supervisory functions, then a reduction in the number of agencies might be reflected in lower costs. However, it is far from a foregone conclusion that reducing the number of supervisory agencies automatically results in a drop in the costs of carrying out supervisory activities.[4] The outcome depends in part on what objectives the new supervisory agency is expected to achieve and as always on country-specific factors. For similar reasons, the effect of a change in the organisational structure of supervision on the effectiveness of supervision is also not clear-cut. Some organisational structures might be better suited than others to oversee certain financial market structures, and the size of the market to be supervised is obviously a relevant consideration. Nonetheless, at present, the question of whether the organisational structure of supervision needs to mirror the structure of the financial system is moot, although in time perhaps the weight of accumulated experience will allow meaningful conclusions to be drawn.

10. The balance of this note is organised as follows. The next section defines terms and discusses the implications of financial convergence for prudential supervision. Section II looks at stylised supervisory regimes as templates for comparison with the structures in place in OECD countries. Section III addresses the practical modalities of group-wide supervision in the OECD area.

I. Financial groups, financial convergence, and prudential supervision

11. This note focuses on the alternative approaches to supervision of financial services found in the OECD area. The paper draws a distinction between the organisational structure of supervisory agencies and the conduct of supervision. The view in this note is that arguments for or against consolidated supervision are in some respects separable from the structure of supervisory agencies. The existence of an integrated supervisory authority is neither a necessary nor sufficient condition for consolidated supervision. It is conceivable that certain organisational structures might be better suited for particular approaches to supervision, but conclusive evidence in support of this hypothesis has yet to be established. It is possible for independent, sector-based supervisory agencies to co-ordinate their activities to supervise institutions on a consolidated basis, and it is possible for integrated agencies to supervise institutions on an institutional/sectoral ("solo") basis.

12. Some analysts have suggested that consolidation in regulation is a precondition for consolidation in supervision, at least concerning some of its main forms. Consolidated regulation has, for example, been 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.

13. However, as noted in the introduction, in most countries there continue to be differences in the rules that are applied to different types of financial businesses, reflecting sectoral differences in the core business activities and risk exposures of these businesses.[5] For instance, while the balance sheets of individual banking institutions differ, lending activities are generally at the core of the commercial banking business, and because loans account for the lion's share of the typical bank's assets, credit risk is the dominant risk for banking institutions.[6] Other categories of risk are also associated with the general business of commercial banking, including liquidity and other market risks. In contrast to commercial banks, securities firms typically bear little unsecured credit risk, though for competitive reasons to attract securities business, they have increasingly been making unsecured loans. For these entities, which operate for the most part on a mark-to-market basis and fund their activities in the overnight or other short-term money market, funding and liquidity risks in particular and market risks in general should predominate. The risks inherent in an insurance company's balance sheet may be grouped into three main categories: technical (underwriting) risks, investment risks, and other risks, but the first category (*i.e.*, whether the firm's calculations of technical provisions prove accurate) carries the dominant risk for the typical insurer. Meanwhile, private pension schemes in some countries are financed with vehicles that have some characteristics in common with insurance companies, in the sense that the liabilities of both life insurers and many pension funding vehicles have long horizons, and both the life insurance and pension business are often conducted via products employing mutual funds as investment instruments.[7] Examples of such vehicles include "unit linked" life policies and many types of personal pension products such as the 401(k) plans found in the United States. Insurers are also major providers of these personal pension products or act as managers of funds in some jurisdictions. In part, reflecting these linkages, pension funds and insurers in a number of jurisdictions are overseen by the same supervisory body. Nonetheless, private pension schemes face a different ranking of financial risks, some of which are common for all pension systems while others are particular to private plans.[8] This is especially true for occupational schemes. Among the several categories of risk faced by private pension systems are the risk of the fund becoming insolvent, the investment portfolio risk for the employer in defined benefit plans and for employees in defined contribution schemes, and interest-rate and inflation risks in funded schemes.

14. The structure of oversight regimes for pension schemes is quite complex, reflecting the variety of schemes in practice, and the varied nature in which such schemes are financed and managed. Numerous distinctions must be drawn. For instance, there's the distinction between "private" versus "public" schemes. A distinction also can be drawn between "mandatory" and "voluntary" (meaning the choice of joining or not has to be made) schemes. In some countries, opt-out provisions are provided, while in others, one finds involuntary adhesion by workers. Another distinction is between "occupational" versus "personal" plans. Institutional arrangements in the case of occupational schemes are quite complex, while personal schemes typically make use of financial institutions that are themselves already regulated. The various distinctions in the types of pension schemes result in a number of basic institutional modalities that may call for different regulatory/supervisory approaches. In the case of occupational schemes, for example, whereby the employer basically serves as a passive link between the provider and the participant worker, the role of the regulator/supervisor is principally to ensure compliance with the terms of the contract and to be sure that tax non-discrimination rules are not breached. In some cases (*e.g.*, Anglo-Saxon *cum* Dutch countries) the labour contract is really the focal point of regulatory/supervisory initiatives. In some other countries, policy dictates the use of particular types of institutions to manage pension schemes (*e.g.* insurance companies or insurance associations, or registered collective investment schemes). The regulatory/supervisory treatment of pension schemes is sufficiently diverse and complex that a separate note would likely be needed to provide a complete treatment. Consequently, the balance of this note focuses on arrangements for supervising the other major institutional sectors, namely commercial banking, insurance, and securities.

15. Because of the differences in business activities, time horizons and risks faced by the institutions in each sector, supervision, especially as it pertains to the application of prudential guidelines, typically varies according to the particular characteristics of each sector, as well as across jurisdictions. 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 historically was perceived as being more relevant for banks in general and for large banks in particular than for non-bank financial institutions. According to the objectives outlined in the Basle Committee's core principles, the primary task of bank supervision is "to ensure that banks operate in a safe and sound manner and that they hold capital and reserves sufficient to support the risks that arise in their business".[9] As such, one tends to observe bank supervision being focused on the asset side of the balance sheet, with a view toward ensuring a proper valuation of those assets.

16. By contrast, supervisory oversight of life insurance companies has tended to stress the financial soundness of <u>individual</u> insurers to ensure the protection of policyholders, as well as pursuing certain issues of fairness. Given the emphasis on safeguarding the interests of the insured, supervision of insurance companies is focused on the liability side of insurers' balance sheets. The International Association of Insurance Supervisors' (IAIS) core principles state that the primary objective of insurance supervision is "to maintain efficient, fair, safe and stable insurance markets for the benefit and protection of policyholders".

17. Oversight of securities firms, meanwhile, has been oriented more towards protection of consumers and investors, via rules on information disclosure, rules relating to capital and internal controls, rules concerning so-called "Chinese walls" and other aspects related to trading and conduct of business. 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. The main goals of regulation of securities firms, according to the International Organisation of Securities Commissions' (IOSCO's) core principles are threefold: (1) the protection of investors, (2) ensuring that markets are fair, efficient and transparent, and (3) the reduction of systemic risk.

18. Finally, fifteen principles for the regulation of private occupational pension schemes have been endorsed by the newly formed International Network of Pension Regulators (INPRS) and approved by the OECD.[10] Further principles are currently being developed by the OECD, in particular, on governance, supervision and investments of pension funds.

19. Particular attention is given in this note to arrangements for supervising financial groups. Most jurisdictions historically have not applied specific regulations to financial groups per se, but as noted above, the view that oversight of large institutions with systemic importance should be different from that used for small institutions, and that some type of "group-wide" approach is needed for complex groups is spreading among members of the financial supervisory community.[11] Arguments for group-wide supervision depend in part on the range of activities carried out by the members of a financial group, the structure used to deliver financial products and services, and the degree to which management of the group is centralised. Where individual financial service providers operate predominantly in distinct lines of business or even as part of financial groups, but with strict firewalls between the different lines of business, institutional or sectoral approaches to supervision are deemed to be adequate to the tasks of effective and efficient supervision. However, arguments for group-wide supervision intensify when linkages among the members of a financial group and, thereby, intra-group exposures, grow in complexity. 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. Chances are greater in the latter case for risks to exist at the group level that do not appear at the level of individual entities. Of course, the opposite is also possible; *i.e.*, individual entities can look risky while the entire organisation can be well-diversified or hedged. The potential for intra-group risk exposures is at the core of the debate as to how financial regulation/supervision ought to be approached; *i.e.*, how best to supervise the regulated components of a financial group to take into account the different prudential requirements of each sector and the differing risks to which each is exposed, without losing sight of the group as a whole, including the parent.

20. Before exploring the implications for supervision of the formation of corporate groups that combine institutions from different financial service sectors, a few definitions are needed to remove any ambiguity regarding key concepts. The next few paragraphs look at the various categories of financial groups. This discussion is followed by a treatment of what is meant by the phrase “financial convergence”, followed by a discussion of the structural forms institutions have used to achieve convergence. Finally, consideration is given to the risks posed by financial conglomerates.

21. Recent years have witnessed the formation of a growing number of large, internationally active financial groups with operations in several financial sectors. In practice, these groups tend to have unique organisational structures and contain various combinations of regulated and non-regulated entities, including different mixes of wholesale versus retail business. 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, Credit Suisse Group and Deutsche Bank). Not surprisingly, researchers have typically classified financial groups in the same manner; *i.e.*, according to the dominant regulated entity within the group. Generally, the following three categories are identified:

– financial groups whose predominant activities are of a financial (especially banking) character, but which also include one or more insurance companies or securities firms;

– financial groups whose predominant activities are in insurance, but which also include one or more banking institutions or securities firms;

– mixed financial groups, which include considerable banking, securities and insurance business.

22. The labels "financial group" and "financial conglomerate" are used interchangeably by some analysts, but herein, the former label is used more generally to refer to any corporate groups that provide financial services without regard to the mix of services offered, while the latter term is reserved for heterogeneous financial groups whose activities for the most part span all institutional sectors. By this definition, financial conglomerates would fall into the third category above--mixed financial groups.

23. A somewhat related concept is "financial convergence", which has often been used to describe various kinds of interfaces between different categories of financial service providers. In this regard, a distinction is drawn between "convergence" and "consolidation". In this note, consolidation refers generally to combinations of financial service providers within the same institutional sector. In practice, the concept of financial convergence is somewhat nebulous, as the term has been applied to all types of interfaces between different categories of financial service providers. Perhaps the most common usage of the label is to describe the distribution of a product or service typically associated with one of the major financial sectors by a provider from another sector, but in fact, these interfaces can occur at various points in the product creation-distribution chain.[12] 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 French term "bancassurance" is prevalent.[13] 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. Terms such as "assurbanque", "assurfinance" and "allfinanz" have also been used to describe forms of financial convergence. For example, the term assurfinance refers to a similar situation in which an insurer cross-sells financial products. The German term allfinanz (also "all finance") may be applied to the same strategies, but is sometimes broadened to describe an arrangement that combines distribution across all major financial service sectors.

24. The structural forms financial service providers use to achieve convergence vary across jurisdictions, reflecting in part differences in the approach to regulation and supervision, as well as the historical context of a country's financial services industry, legal, cultural, and tax considerations, the degree of market concentration, the degree of internationalisation, the existence of scale or scope economies, risk management strategies, and perceived cost efficiencies. Even within jurisdictions, regulations covering the production of various financial products and services often differ from those covering the distribution 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 the same financial group 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 (IIB) global survey, few, if any, countries permit insurance underwriting within a bank (IIB, September 2001). Many countries do allow joint arrangements, but only through subsidiaries or affiliates.

25. Financial convergence may be achieved not only through "structural" operations but also through products and services. This occurs, for example, with tie-in sales as well as through the provision of integrated financial services. One of the main reactions of insurance companies when their market was penetrated by banks in the golden years of the bancassurance phenomenon[14] (early 1990s) was the development of insurance products with a savings component.[15]

26. Against this legal backdrop, financial convergence has taken a number of different forms. In addition to cross-sectoral investments and cross distribution, some convergence is occurring by means of cross-sector risk transfers. Commercial banks, including their investment banking arms, and securities firms have become fairly active users of credit derivatives and other such hedging instruments to off-load specific credit risk exposures. Data from the U.S. Office of the Comptroller of the Currency indicate that end-sellers of credit risk protection tend to be large commercial banks, insurance companies, collateral managers of collateralised bond obligations, pension funds and mutual funds.[16] End buyers appear to be commercial banks, hedge funds and to a lesser extent non-financial companies, while both banks and securities firms act as intermediaries. Unfortunately, the data do not permit a separation of banks' participation as intermediaries from their direct participation as end-buyers or sellers. The discussion in the Bank of England's *Financial Stability Review* suggests, however, that the weight of available evidence (including comments from market participants) appears to indicate that, on net, credit risk is being transferred from the banking sector to insurance companies and investment funds, mostly through portfolio transactions.

27. From the perspective of prudential oversight, the implications of credit risk transfers differ somewhat depending on whether risk is being transferred between independent parties as compared to moving across separate entities within the same financial group, since the latter transactions increase the need for a group-wide assessment of risk. In general, the more integrated a financial group and the wider the range of service categories covered, the greater the need for consolidated risk assessment and management. At the far end of the spectrum in terms of the degree of integration would be a *pure financial conglomerate* or *fully integrated* financial services provider,[17] which would combine 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.[18] 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.

28. What is at issue for supervision is not the formal ownership structure per se, but rather the implications of the corporate structure for proper risk management and oversight. The factors that influence what particular legal structure financial groups choose to provide integrated financial services vary according to the national structure of regulation in the country in which the group is based, on legal, cultural and tax considerations, and on historical situations and differences. 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. 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.

29. 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.[19] 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. The question increasingly being asked is whether the emergence of complex financial groups necessitates consolidated approaches to supervision and/or integrated supervisory bodies.

II. Alternative approaches to financial supervision

30. This section provides a description of the approaches to financial sector supervision in the OECD area. Many factors play a role in shaping the ultimate supervisory regime a given country adopts. Regulation of the financial services industry must ultimately satisfy the environment in which it is to be implemented, taking full account of relevant country-specific factors, including 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; the relative size and structure of a country's financial services industry, and the business practices of regulated entities. As noted above, there are a number of different types of financial groups that may have a presence in a given country's financial services industry.[20] The organisation of a group's business activities, mix of regulated and non-regulated entities and its internal control and risk management systems might have a bearing on the approach required for proper supervision. For example, the systemic risk dimension can differ across groups, depending on the mix of institutions and business activities. Because each financial group has its unique aspects, some analysts recommend that each financial group be assigned its own team of specialist supervisors, but in practice, one finds many approaches for addressing the prudential concerns arising from the different categories of financial services groups.

31. In the typology of Goodhart *et al*, supervisory regimes generally can be assigned to one of three broad categories:

- institutional/sectoral approach[21] (*i.e.*, supervision is focused on the type of institution, regardless of the products and services offered);

- functional[22] approach (*i.e.*, supervision is directed at the underlying business activities, regardless of the service provider); and

- objectives-based approach (*i.e.*, supervision is organised according to the objectives of supervision).

32. In many jurisdictions, the first category has historically been dominant in the sense that the approach to financial supervision has been 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. For example, bank supervision historically has tended to focus on banking institutions in their entirety, relying on fully consolidated reports of income and condition, especially as regards securities subsidiaries. Insurance regulators, by contrast, have historically opted for separate control per legal entity. For groups containing banking and insurance combinations, a consolidated capital requirement has generally not been used, since in the case of a bank parent, application of bank capital rules would not adequately address the special technical risks arising from insurance activities. Prudential oversight of securities firms has typically been applied as well on a "solo plus" supervision basis, especially in jurisdictions where capital requirements are based on liquidity

or net capital (*e.g.* Canada, Japan, and the United States). However, under the risk-based capital approach of many European countries, securities firms are subject to consolidated capital requirements.[23]

33. Even today, supervision of financial services providers is still conducted for the most part along traditional institutional lines in many countries, with differential treatment of the four pillars of the financial services industry (Figure 1). These differences in the approach to supervision apply as well to the separate institutional components of financial groups and can be attributed to the differences in the business activities, liabilities and risks across sectors, which, in turn, give rise to different accounting rules and to differences in the relative importance of capital for covering risks. Partly as a result, it is difficult to harmonise fully the supervisory framework across institutional sectors, since liabilities and associated risks differ markedly as regards their certainty and timing. To the extent that fundamental differences among the various types of institutions remain, it is unlikely that a common set of solvency regulations will be appropriate for all providers. However, as financial convergence across institutional sectors increases, the need for a meaningful assessment of consolidated capital for financial groups will become increasingly important and policymakers may have to revisit institutional capital regimes.

Figure 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).

Organisational structures for financial supervision

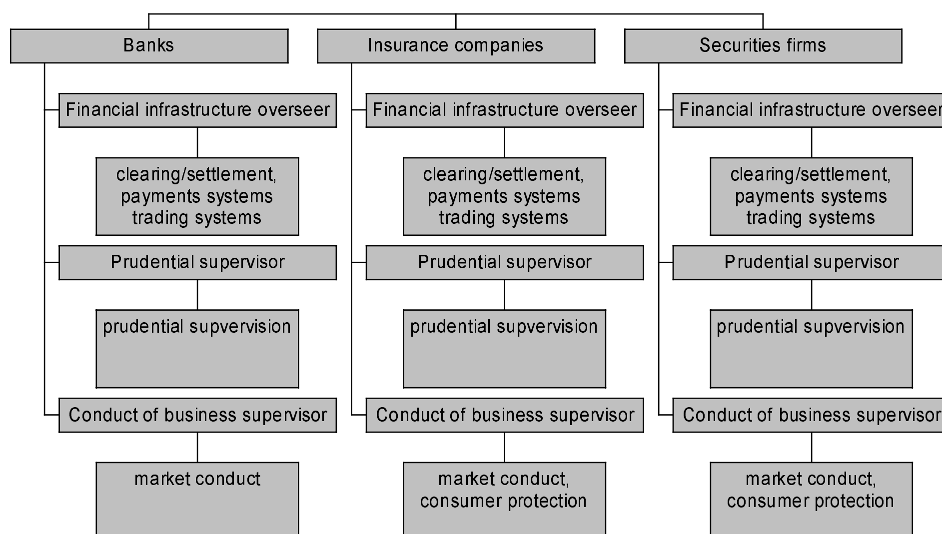
34. What are the implications, if any, of financial convergence for the structure of supervisory agencies? Many researchers contend that the institutional structure of regulation should reflect the institutional structure of the financial services industry it covers and that the regulatory burden that attaches to a given product or service should apply equally to all providers of that service or product.[24] 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, versus investment banks, etc. 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.

Stylised Models of Financial Supervisory Agencies

35. As a starting point to the discussion of financial supervisory regimes, consider the disaggregated model of supervision depicted in figure 2, whereby for each category of financial service provider separate supervisors cover each objective of financial supervision. Thus, for example, banking institutions would be subject to the oversight of a payments system authority for their payments activities, to a prudential supervisor for safety and soundness considerations, and to a market conduct authority for consumer protection and related issues. Other types of financial service providers would face a similar structure of supervision.

Figure 2

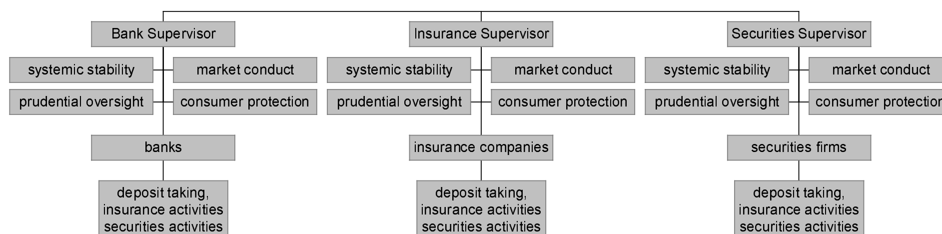
Disaggregated Structure of Financial Supervision by Sector



36. To provide a clearer illustration of the *institutional/sectoral* approach, one can restructure the model to integrate supervisory oversight of each type of service provider into a single authority. The result would be a structure of the sort depicted in Figure 3, in which specialist supervisory agencies are responsible for different types of institutions (*e.g.* banks, insurance companies, and investment banks). In a structure of this sort, different types of institutions might also be subject to different rules based on perceived differences in the nature of the risks they face. A sectoral classification is most applicable when there are "high Chinese walls" that prohibit the cross-production and cross-distribution of products by different categories of services providers, in effect, resulting in a one-to-one mapping between institutions and activities. However, when financial institutions are diversified and the scope of their activities broadens to include products and services that are functionally equivalent to those offered by other categories of financial institutions, a division of supervision purely by sector or type of institution runs the risk of introducing competitive distortions and thereby increases the chances for regulatory arbitrage. The risks are obviously greater in markets dominated by financial conglomerates.

Figure 3

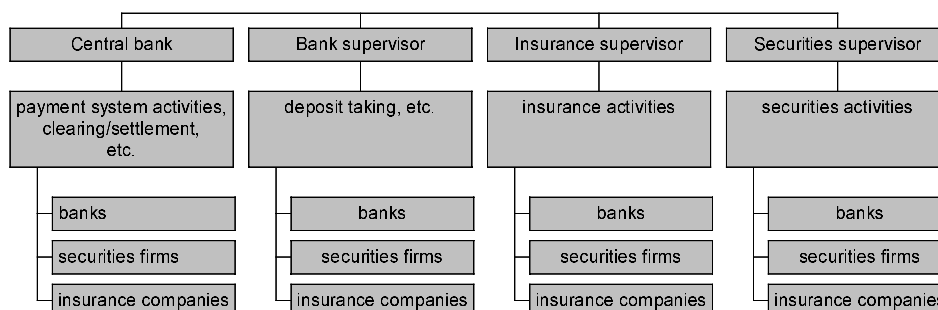
Stylised Structure of Financial Supervision by Sector



37. An alternative to the institutional supervisory regime that takes into account the blurring of traditional borderlines between sectors (*e.g.* allfinance, bancassurance, etc.) and the emergence of financial conglomerates is a so-called *functional* supervisory regime, in which supervision is focused on particular business activities such as "traditional" banking (*e.g.* retail deposit taking), life insurance, and securities trading and underwriting, regardless of the service provider (figure 3). 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.

Figure 4

Stylised Structure of Functional Supervision of Financial Services

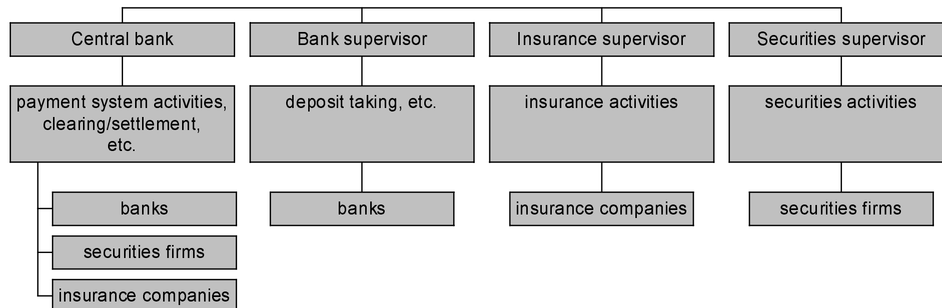


38. A caveat is required for the functional supervisory regime depicted in figure 4. As with all the templates for financial supervision shown in this paper, it is meant for illustrative purposes and does not necessarily correlate exactly with the structures found in practice. The main purpose of the illustration is to show that regardless of the service provider, there is a single designated supervisory agency for each category of business. Thus, insurance activities would be overseen by an insurance supervisor, regardless of whether banks, for example, or specialised life companies were providing the business. The illustration ignores the fact that, in practice, while the product mix of, say, commercial banks may include the distribution of insurance products, it would not include the production of these products.

39. The *institutional/sectoral* and *functional* approaches to financial supervision are based on the traditional boundaries between banks, insurance companies and investment firms. When financial institutions are specialised in narrow business areas, there is essentially little difference between the two approaches. In fact, they are equivalent if there are strict licensing requirements or other barriers to entry such that there is a one-to-one mapping between institutions and activities (compare figures 3 and 5), since both structures would assign the same supervisory agency to a given type of financial service provider. In reality, the blurring of distinctions between financial institutions and products has helped to cause dramatic changes in laws and approaches governing financial supervision and regulation.

Figure 5

Model of Functional Supervision of Financial Services with Strict Firewalls



40. What happens to the effectiveness of regulation and supervision as the boundaries between financial service providers disappear? 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.

41. Given the potential shortcomings of exclusively sectoral or functional approaches to prudential supervision when institutions are diversified, the tendency towards conglomeration in financial services has perhaps strengthened arguments in favour of group-wide approaches. At a minimum, conglomeration intensifies the need for information sharing, co-ordination and consistency across specialist regulatory bodies. The question is how can this increased information flow best be achieved?

Creating integrated supervisory agencies

42. Some analysts have argued that an efficient production of supervisory tasks in a market characterised by financial conglomerates necessitates the establishment of a single national supervisor for financial services firms. While this claim is subject to considerable debate, a number of countries have in fact moved to unified frameworks for financial supervision. However, the legal configurations of the "single" regulators differ and the range of activities they undertake varies considerably across countries. For example, 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 conduct of business in addition to prudential oversight). In fact, the variety of arrangements in use is sufficiently diverse to suggest that the concept of an "integrated supervisor" is not particularly well defined. There is no uniform benchmark. Rather, references to integrated structures appear to be based on a comparison with the structure that existed in the same country at some prior point in time. The label attaches to many different organisational structures.

43. To see how an "integrated supervisor" can be structured, recall the highly disaggregated structure of supervision by sector shown in Figure 2. An integrated structure of supervision can be introduced in three ways:

- Type I: a vertical combination down the rows of the figure, suggesting that the different objectives of supervision are combined in one supervisor for each sector. Arrangements of this sort might result in "economies of scope" in supervision. The result is the traditional model of supervision by sector depicted in figure 3.

- Type II: a horizontal combination across the columns in the figure, implying that the responsibility for a given objective can be combined in one agency, which then has oversight of two or more service providers, possibly giving rise to "economies of scale" in supervision.

- Type III: Some type of mixed approach, involving combinations of both objectives and sectors.

44. A few researchers have examined the issue of whether there is an optimal organisational structure for financial supervision. Among the more frequently cited references are the models by M. Taylor and by Charles A. E. Goodhart *et al.* 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.

45. Both of these approaches link the structure of supervision to the perceived objectives it is being designed to achieve, and thus could be created through changes of the sort suggested in the second category above (Type II). Historically, there have been some differences in the objectives of financial policy across sectors and countries, reflecting such factors as the structure and the size of the financial system. While formal differences remain across countries, most jurisdictions have 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;

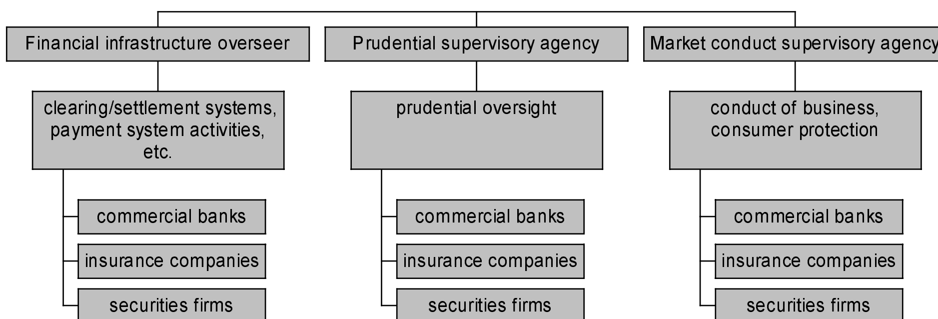
- *prudential oversight*, which covers the safety and soundness of individual institutions, in the absence of systemic consequences, with a view toward protecting consumers and investors from losses in the event of an institution's insolvency; and

- *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 and investors.

46. In a supervisory structure based on *objectives*, separate supervisory agencies would be assigned responsibility for each objective of financial policy. For example, a single agency would have responsibility for prudential oversight of all financial institutions, (figure 6, column 2), while other agencies would pursue other objectives, again for all service providers.

Figure 6

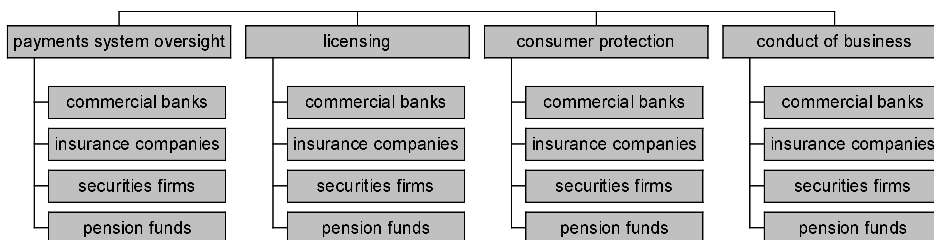
Stylised Structure of Financial Supervision by Objectives



47. A somewhat related approach to financial supervision focuses on specific supervisory activities. For example, a single entity would bear responsibility for licensing all types of financial service providers. Another entity would carry out on-site inspections and so forth. A stylised model of this structure is shown in Figure 7.

Figure 7

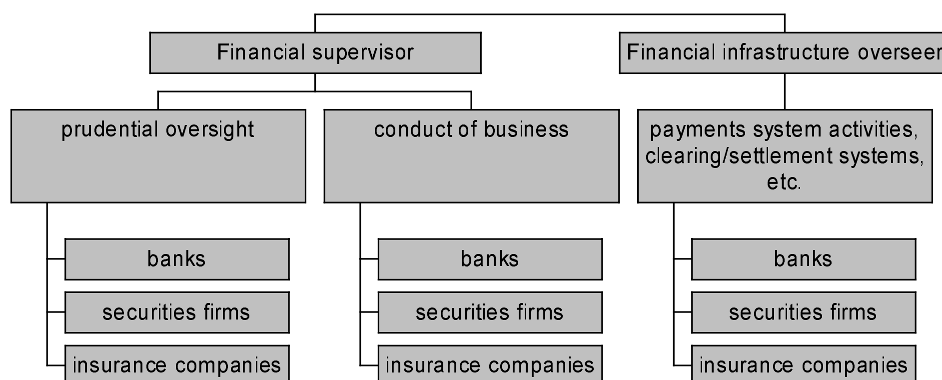
Stylised Model of Supervision by Supervisory Activity



48. Other approaches call for an even greater degree of integration of supervisory functions. Two examples are shown in the next two figures. Figure 8 depicts a “dual-agency” approach to financial supervision, whereby supervisory functions are combined in just two supervisory authorities—one having responsibility for payment system oversight and systemic stability, while the other agency bears responsibility for the remaining objectives of financial supervisory policy.

Figure 8

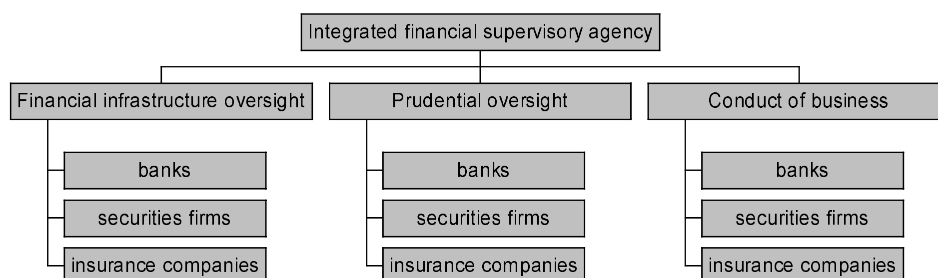
Stylised Dual-Agency Structure of Financial Supervision



49. Figure 9 is a stylised model of a fully integrated institutional structure for financial supervision, whereby all supervisory functions are combined in a single supervisory agency, which covers all service sectors.

Figure 9

Stylised "Fully Integrated" Structure of Financial Supervision



III. Structures for financial supervision in OECD countries

General Considerations

50. These stylised models are templates for comparison with the organisational structures for financial supervision among selected OECD Member Countries and countries that participate as Observers in the OECD Committee on Financial Markets. For example, the "triple peaks" approach of the Australian authorities, with separate responsibility assigned for systemic stability (to the Reserve Bank of Australia), for prudential oversight (to the Australian Prudential Regulatory Authority--APRA) and for conduct of business and consumer protection (to the Australian Securities and Investments Commission) is akin to the model of supervision by objectives shown in figure 2, although in reality APRA does not actually supervise securities firms, even though there is some notion of 'oversight' in terms of the consolidated supervision of banking and/or insurance groups. The Monetary Authority of Singapore, being at once an integrated regulator covering all financial sectors and a *de facto* central bank, has an organisational structure for financial supervision of the form illustrated in Figure 9. Among other OECD countries, single prudential financial supervisory authorities that cover most traditional sectors (banking, securities and

insurance) and in some cases all, have been established to date in a number of countries (Denmark, Hungary, Iceland, 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 being most common). Still, other jurisdictions have introduced formal structures for cross-sectoral supervisory co-operation (Portugal and the Netherlands). The United Kingdom has an arrangement which is roughly similar to the dual-agency approach depicted in Figure 8, 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, while the Bank of England among other functions continues to bear a role for oversight of payment systems[25]. As will be discussed in more detail below in the section on national experience, there are "*memoranda of understanding*" (MOU) between the FSA and other agencies such that the actual conduct of supervision is more complicated than the simple model would suggest. The same is true in many other cases.

51. Because the institutional structure of supervision and various country-specific factors are intertwined, to achieve a thorough understanding of financial supervisory regimes in practice it is necessary to look beyond the basic structure to see how supervision is actually being conducted in various countries. For example, in a number of countries, regional (state, provincial, etc.) agencies also have supervisory responsibility for certain financial institutions. In Canada, certain entities within a financial conglomerate (namely securities firms and provincially incorporated insurance companies) have been subject to supervision by provincial authorities. In the United States, banks may have state charters and, thus, in addition to federal supervision, would also be subject to supervision at the state level. Securities firms may also be subject to both federal and state supervision. Insurance is generally subject to oversight by state (and District of Columbia) insurance commissioners. 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 have been essential components of the supervisory approach to assessing the risks of financial conglomerates. At a minimum, the existence of a regional dimension to financial supervision makes it difficult to capture the structure of supervision in a simple framework, and jurisdictional issues of this sort can also impede the use of some approaches to financial supervision.

52. Another difference between the stylised structures and those found in practice is the fact that, in actual supervisory regimes, the responsibilities assigned to various supervisory agencies are not always cleanly delineated. In some case, responsibilities overlap and "memoranda of understanding" or other various means of co-ordination and co-operation between agencies have been established. For example, supervisory oversight may be shared for different components of financial conglomerates. In some countries, there is separate sectoral supervision of the banking, insurance and securities business of financial conglomerates, 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. However, responsibility for other objectives of financial supervision may be vested with yet other supervisory bodies. 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).

53. As noted above, single regulators cover all sectors (at least for prudential supervision) in Denmark, Hungary, Iceland, Japan, Korea, Norway, Sweden and the United Kingdom. An important consideration in the creation of integrated financial supervisory agencies has been how to ensure their operational independence while preserving some measure of accountability. The objectives, powers and responsibilities of consolidated supervisory agencies are usually clearly defined by law, so as to remove

the agencies from direct government control, but with other mechanisms put in place to ensure that proper checks and balances exist. Various approaches have taken to satisfy this requirement. In the majority of cases, integrated supervisory agencies have been established as independent statutory authorities. However, even where the authorities have been established as government agencies, they usually have been given a high degree of operational independence.

54. 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. 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 of 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 and Korea).

55. Most of the existing integrated 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. 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 integrated agencies.

56. Although the establishment of integrated financial supervisors is under active consideration in a number of jurisdictions, in several OECD countries (*e.g.* France, Germany, Greece, Italy, Portugal and Spain), supervision continues at present 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). In addition to differences across countries as to whether or not regulation and supervision are conducted by single or multiple agencies, there are a number of other areas in which differences in financial supervisory regimes arise across the OECD area. These areas include: the role of the central bank in prudential supervision; whether or not financial conglomerates or groups receive special treatment; whether an institutional, functional, or objectives-based approach is used. The first two issues are addressed in turn. The latter issue is covered indirectly in the section on national experience.

The role of the central bank in prudential supervision

57. In most, if not all, OECD countries, the central bank bears primary responsibility for oversight of the payment system and other aspects of the financial infrastructure. However, the central bank's participation in the overall structure of financial services supervision differs across countries. In 1998, the United Kingdom and Australia joined other countries such as Canada, Norway (1986), and Sweden (1991) in establishing a prudential supervisor that is separate from the central bank. Subsequently, Iceland (1999) and other countries world-wide have made similar moves—part of what appeared to be a gradual trend away from having central banks bear primary 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 have

questioned whether the national central banks need to continue bearing responsibility for prudential oversight. The ECB itself has argued to the contrary, stating 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".[26] 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. This same argument holds sway in other jurisdictions as well. Thus, while a number of countries around the world have removed primary responsibility for prudential supervision from their central banks, in some of these countries central banks are still indirectly involved in prudential supervision, and in many others direct involvement of central banks in prudential matters remains the norm (Figure 10). This involvement has moreover been confirmed or increased in many of the countries where institutional arrangements for supervision have recently been reconsidered (*e.g.* Austria, France, Ireland, Germany, the Netherlands and the United States).

Figure 10

Prudential Supervision of Banks

(1999 percentages)

	PRUDENTIAL SUPERVISOR	
	Central Bank	Non-Central Bank Agencies
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

58. A review of the experience of OECD countries and Observers in the CMF suggests that institutional structures for 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. Several countries with institutional oversight regimes have established a lead regulator for financial groups, based on the parent or the dominant regulated entity in the group (Figure 11, column 2). However, it has sometimes proved difficult, particularly in the case of conglomerate structures, for specialist regulators to agree on which agency 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.[27]

59. Even where integrated agencies exist, many of them have not established separate units for prudential supervision of financial conglomerates or other complex financial groups. In general, supervisory oversight of these entities is carried out by the regular sectoral supervisory divisions. From a practical standpoint, it has proved difficult to have one entity supervise all types of institutions. Thus, while

a supervisory agency itself may have an integrated structure, operationally there often are distinct units that typically focus on particular types of institutions. Consider the following four generalised structures:

- **Institutional model.** Supervision is conducted according to institutional groups, supplemented by a policy function, which may be a stand-alone unit or may be incorporated into the institutional divisions.

- **Operational model.** Supervision is conducted according to the type of supervisory activity (e.g. on-site inspection), without regard to the types of institutions involved. There would typically be a separate policy division.

- **Functional model.** Supervision is conducted according to the type of financial product/service (*e.g.* insurance underwriting, deposit taking).

- **Mixed model.** Supervision is notionally organised on an operational basis, but within supervisory activities, there are clear institutional groupings and practices.

Figure 11

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[1]
Canada[2]	Finland	Czech Republic
Denmark	Greece	France
Hungary	Spain	Germany
Iceland	United States[3]	Hong Kong
Japan	Switzerland[4]	Ireland[5]
Korea		Italy
Norway		Luxembourg
Singapore		Poland
Sweden		Portugal
United Kingdom		Turkey
Netherlands[6]		

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

1. For multi-country financial conglomerates involving Belgian banks, the Belgian Banking and Finance Commission has concluded *ad hoc* multilateral MOUs with the other relevant national and foreign supervisors identifying a lead supervisor/co-ordinator.
2. 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 provincially incorporated insurance companies) may also be subject to supervision by provincial authorities.

3. In the United States, financial conglomerates may include banks and be organised as "bank holding companies" (or whose bank holding company qualifies for treatment as a "financial holding company" under the Gramm-Leach-Bliley Act). These bank/financial holding companies are supervised 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, the Federal Deposit Insurance Corporation (FDIC) for state non-member banks, the Federal Reserve for state member banks, a state banking agency in the case of state-chartered banks, whether member or non-member 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 has authorised the SEC to promulgate bank rules applicable to supervised investment holding companies. The statute permits investment bank holding companies to elect to be supervised at the group level by the SEC. 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 some 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 I subsidiaries are subject to consolidated oversight by the OCC, with the appropriate sectoral regulator responsible for oversight of individual financial subsidiaries.
4. The Swiss Federal Office of Private Insurance and the Swiss Federal Banking Commission convened in 2000 to supervise financial conglomerates on the basis of an individual decision from case to case, identifying a lead (regulator) supervisor determined by which kind of enterprise (insurance or bank) is at the top of the conglomerate.
5. A lead supervisor is identified on the basis of co-ordination between supervisors.
6. Based on the structure that takes place in the course of 2002.

60. Using these four generalised models as benchmarks for comparison with actual arrangements, a number of integrated agencies operate along institutional lines (*e.g.* Korea) while others have a mixed approach (*e.g.* Denmark, Singapore, Sweden, and the United Kingdom).

61. The arrangements used by integrated supervisory authorities to facilitate the exchange of information across institutional divisions and with other governmental bodies are also possible across separate sectoral agencies. The creation of an integrated organisational structure for supervision does not in and of itself guarantee that an exchange among sectoral supervisory personnel will take place. Some argue that an integrated structure makes the process easier in general and perhaps better in the case of smaller countries where it may be more difficult to find staff with the necessary skill set. However, integration alone is neither necessary nor sufficient for this outcome to obtain. Nor does the absence of an integrated structure preclude the exchange of information among sectoral supervisors. Indeed, there are a number of alternative institutional arrangements in place, which seem to function just fine.

National experience

62. The discussion above illustrates that supervisory arrangements for financial services tend to vary across countries and regions. To some extent, the differences across regions reflect differences in the structure of the financial services sector, but within regions country-specific factors are the dominant influence. This section looks more closely at some of the ways in which these factors have influenced financial supervisory regimes in the OECD area, in particular, as regards arrangements for supervising financial groups.

Europe

63. The financial services sector in Europe is dominated by two organisational structures—the universal bank and the single bank or insurance parent. 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. For instance, **France** has both large banking and large insurance-dominated 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.

64. 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 das Kreditwesen* (BAKred), in co-operation with the *Deutsche Bundesbank*, while insurance is regulated by the *Bundesaufishtamst für das Versicherungswesen* (BAV). Securities activities are covered at the federal level by the *Bundesaufsichtamt für den Wertpapierhandel* (BAWe), while state authorities oversee the bourses. 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 *Bundesbank*, 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 of the government to strengthen Germany's position as an international financial centre, the Federal government announced a bill in August 2001 to merge the various supervisory authorities into the Federal Agency for Financial Market Supervision (*"Bundesanstalt für Finanzdienstleistungsaufsicht")*, effective sometime in 2002. The authority will be responsible for the supervision of financial conglomerates. However, it should be noted that under the new structure, the Bundesbank, as before, will continue to take part in supervising banks and other financial institutions.

65. In **Italy** the supervisory bodies for banking, insurance and securities are respectively the *Banca d'Italia*, the *Istituto di Vigilanza sulle Assicurazioni Private* (ISVAP), and the *Commissione Nazionale per le Società e la Borsa (CONSOB)*. 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. In the securities sector, according to the 1998 law on Financial Intermediation, a model of supervision by objectives is adopted. As a consequence, Banca d'Italia is assigned with the prudential supervision of financial intermediaries, while it pertains to CONSOB the supervision on transparency and rules of conduct.[28]

66. 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 (*i.e.*, in France, Germany and Italy) 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*, and

Comisión Nacional del Mercado de Valores having responsibility respectively for banks, insurance (including pension funds), and securities markets.

67. In the **Netherlands**, home to a number of large financial conglomerates, supervision historically was nominally divided along institutional lines, but specific arrangements were made for cross-sectoral aspects of supervision back in July 1999 (Figure 12) with the establishment of the Board of Financial Supervisors (BFS). The BFS, in which the three primary supervisory agencies had equal representation, was not a separate supervisory authority with separate supervisory tasks per se. Rather, its legal basis was an agreement between the supervisory agencies specifying their responsibility vis-à-vis each other and vis-à-vis third parties. The BFS's domain did not include those two aspects of cross-sector supervision that were already considered to be adequately covered, *viz*. systemic supervision and securities-related supervision.

Figure 12

Model of Financial Supervision in the Netherlands

Sector	Financial Supervisory Objectives					
	Systemic stability	Prudential supervision		Conduct of business		
				Non-securities		Securities
		Sectoral	Cross-sector	Sectoral	Cross-sector	
Banks/investment funds	DNB	DNB	BFS	DNB	BFS	STE
Securities firms		STE		STE		
Insurance companies		PVK		PVK		

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

68. In November 2001, however, a new cross-sector structure of financial supervision was proposed for the Netherlands, based upon two pillars: prudential supervision combined with systemic stability (two spheres of activity closely associated with the central bank) and conduct of business oversight (separate supervisory body). The cross-sector of the new Dutch structure (Figure 13) reflects the fact that financial conglomerates account for about 90 per cent of banking, 80 per cent of securities, and 70 per cent of insurance (measured in terms of market shares) in the Dutch financial market.[29] In particular for larger institutions, the new structure reflects the close linkage between systemic stability and prudential supervision. The structure also takes into account the view of Dutch authorities that there are fundamental differences between the objectives of prudential supervision and conduct of business supervision. These objectives are handled by separate authorities in the new structure.

Figure 13

Proposed Structure of Financial Supervision in the Netherlands

Sector	Financial Supervisory Objectives					
	Systemic stability	Prudential supervision		Conduct of business		
				Non-securities		Securities
		Sectoral	Cross-sector	Sectoral	Cross-sector	
Banks/investment funds	DNB	DNB	DNB / VK	Authority-FM		
Securities firms						

DNB=*De Nederlandsche Bank*; VK=Insurance Supervisor (*Verzekeringskamer*); Authority-FM= Authority for Financial Markets (successor to BFM).
Source: "A Cross-Sector Model for Financial Supervision in the Netherlands", (December 2001) A. Jonk, J. Kremers and Dirk Schoenmaker, *Financial Regulator,* The Netherlands.

69. In the new structure, the central bank remains responsible for systemic stability and payments systems and will be responsible for prudential supervision of banks, investment funds and securities firms. The insurance supervisory authority will retain responsibility for prudential supervision of insurance companies (and also covers pension funds). For prudential supervision of financial conglomerates, the central bank and insurance supervisory authority will integrate their cross-sector activities through cross-board appointments at both executive and non-executive levels, as well as through joint teams and practices. When this process is completed, a "twin peaks" structure will emerge, of the form depicted in Figure 14.

70. The existing supervisor of securities firms will be metamorphosed into a new authority having responsibility for securities markets as well as for conduct of business oversight (including consumer protection) of all financial services providers (banks, investment funds, insurance companies, and securities firms).

Figure 14

New Model of Financial Supervision in the Netherlands

<table>
<tr><th rowspan="4">Sector</th><th colspan="6">Financial Supervisory Objectives</th></tr>
<tr><th rowspan="3">Systemic stability</th><th colspan="2" rowspan="2">Prudential supervision</th><th colspan="3">Conduct of business</th></tr>
<tr><th colspan="2">Non-securities</th><th>Securities</th></tr>
<tr><th>Sectoral</th><th>Cross-sector</th><th>Sectoral</th><th>Cross-sector</th><th></th></tr>
<tr><td>Banks/investment funds</td><td colspan="3" rowspan="3">DNB
/
VK</td><td colspan="3" rowspan="3">Authority-FM</td></tr>
<tr><td>Securities firms</td></tr>
<tr><td>Insurance companies</td></tr>
</table>

DNB=*De Nederlandsche Bank*; VK=Insurance Supervisor (*Verzekeringskamer*); Authority-FM= Authority for Financial Markets (successor to BFM).
Source: "A Cross-Sector Model for Financial Supervision in the Netherlands", (December 2001) A. Jonk, J. Kremers and Dirk Schoenmaker, *Financial Regulator*, The Netherlands.

71. In Greece, Portugal and Turkey, supervision continues to be separated largely along lines of three sectors (banks, insurance companies and securities firms). However, in **Portugal**, a cross-sector board was created in September 2000, with the establishment, by Decree Law, of the National council of Financial Supervisors. The Council is chaired by the Governor of the Banco de Portugal, owing to the fact that in Portugal this particular body is the main entity responsible for stability of the financial system. Representatives of the three supervisory authorities are also permanent members of the Council and other public or private entities can be called upon to participate in the meetings (in particular, representatives of the Deposit Guarantee Fund, of the Investor-Compensation Scheme and of entities managing regulated markets). Among other responsibilities, it is incumbent upon the Council to promote the co-ordination of the actions undertaken by the supervisory authorities, to facilitate and co-ordinate the exchange of information between these authorities, to promote the development of supervisory rules and mechanisms applicable to financial conglomerates and to formulate proposals related to the scope of activity of more than one of the supervisory authorities. To facilitate the work of the Council and its decision making procedures, some working groups have been created composed of representatives from each supervisory authority.

72. In **Turkey**, banks are subject to supervision by the Banking Regulation and Supervision Agency (BRSA), a separate and independent legal entity established in August 2000 for the express purpose of prudential regulation and supervision of banks. It's objectives are (1) to safeguard the rights and benefits of depositors; (2) to create a proper environment in which banks and financial institutions can operate with market discipline, in a healthy, efficient and globally competitive manner; and (3) thereby to contribute to the achievement of long-run economic growth and stability. The BRSA has signed MOU with the Central Bank of Turkey, which is responsible for payment system oversight together with the task of price stability, and with the Undersecretariat of Treasury, which handles the regulation and supervision of insurance companies and private pension companies. The MOU establish principles and modalities for co-operation between authorities regarding questions of prudential supervision, and explain how the authorities will work together towards the common objective of financial stability. The division of

responsibilities are based on four guiding principles: accountability, transparency, prevention of duplication and regular information exchange. In addition to these supervisory authorities is the Capital Markets Board, which regulates securities activities and also plays a role in the supervision of private pension funds.

73. 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—the Insurance Supervisory Authority. In Finland, the two largest financial groups are financial conglomerates (the Nordea Group is a cross-border financial conglomerate domiciled in Sweden with banking operations in all Nordic countries and the Sampo Group is primarily a domestic financial conglomerate but has recently expanded operations outside of Finland into the Baltic region). The supervision of these entities is based on the newly adopted law on the supervision of financial conglomerates as well as on MOUs and other intensified co-operative measures, such as identical Board structure of the FSA and ISA.

74. Similar arrangements are found in a number of other European countries (*e.g.* Austria, Belgium and Luxembourg). In **Austria**, historically the Federal Ministry of Finance was the supervisory authority for banks, insurance companies and pension funds. Supervision was actually conducted by separate divisions, but located within the same Directorate of the Ministry, which facilitated co-operation when necessary. Securities services were supervised by an independent authority. In the past year, however, legislation to establish a new integrated supervisory agency was introduced. The operational implementation of the new agency is fixed at 1 April 2002. The aim of the new supervisory arrangements is to better align the structure of regulation/supervision with the existing state of play in the Austrian financial services sector. Banks in Austria have for some time been allowed to have participations in insurance companies and vice versa, according to the general provisions regulating to participations in any kind of financial services undertaking. The production of financial products is still based on the traditional sectoral segregation, but the distribution, particularly of life insurance products by banks, has become increasingly important over the past several years as major banks have either acquired participations in insurance companies or established insurance subsidiaries. Major banks also typically own subsidiaries that issue UCITS and banks frequently are owners of pension funds.

75. In **Belgium**, where a number of conglomerates are active, arrangements are in place for co-operation between two supervisory agencies in Belgium and two authorities in a neighbouring countries to establish a lead supervisor in the case of multi-lateral financial conglomerates involving Belgian banks. There is also an effort to harmonise information for financial products that do not entail prudential risks (*e.g.* investment funds). According to a recent joint proposal by Ministers of Finance and Economy, co-operation between the banking supervisor (Banking and Finance Commission), the insurance supervisor (Insurance Control Office) and the central bank will be enhanced in the near future. Strategic issues with regard to the preservation of the stability of the financial system, crisis management, and other matters of common interest, will be examined in a Financial Stability Board composed of members of the Executive Boards of the three institutions and chaired by the governor of the central bank. On a day-to-day basis, smooth co-operation and exchange of information among the three authorities involved will be ensured by the fact that three (of six) members of the Executive Board of the Banking and Finance Commission, as well as one (of three or four) members of the Executive Board of the Insurance Control Office will have to be chosen among the members of the Executive Board of the central bank.

76. 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.

77. **Switzerland** is also home to large financial conglomerates. A report commissioned by the Swiss Finance Minister in December 1998 and published in November 2000 contained amongst other recommendations the suggestion that the insurance and banking supervisory bodies be combined to form a new integrated supervisory authority.[30] An expert committee has been convened to investigate the practical modalities and propose an exact legal framework for implementing the recommendations. The detailed proposal of this committee is scheduled to be submitted to the finance minister at end-2002. In the interim, the Swiss Federal Banking Commission and the Federal Office of Private Insurance have decided to work together more closely on a case-by-case basis to provide for more comprehensive coverage of financial conglomerates.

78. Integrated supervisors are found in a number of Scandinavian countries (Denmark, Norway, and Sweden), but there are marked differences between them. **Norway** was among the first countries to establish a single financial supervisory authority (*Kredittilsynet*) having done so in 1986. Since the authority's establishment, there have been a number of organisational changes to ensure that supervision continues to be carried out in the most efficient way. In *Kredittilsynet*, there is a Capital Markets Department, which 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 mainly along functional lines, but in accordance with changes in markets and institutions, the organisation has been changed. In 1991, a fully functional organisation of this department was established. Two years later, this model was modified somewhat through the establishment of a section responsible for insurance regulation. Thus, the present structure embodies a single 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*; one section for *On-site inspection*, and a special section (actuaries and lawyers) on *insurance regulation*. The on-site and off-site supervisory work on banks and insurance companies is thus being done in the same sections. In the Capital Markets Department, regulations, on-site and of-site supervision of securities firms and investment funds are being done in the same section.

79. One senior inspector from the section for on-site supervision has responsibility for each of the major financial groups, chairing a team where one inspector has responsibility for each of the institutions in the group (bank/insurance). For each financial group, one person from the licensing section is responsible for legal matters and one person from the off-site supervision and analysis section is also assigned responsibility. There is also co-operation between the two departments to ensure co-ordinated on-site inspections in financial conglomerates with activities covering both departments' responsibilities.

80. Heads of departments meet every week with the general director to facilitate co-ordination and information sharing between departments. There are also regular meetings between the different sections. External co-operation with other relevant institutions also takes place and is considered to be satisfactory. For example, there are quarterly meetings between the Chairman of the Board of *Kredittilsynet*, the General Director of *Kredittilsynet* and the Governor of *Norges Bank*. At these meetings, 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 institutions work on questions pertaining to financial stability and prepare semi-annual reports in this field. The reports are discussed regularly at the top-level meetings as well as at regular meetings of a more informal character between the advisors who are preparing the

reports on financial stability. The reports are distributed to the Ministry of Finance. In addition to these meetings, there are also quarterly meetings between the Chairman of the Board of *Kredittilsynet*, the General Director of *Kredittilsynet* and the Secretary General of the Ministry of Finance to ensure communication on relevant matters.

81. 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*.[31] 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.

82. Supervision of financial services in **Denmark** is the responsibility of the Danish Financial Supervisory Authority—*Finanstilysynet*, which came into existence on 1 January 1988 when the Supervisory Authority for Banks and Savings Banks and the Insurance Supervisory Authority were merged. The Supervisory Authority for Mortgage Credit Institutions was transferred to *Finanstilysynet* in January 1990. In its present form, the agency is an institution under the responsibility of the Minister for Economic and Business Affairs. Structurally the Authority consists of a Management of four members: The Financial Business Council, the Danish Securities Council, and the Danish Pension Market Council. In addition, there are thirteen divisions consisting of sectoral bodies. Each body is dealing with a particular part of the financial services sector (*e.g.* the banking, securities and life and pension insurance divisions).The divisions may also specialise in horizontal issues (*e.g.* market risks). There is one International Counsellor. *Finanstilysynet*'s activities are divided for the most part into three core areas, comprising supervision, regulation and information. Supervision is further divided into supervision of financial undertakings (*e.g.* credit institutions, mortgage credit institutions, insurance companies, pension funds, etc.) and supervision of the securities market. Specific steps have been taken to address financial groups. The recently enacted Financial Business Act notes that the increase in convergence and integration in financial markets (*i.e.* the formation of conglomerates) creates a need for a common legislative framework for these institutions, such that similar financial products offered by different entities are treated equally under the law. To do so, the relevant codes which regulate the supervision of individual entities have been joined and codified together in order to facilitate regulation and supervision of financial conglomerates. However, separate acts still regulate the different types of financial services.

83. 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 (Ireland's new single financial regulator is to be established in the near future). In the **United Kingdom**, the Financial Services Authority (FSA) operates under legislation—the Financial Services and Markets Act 2000—that came into force in late-2001. Pursuant to the legislation, the FSA has a wider range of tools than the predecessor regulators and unlike the latter has been given its powers directly as opposed to operating under delegated authority. The FSA plans to use them consistently across all sectors it regulates. To that end, the agency has developed an integrated and risk-based approach to firm-specific regulation and to industry wide thematic issues, with a single handbook of rules and guidance for the firms it supervises. Institutions are 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. 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, which for the Bank of England includes responsibility for the 'overall stability of the financial system as a whole'. Furthermore, the FSA notes that in certain circumstances there may be a need to work closely with overseas regulators.

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

85. 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—the 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 the merger of the existing supervisory bodies. It 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 were made to the character of supervision. While the supervisory process had 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.

86. 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, while a separate supervisory authority monitored the activities of insurance companies.

North America

87. 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**, the Gramm-Leach-Bliley Act signed into law on 12 November 1999 adopted an approach that continues to require co-operation and co-ordination among the various financial regulators (Figure 15). In this structure, the respective banking agencies continue to be the primary regulators of the safety and soundness of depository institutions (*e.g.* the Office of the Comptroller of the Currency in the case of national banks; the Federal Reserve or Federal Deposit Insurance Corporation in the case of state chartered banks). The new law also recognises the roles of securities and insurance regulators as to matters traditionally within their jurisdictions (*e.g.* the Securities and Exchange Commission in the case of securities firms; and a state insurance commission in the case of insurance companies). The Act establishes the Federal Reserve as the regulator of financial holding companies, and when the holding company has a bank component, the Federal Reserve has "look through" authority with respect to the holding company group to protect the bank from risks that might arise elsewhere in the corporate family. Non-bank financial conglomerates (*i.e.,* those not affiliated with a commercial bank) have not traditionally been regulated at the consolidated group level, although the Securities and Exchange Commission (SEC) requires registered broker-dealers to file quarterly risk assessment reports regarding material affiliates. The Gramm-Leach-Bliley Act authorises the SEC to promulgate rules applicable to supervised Investment Bank Holding Companies. The statute permits Investment Bank Holding Companies to elect to be supervised at the group level by the SEC.

Figure 15

Simplified Model of Financial Supervision in the United States

Service Provider	Payment System Oversight	Primary Prudential Supervisor	Conduct of Business[1]
Banks	**FRB**		
BHC		FRB	FRB
State member		FRB/State Bk. Sup.	FRB/State Bk. Sup.
State non-member		FDIC/State Bk. Sup.	FDIC/State Bk. Sup.
National		OCC	OCC
S&Ls		OTS/State S&L Sup.	OTS/State S&L Sup.
Investment Banks		SEC[2]	SEC
Insurance companies		State Ins. Comm.	State Ins. Comm.
Complex Groups			
Bank component			
BHC		FRB	FRB
State member		FRB/State Bk. Sup.	FRB/State Bk. Sup.
State non-member		FDIC/State Bk. Sup.	FDIC/State Bk. Sup.
National		OCC	OCC
S&Ls		OTS/State S&L Sup.	OTS/State S&L Sup.
No bank component			
Ins. Co.		State Ins. Comm.	State Ins. Comm.
Inv. bank			SEC

BHC=Bank Holding Company; FRB=Federal Reserve Board; FDIC=Federal Deposit Insurance Corporation; Bk. Sup=Banking Superintendent; OCC=Office of the Comptroller of the Currency; S&L=savings and loan association; 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.

88. 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, federally chartered trust and loan companies and insurance companies, foreign insurance company branches and pension plans of federally incorporated institutions is carried out 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. Supervision is conducted on a consolidated basis, whereby information from other regulators is incorporated as necessary, including an assessment of all material entities (*e.g.* subsidiaries, branches, and joint ventures). Under the supervisory framework introduced in late-1999, OSFI focuses on evaluating an institution's material risks and the quality of its internal risk management practices, rather than applying a functional approach when conducting on-site reviews. 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, the OSFI Superintendent and the Commissioner of the newly established Financial Consumer Agency meet on a predetermined schedule to discuss systemic issues and other matters affecting the financial services industry.

Asia-Pacific Region

89. 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.

90. 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.

91. 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 through 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 Corporation. 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.

92. 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.[32] The Ministry of Finance and Economy (MOFE), in consultation with the Financial Supervisory Commission, regulates matters concerning the financial system, except those that concern competition policy, which is the responsibility of the Fair Trading Commission. Under this regulatory framework, the FSS supervises the operations of

financial institutions and co-ordinates policy issues with relevant authorities (*e.g.* MOFE, Bank of Korea, etc.) hold meetings to discuss major policy issues.

93. 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 (MOF) 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.

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NOTES

1 . The objective of this paper is to provide an overview of the major issues related to the supervision of financial services in the OECD area. It is, however, clear that the paper does not pretend to be exhaustive. The issues related to the "regulation" *sensu stricto* of financial services are, for instance, covered only partly and would require further work.

2 . Supervision of intra-group transactions is an important issue in the supervision of financial groups, as discussed in the report by the Joint Forum, "Intra-group Transactions and Exposures and Risk Concentration Principles", Basle (1999).

3 . "Consolidation in the Financial Sector", Group of Ten, Bank for International Settlements (Basle, January 2001)..

4 This issue is discussed by Christian Hawkesby (July 2000) in the context of moving banking supervision out of the purview of the central bank and into a single financial supervisor.

5 . The continued existence of differences in the core business activities and risk exposures across the different sectors of financial services was acknowledged in the November 2001 report by the Joint Forum, "Risk Management Practices and Regulatory Capital, Cross-Sectoral Comparison", Bank for International Settlements.

6 . The discussion in this paragraph is derived largely from "Risk Management Practices and Regulatory Capital", a joint report by the Basle Committee on Banking Supervision, the International Organisation of Securities Commissions and the International Association of Insurance Supervisors (November 2001).

7 . See, for example, E Phillip Davis, "Portfolio Regulation of Life Insurance Companies and Private Pension Funds" (2001), *Financial Market Trends*, No. 80, October, pp. 133-189.

8 . See André Laboul (1998) "The Financial Security of Private Pension Systems (Part II)", *Financial Market Trends*, No. 71, November, pp. 67-134.

9 . See the Joint Forum, "Risk Management Practices and Regulatory Capital", November 2001.

10 . See OECD Working Party on Private Pensions, (2001) "Basic Principles for the Regulation of Private Occupational Pensions Schemes", *Financial Market Trends, No. 79,* June, pp. 131-134. The objectives of these principles are threefold: the protection of the rights of the beneficiaries, the promotion of the financial security of pensions schemes and the financial stability of the pension system. Among the key elements in the regulation of such pension schemes are: (1) INPRS Principle No. 5—the need for an institutional and functional system of adequate legal, accounting, technical, financial and managerial criteria to apply to pension funds and plans, jointly or separately, with legal separation of a fund from the sponsor; (2) INPRS Principle No. 8—the requirement for effective supervision of pension funds and plans with a focus on legal compliance, financial control, actuarial examination and supervision of managers; (3) INPRS Principle No. 6—the recommendation that private pension schemes be funded. While full funding exists in principle for defined contribution plans, other types of plans should be subject to minimum funding rules or other mechanisms to ensure adequate funding of pension liabilities; (4) INPRS Principle No. 11—the need for adequate regulation of investment by pension funds; (5) INPRS Principle No. 15—consideration should be given to the corporate governance role and capacity of pension funds; (6) INPRS Principle No. 14—the need for appropriate disclosure and education as regards respective costs and benefits characteristics of pension schemes, especially where individual choice is offered; and (7) INPRS Principle No. 9—self-regulation and self-supervision should be encouraged.

11 . See, for example, the discussion in “Supervision of Financial Conglomerates”, (1999) a joint report by the Basle Committee on Banking Supervision, the International Organisation of Securities Commissions and the International Association of Insurance Supervisors.

12 . See the discussion by Harold D. Skipper, Jr. in “Financial Services Integration Worldwide: Promises and Pitfalls”, *Policy Issues in Insurance*, No. 3 (2001).

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

14 . For a survey of regulatory and market related issues at the origin of the convergence between insurance and bank services, see *Insurance and Other Financial Services,* OECD, Paris (1992).

15 . This explains in part why “variable” insurance products in the United States are regulated by the SEC.

16 . See the discussion in “The credit derivatives market: its development and possible implications for financial stability” *Financial Stability Review*, No. 20, Bank of England (June 2001).

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

18 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.

19 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 the Tripartite Group and took over the work on the topic. The Joint Forum has issued a number of recommendations regarding core principles for capital adequacy, sharing of information and co-ordination between supervisory agencies. Separately, 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.

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

21 In the United States both the institutional/sectoral and functional approach refer to legal entities.

22. 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.

23. See “Risk Management Practices and Regulatory Capital” by the Joint Forum for a more detailed discussion of the application of capital adequacy requirements across sectors.

24 . The latter condition is the so-called “regulatory neutrality” principle, which refers in general to the avoidance of regulatory distortions.

25 . See the discussion in “A new regulator for the new millennium”, Financial Services Authority (January 2000).

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

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

28. 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.

29. See the discussion in A. Jonk, J. Kremers and D. Schoenmaker, "A Cross-Sector Model for Financial Supervision", *Financial Regulator*, the Netherlands, December 2001.

30 . The final report on "Financial market regulation and supervision in Switzerland" can be downloaded from http://www.efd.admin.ch/multilg/finanzmarkt.pdf.

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

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

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	L
Czech Republic	F	F	A	F
Denmark	F	*	A	A
Finland	F	*	A	A
France	F	*	A	L
Germany	F	*	A	*
Greece	F	*	L	*
Hungary	F	L	L	L
Iceland	F	*	A	*
Ireland	F	*	A	*
Italy	F	*	A	A
Japan	F	F	L	F
Korea	F	F	F	F
Luxembourg	F	*	A	*
Mexico	F	*	L	L
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	F	*	A	*
United Kingdom	F	*	A	L
United States	E	*	L	*

Notes:
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	A	A	A	L	A
Czech Republic	A	A	A	A	A
Denmark	A	A	A	A	A
Finland	A	A	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	A	A	A
Ireland	A	A	A	L	A
Iceland	F	F	SL	L	SL
Italy	A	A	A	A	A
Japan	A	A	A	A	A
Korea	A	L	A	L	SL
Luxembourg	A	A	A	A	A
Mexico	F	F	F	SL	SL
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	A	A	A	A	A
Switzerland	A	A	A	A	A
Turkey	A	A	A	A	L
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: OFFICIAL AUTHORITIES INVOLVED IN REGULATION AND SUPERVISION[*]

COUNTRY	REGULATORY AUTHORITIES				SUPERVISORY AUTHORITIES			
	RESPONSIBLE FOR BANK REGULATION	RESPONSIBLE FOR INSURANCE COMPANY REGULATION	RESPONSIBLE FOR PENSION FUND REGULATION	RESPONSIBLE FOR REGULATION OF SECURITIES FIRMS	BANK SUPERVISORY AUTHORITY	INSURANCE COMPANY SUPERVISORY AUTHORITY	PENSION FUND SUPERVISORY AUTHORITY	SECURITIES FIRM SUPERVISORY AUTHORITY
Australia	Treasury (structure is more akin to 'Finance' in many countries)	Treasury	Australian Prudential Regulation Authority, Australian Securities and Investments Commission, Australian Taxation Office	Treasury	Australian Prudential Regulation Authority (APRA), Australian Securities and Investments Commission	Australian Prudential Regulation Authority (APRA), Australian Securities and Investments Commission	Australian Prudential Regulation Authority, Australian Securities and Investments Commission, Australian Taxation Office	Australian Securities and Investments Commission, Australian Prudential Regulation Authority
Austria	Federal Ministry of Finance, Ministry of Justice, Consumer protection	Federal Ministry of Finance, Ministry of Justice, Consumer protection	Federal Ministry of Finance, Ministry of Justice, Consumer protection	Federal Ministry of Finance, Ministry of Justice, Consumer protection	Financial Market Authority, Austrian Central Bank (payments system overseer)	Financial Market Authority, Central Bank (payments system overseer)	Financial Market Authority, Central Bank (payments system overseer)	Financial Market Authority, Central Bank (payments system overseer)
Belgium	Ministry of Finance, Banking and Finance Commission	Ministry of Economic Affairs, Insurance Supervisory Authority, Ministry of Justice, Ministry of Social Affairs and Work Accident	Ministry of Economic Affairs, Insurance Supervisory Authority, Ministry of Pensions	Ministry of Finance	Bank and Finance Commission	Supervisory Authority of Insurance	Supervisory Authority of Insurance	Commission Bancaire et Financière

TABLE 3: OFFICIAL AUTHORITIES INVOLVED IN REGULATION AND SUPERVISION*

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	RESPONSIBLE FOR BANK REGULATION	RESPONSIBLE FOR INSURANCE COMPANY REGULATION	RESPONSIBLE FOR PENSION FUND REGULATION	RESPONSIBLE FOR REGULATION OF SECURITIES FIRMS	BANK SUPERVISORY AUTHORITY	INSURANCE COMPANY SUPERVISORY AUTHORITY	PENSION FUND SUPERVISORY AUTHORITY	SECURITIES FIRM SUPERVISORY AUTHORITY
Canada	Federal Department of Finance & Bank of Canada, Canada Deposit Insurance Corporation, Financial Consumers Agency of Canada	Federal and Provincial Ministries of Finance & Financial Consumers Agency of Canada, Comcorp and PACCIC (industry funded insolvency insurance companies)	Federal and Provincial Ministries of Finance	Provincial Ministries of Finance and Provincial Securities Commissions & Investment Dealers Association of Canada	Office of the Superintendent of Financial Institutions	Office of the Superintendent of Financial Institutions, Provincial regulators	Office of the Superintendent of Financial Institutions or Provincial Regulatory Authorities	Provincial Securities Commissions, CSA is the co-ordinating body
Czech Republic	Czech National Bank	Ministry of Finance	Ministry of Finance, Ministry of Labour and Social Affairs	Ministry of Finance	Czech National Bank, Security Commission	Department of Insurance and Pension Funds of the Ministry of Finance, Security Commission	Department of Insurance and Pension Funds of the Ministry of Finance, Security Commission	Czech Securities Commission
Denmark	Ministry of Economic and Business Affairs	Ministry of Economic and Business Affairs	Ministry of Economic and Business Affairs	Ministry of Economic and Business Affairs	The Danish Financial Supervisory Authority	The Danish Financial Supervisory Authority	The Danish Financial Supervisory Authority	The Danish Financial Supervisory Authority[1]

COUNTRY	TABLE 3: OFFICIAL AUTHORITIES INVOLVED IN REGULATION AND SUPERVISION*							
	REGULATORY AUTHORITIES				SUPERVISORY AUTHORITIES			
	RESPONSIBLE FOR BANK REGULATION	RESPONSIBLE FOR INSURANCE COMPANY REGULATION	RESPONSIBLE FOR PENSION FUND REGULATION	RESPONSIBLE FOR REGULATION OF SECURITIES FIRMS	BANK SUPERVISORY AUTHORITY	INSURANCE COMPANY SUPERVISORY AUTHORITY	PENSION FUND SUPERVISORY AUTHORITY	SECURITIES FIRM SUPERVISORY AUTHORITY
Finland	Ministry of Finance	Ministry of Social Affairs and Health (Insurance Department)	Ministry of Social Affairs and Health, Ministry of Finance (Insurance Department)	Ministry of Finance	Financial Supervision	Insurance Supervision Authority	Insurance Supervision Authority	Financial Supervision
France					Commission Bancaire	Commission de Contrôle des Assurances	Commission de Contrôle des Assurance	Commission Bancaire, Commission des Opérations de Bourse
Germany	Ministry of Finance	Ministry of Finance	Ministry of Finance, Ministry of Labour	Ministry of Finance	Federal Banking Supervisory Office, Deutsche Bundesbank	Federal Insurance Supervisory Office	Federal Insurance Supervisory Office	Federal Securities Supervisory Office
Greece	Ministry of National Economy, Bank of Greece	Ministry of Development	Ministry of Labour and Social Insurance[2]	Ministry of Finance	Bank of Greece	Ministry of Development	Ministry of Labour and Social Insurance[2]	Capital Markets Commission
Hungary	Finance Ministry	Finance Ministry	Finance Ministry	Finance Ministry	Hungarian Financial Supervisory Authority	Hungarian Financial Supervisory Authority	Hungarian Financial Supervisory Authority	Hungarian Financial Supervisory Authority

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	RESPONSIBLE FOR BANK REGULATION	RESPONSIBLE FOR INSURANCE COMPANY REGULATION	RESPONSIBLE FOR PENSION FUND REGULATION	RESPONSIBLE FOR REGULATION OF SECURITIES FIRMS	BANK SUPERVISORY AUTHORITY	INSURANCE COMPANY SUPERVISORY AUTHORITY	PENSION FUND SUPERVISORY AUTHORITY	SECURITIES FIRM SUPERVISORY AUTHORITY
Iceland	Ministry of Commerce	Ministry of Commerce, Ministry of Justice	Ministry of Finance	Ministry of Finance	The Financial Supervisory Authority	The Financial Supervisory Authority	The Financial Supervisory Authority	The Financial Supervisory Authority
Ireland[3]	Minister for Finance	Minister for Enterprise, Trade & Employment	Minister for Social, Community and Family Affairs	Minister for Finance	Central Bank of Ireland	Insurance Division, Department of Enterprise, Trade & Employment	The Pension Board	Central Bank of Ireland
Italy	Interministerial Committee for Credit and Finance, Ministry of Economics and Finance, and Bank of Italy	Ministry for Productive Activities, Ministry of Economics and Finance, and ISVAP	Ministry of Labour and Social Security, Ministry of Economics and Finance, Commissione di Vigilanze sui Fondi Pensione, CONSOB, ISVAP	Ministry of Economics and Finance, Consob, and Bank of Italy	Bank of Italy and CONSOB	ISVAP	COVIP, CONSOB, Banca d'Italia, ISVAP	CONSOB and Bank of Italy
Japan	Financial Services Agency	Financial Services Agency	Ministry of Health and Welfare; Ministry of Finance	Financial Services Agency	Financial Services Agency	Financial Services Agency	Ministry of Health and Welfare, Financial Services Agency	Financial Services Agency

COUNTRY	TABLE 3: OFFICIAL AUTHORITIES INVOLVED IN REGULATION AND SUPERVISION*							
	REGULATORY AUTHORITIES				SUPERVISORY AUTHORITIES			
	RESPONSIBLE FOR BANK REGULATION	RESPONSIBLE FOR INSURANCE COMPANY REGULATION	RESPONSIBLE FOR PENSION FUND REGULATION	RESPONSIBLE FOR REGULATION OF SECURITIES FIRMS	BANK SUPERVISORY AUTHORITY	INSURANCE COMPANY SUPERVISORY AUTHORITY	PENSION FUND SUPERVISORY AUTHORITY	SECURITIES FIRM SUPERVISORY AUTHORITY
Korea	Ministry of Finance and Economy, Financial Supervisory Commission	Ministry of Finance and Economy, Financial Supervisory Commission	Ministry of Finance and Economy, Financial Supervisory Commission and Ministry of Labour	Financial Supervisory Commission	Financial Supervisory Service	Financial Supervisory Service	Financial Supervisory Service	
Luxembourg	Finance Ministry	Finance Ministry	Finance Ministry, Ministry of Social Security	Finance Ministry	Supervisory Commission of the Finance Sector	Insurance Supervision Authority	Supervisory Commission of the Finance Sector, Insurance Supervision Authority, Inspector General of Social Security	Supervisory Commission of the Finance Sector
Mexico	Central Bank and Ministry of Finance	Ministry of Finance	National Commission for the Retirement Savings System	Ministry of Finance	Banking and Securities Commission	Insurance Commission	National commission for the Retirement Savings System, Mexican Institute for the Social Security	Banking and Securities Commission

COUNTRY	TABLE 3: OFFICIAL AUTHORITIES INVOLVED IN REGULATION AND SUPERVISION*							
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	RESPONSIBLE FOR BANK REGULATION	RESPONSIBLE FOR INSURANCE COMPANY REGULATION	RESPONSIBLE FOR PENSION FUND REGULATION	RESPONSIBLE FOR REGULATION OF SECURITIES FIRMS	BANK SUPERVISORY AUTHORITY	INSURANCE COMPANY SUPERVISORY AUTHORITY	PENSION FUND SUPERVISORY AUTHORITY	SECURITIES FIRM SUPERVISORY AUTHORITY
Netherlands[4]	Ministry of Finance	Ministry of Finance	Ministry of Finance, Ministry of Social Affairs and Employment	Ministry of Finance	De Nederlandsche Bank (DNB), Pension and Insurance Supervisor (PVK) and Authority for Financial Markets	De Nederlandsche Bank (DNB), Pension and Insurance Supervisor (PVK) and Authority for Financial Markets	De Nederlandsche Bank (DNB), Pension and Insurance Supervisor (PVK) and Authority for Financial Markets	De Nederlandsche Bank (DNB), Pension and Insurance Supervisor (PVK) and Authority for Financial Markets
New Zealand	Reserve Bank of New Zealand				Reserve Bank of New Zealand	Ministry of Commerce	Ministry of Commerce	Securities Commission
Norway	Ministry of Finance, Bank of Norway	Ministry of Finance	Ministry of Finance, Ministry of Justice	Ministry of Finance	Banking, Insurance and Securities Commission of Norway	Banking, Insurance and Securities Commission of Norway	Banking, Insurance and Securities Commission of Norway	Banking, Insurance and Securities Commission of Norway

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	RESPONSIBLE FOR BANK REGULATION	RESPONSIBLE FOR INSURANCE COMPANY REGULATION	RESPONSIBLE FOR PENSION FUND REGULATION	RESPONSIBLE FOR REGULATION OF SECURITIES FIRMS	BANK SUPERVISORY AUTHORITY	INSURANCE COMPANY SUPERVISORY AUTHORITY	PENSION FUND SUPERVISORY AUTHORITY	SECURITIES FIRM SUPERVISORY AUTHORITY
Poland	Ministry of Finance, Minister of the Treasury (matters involving state owned banks)	Ministry of Finance, State Office for Insurance Supervision	Ministry of Labour and Social Policy, Ministry of Finance	Ministry of Finance	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, Ministry of Finance	Superintendency of Pension Funds, President of Council of Ministers (supervision of the Superintendency of Pension Funds)	Polish Securities and Exchange Commission
Portugal	Ministry of Finance	Ministry of Finance	Ministry of Finance	Ministry of Finance	Banco de Portugal	Insituto de Seguros de Portugal	Institute de Seguros de Portugal	Comissào do Mercado de Valores Mobiliàrios
Singapore	Monetary Authority of Singapore	Monetary Authority of Singapore	Monetary Authority of Singapore	Monetary Authority of Singapore	Monetary Authority of Singapore	Monetary Authority of Singapore	Monetary Authority of Singapore	Monetary Authority of Singapore

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Slovak Republic	Ministry of Finance, Slovak National Bank	Ministry of Labour, Social Affairs and Family, Ministry of Finance	Ministry of Finance & Ministry of Labour, Social Affairs and Family	Ministry of Finance	Slovak National Bank	Financial Market Authority	Ministry of Labour, Social Affairs and Family, Ministry of Finance, Government of the Slovak Republic	Financial Market Authority
Spain	Ministry of Economy and Finance	Ministry of Economy and Finance	Dirección General de Seguros y Fondos de Pensiones under the Ministry of Economy and Finance	Ministry of Economy and Finance	Banco de España*	Dirección General de Seguros y Fondos de Pensiones under the Ministry of Economy and Finance	Dirección General de Seguros y Fondos de Pensiones under the Ministry of Economy and Finance	Comisión Nacional del Mercado de Valores
Sweden	Ministry of Finance	Ministry of Finance	Ministry of Finance	Ministry of Finance	Financial Supervisory Authority	Financial Supervisory Authority	Financial Supervisory Authority	Financial Supervisory Authority
Switzerland	Federal Department of Finance, Federal Banking Commission	Federal Department of Finance	Ministry of Home Affairs	Federal Department of Finance	Federal Banking Commission	Federal Department of Justice (and Police)	Federal Office of Social Security and Cantonal authorities	Federal Banking Commission

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Turkey	Banking Regulation and Supervision Agency	Undersecretariat of Treasury (Directorate General of Insurance)	Undersecretariat of Treasury (Directorate General of Insurance) and Capital Markets Board, Ministry of Labour and Social Security	Capital Markets Board	Banking Regulation and Supervision Authority	Undersecretariat of Treasury (Directorate General of Insurance)	Undersecretariat of Treasury (Directorate General of Insurance) and Capital Markets Board, Ministry of Labour and Social Security	Capital Markets Board
United Kingdom	Bank of England, Her Majesty's Treasury, Financial Services Authority	Financial Services Authority	Inland Revenue, Department of Social Security, Her Majesty's Treasury	Financial Services Authority	Bank of England, Her Majesty's Treasury, Financial Services Authority	Financial Services Authority	Inland Revenue, Department of Social Security, Occupational Pensions Regulatory Authority, Financial Services Authority, Pension Compensation Board	Financial Services Authority

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United States	Board of Governors of the Federal Reserve; Office of the Comptroller of The Currency (within the Treasury Department). Sub-national bank regulatory authorities; Federal Deposit Insurance Corp. SEC for securities products (stocks, bonds, mfs, variable sub-accounts); State banking supervisors	State Insurance Commissions	Department of Labour	Securities and Exchange Commission	Board of Governors of the Federal Reserve; Office of the Comptroller of The Currency; Federal Deposit Insurance Corporation; and State bank supervisors	State Insurance Commissions	Internal Revenue Service (Treasury); Pension and Welfare Benefits Administration (Labor), Pension Benefit Guarantee Corp., State Insurance Supervisors. SEC for registered products. Treasury IRS for tax favoured products—IRAs, 401(K), etc.	Securities and Exchange Commission

1. The authority is independent

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

3. The Ministry of Finance will also assume responsibility for insurance regulation, following the establishment (in the near future) of the Irish Financial Services Regulatory Authority to be operated within Ireland's central bank which will be renamed the "Central Bank of Ireland and Financial Services Authority".

4 DNB and PVK carry out prudential supervision. The Authority for Financial Markets carries out conduct of business supervision.