Integrated Financial Supervision: Experiences in Selected Countries

Edgardo Demaestri
Diego Sourrouille

Inter-American Development Bank

Washington, D. C.

Sustainable Development Department
Technical Papers Series

Cataloging-in-Publication data provided by the
Inter-American Development Bank
Felipe Herrera Library

Demaestri, Edgardo C.

Integrated financial supervision : experiences in selected countries / Edgardo Demaestri, Diego Sourrrouille.

p.cm. (Sustainable Development Department Technical papers series ; IFM-139
Includes bibliographical references.

1. Financial services—State supervision. I. Sourrouille, Diego. II. Inter-American Development Bank. Sustainable Development Dept. Infrastructure and Financial Markets Division. III. Title. IV. Series.

332 D188—dc21

Submitted on December 19, 2003

Edgardo Demaestri is a Senior Economist in the Infrastructure and Financial Markets Division of the Sustainable Development Department. Diego Sourrouille is a Consultant at the Inter-American Development Bank. The usual disclaimer regarding the opinions expressed in this paper applies. The authors would like to thank Wayne Byres, Tony Maxwell, Paul Gunnar Palsson, Yasusuke Tsukagoshi, Sangho Sohn, Lisbeth Strand, and Leo Mun Wai for their valuable contributions. The authors would also like to thank Hunt Howell, Kenneth Mwenda, and Jorge Pinzon Sanchez for their useful comments. Finally, the authors thank Graciela Testa, Cynthia Nuques, and Leah-Mari Richards for providing excellent editorial assistance.

December 2003

This publication (Reference No. IFM-139) can be obtained from:

IFM Publications
Infrastructure and Financial Markets Division
Mail Stop W-0508
Inter-American Development Bank
1300 New York Avenue, N.W.
Washington, D.C. 20577

E-mail: sds/ifm@iadb.org
Fax: 202-623-2157
Web Site: *http:www.iadb.org/sds/ifm*

Foreword

The institutional aspects of financial regulation and supervision are receiving great attention around the world. This interest has increased as several developed and developing countries integrated their specialized regulatory structures during the last few years, sometimes introducing a single financial regulator.

The recent literature on financial regulation and supervision reflects the debate on the advantages and disadvantages of integrating the supervision of banks, insurance, securities, and other financial sector activities. It also recognizes the importance of issues and risks associated with the processes of implementing supervisory integration. The experiences of those countries that have already integrated their financial supervisory structures provide insights that could be useful for other countries that are studying a move toward integration.

This paper (a previous version of which was presented at the Latin American Regional Financial Forum in October 2002) represents one of the first comparative analyses of experiences of integrated supervision. It discusses how several countries around the world have developed the processes of integrating financial regulation and supervision, and covers numerous relevant technical issues as well as the policy options. It describes the scope of the activities, institutions, responsibilities, and regulatory powers that integrated supervisors are expected to cover. Issues related to the organizational structures and the management of staff resources are also considered. In particular, the paper discusses how the supervisory agencies have dealt with three important aspects: the treatment of financial conglomerates, the risk assessment process, and crisis management.

The paper reaches several conclusions, among them: the countries that have been able to integrate their regulatory structures are quite diverse; the scope of the financial activities and services covered is broad; the integrated agencies are not homogeneous regarding their assumed regulatory powers; most of the supervisors operate with a good degree of independence from government, although they are accountable to government; and the organizational structure of the agencies reflects aspects of institutional and functional organizational models. The paper also concludes that the effective implementation of integrated supervision is not an easy task. It takes time and effort to harmonize procedures across different activities and maximize the benefits of integration.

This study confirms the advantages of integration, but it finds that there is no one way of integrating financial supervision. Many lessons are offered and they will prove useful and relevant for countries currently considering or undergoing the process of integration and particularly for the countries of Latin America and the Caribbean, some of which have already started to move towards an integrated approach.

We anticipate that this study will help promote an active discussion on the implementation of institutional reforms in the supervisory frameworks of the countries of Latin America and the Caribbean. In addition, we hope that the analysis and information provided will stimulate further studies and policy recommendations.

Pietro Masci
Chief
Infrastructure and Financial Markets Division

Contents

Introduction

In the past few years several countries opted to integrate the regulatory structures of their financial sectors, sometimes introducing a single financial regulator. In most cases, this change came in response to market developments such as increases in the number of financial conglomerates, blurring of the boundaries between financial products, and expected economies of scale and scope in regulation. In addition, integrated regulation under a single regulator with clear and consistent objectives may make possible the development of a consistent approach to supervision, facilitating risk-based regulation on a consistent basis across firms and markets (see Briault, 2002).

The advantages and disadvantages of integrating the supervision of banks, insurance, securities, and other financial sector activities are currently being actively debated. The recent literature on financial regulation and supervision reflects this debate.[1] In particular, Demaestri and Guerrero (2003) propose and utilize a methodology to analyze the advantages and disadvantages of integrated supervision, finding good reasons for the adoption of an integrated approach to financial supervision in circumstances similar to those prevailing in most Latin American and Caribbean countries. The authors reach that conclusion on the basis of an analysis of the efficacy and efficiency of the integrated and specialized supervisory approaches to fulfill three main objectives of financial regulation (consumer protection, systemic stability, and financial system efficiency). Demaestri and Guerrero (2003) also identify the main principles that should be followed to maximize the benefits of a move toward an integrated approach.

In connection with the implementation of integrated supervision, the literature recognizes the importance of some issues and risks associated with the processes of integration. It is also recognized that some of the benefits expected from integration may not be reached immediately. The experience of those countries that have already integrated their financial supervisory structures may provide some insights that could be useful for other countries that are studying or considering a move toward integration.

This paper discusses how several countries around the world integrated financial regulation. It discusses some relevant issues associated with integration and approaches to address them. The lessons that can be extracted from these experiences might be of help to the countries of Latin America and the Caribbean where the discussion about the best regulatory and supervisory structures is increasingly part of the financial sector reform agenda.[2]

The rest of this section provides some background information about several countries that have integrated their financial regulatory structures. Section 2 provides basic information regarding the integration processes in ten countries that constitute the core of this study. Section 3 summarizes the scope of the integrated supervisory agencies in terms of the activities regulated and the responsibilities covered. Section 4 assesses the regulatory powers of the integrated agencies. Section 5 analyses issues related to accountability. Section 6 refers to the organizational structures of the integrated agencies, while Section 7 concentrates on staff resources. Section 8 focuses on three important topics related

[1] For a discussion on the pros and cons of integration, the reader is referred to Abrams and Taylor (2000), Briault (1999 and 2002), and Demaestri and Guerrero (2003). For an analysis of the cost and benefits of integrating the supervision of pensions funds with that of other financial activities and services, see Demaestri and Ferro (2003).

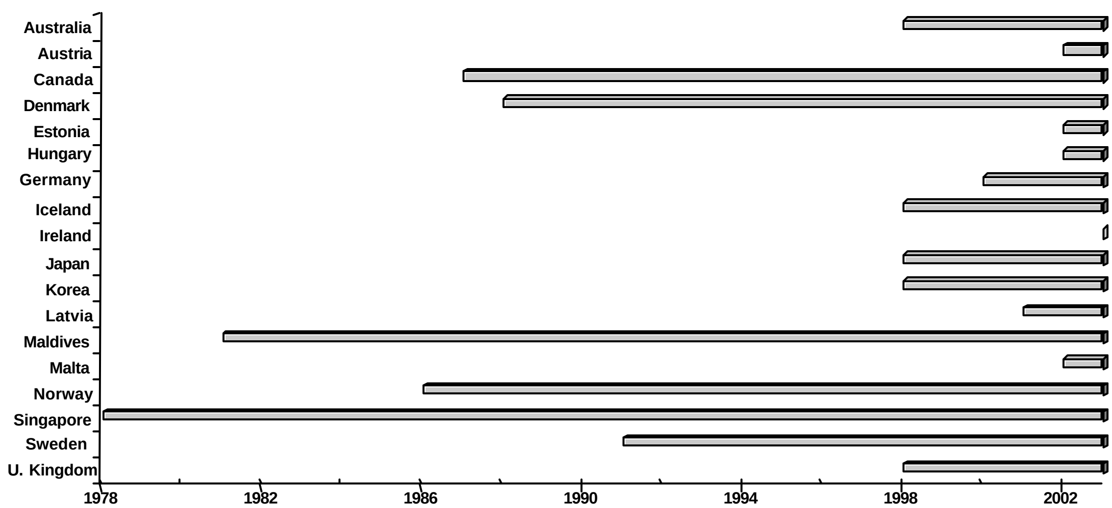
[2] Although it is possible to distinguish between regulation (the establishment of norms of behavior), monitoring (observation of the compliance with those norms), and supervision (a more general observation of the behavior of financial firms), following the usual practice and other authors' approaches, the terms are not distinguished in this study.

to the practice of integrated supervision: the treatment of financial conglomerates, the process of risk assessment, and crisis management. The final section summarizes the main conclusions and identifies some topics for further study.

Eighteen countries outside of Latin America and the Caribbean[3] that have already adopted an integrated approach to financial supervision were identified: Australia,[4] Austria, Canada,[5] Denmark, Estonia, Germany, Hungary, Iceland, Ireland, Japan, Korea, Latvia, Maldives, Malta, Norway, Singapore, Sweden, and the United Kingdom.

Three waves of institutional reform can be distinguished in the process of establishing integrated supervisory agencies (see Figure 1). The first wave relates to the Nordic countries and happened in the late 1980s and early 1990s. Canada also integrated its financial regulatory structures during this period.[6] A second wave is observed at the end of the 1990s. Two countries that are recognized as representative of this wave are the United Kingdom and Australia. Korea and Japan followed the same path around the same time as a result and consequence of structural reforms and the Asian financial crisis. A third, more recent wave includes some Eastern European countries such as Hungary (where

Figure 1: Establishment of Integrated Agencies



Source: Agencies' web pages and Courtis (2001).

[3] In Latin America, the Superintendency of Banks of Colombia supervises banking, insurance and pension fund activities. Nicaragua has an integrated supervisor for banking, insurance and securities. In Uruguay, the Central Bank has separate departments or divisions that are in charge of banking, insurance, securities and pension fund activities.

[4] In Australia, the regulation of securities and the supervision of related intermediaries and exchanges are in the hands of the Australian Securities and Investments Commission.

[5] In Canada, local authorities are in charge of the supervision of securities activities.

[6] The Monetary Authority of Singapore (MAS) was established in 1971 and the Maldives Monetary Authority (MMA) in 1981. These institutions concentrate the supervision of banking and other financial services together with the functions of the Central Bank. In the case of Singapore, the MAS absorbed the supervision of insurance activities in 1977 and the regulation of securities in 1984. In the Maldives, the regulation and supervision of securities and insurance activities have been implemented more recently.

integration took place in 2000), Latvia (2001), and Estonia (2002). Austria and Germany integrated their financial supervisory authorities in 2002, and Ireland did the same in 2003. Finland, The Netherlands, Switzerland and South Africa are among several countries currently considering a move toward a single regulator.

It is worth noting that in several cases financial crises played a role in the debate over the most appropriate supervisory structure. This is the case of Sweden and Denmark, both of which integrated their regulatory agencies partly as a response to banking crises. The same is true of the Asian countries mentioned above.

The countries that have already integrated their regulatory structures are very diverse. The list includes big and small, developed and developing countries from several regions of the world. To better compare these countries to those of Latin America and the Caribbean, their main economic indicators are shown in Table 1. As the table shows, the economic indicators of most of the countries of Latin America and the Caribbean are within the range of those of countries that have already integrated their supervisory structures. Based on this information, it seems that the size of the economy and/or of the financial sector may not be relevant factors in discouraging a move toward integration.[7] Countries with small and large economies and financial sectors and from developed and emerging economies have been able to integrate their supervisory financial structures (see Table 1).

Ten of these countries (Australia, Canada, Denmark, Iceland, Japan, Korea, Norway, Singapore, Sweden and the United Kingdom) have come together to establish an informal Integrated Regulation Group that has met annually since 1999. The criterion used as a basis for membership at that time was that the integrated agency be responsible for prudential regulation of both banks and insurance companies. However, most of these countries also have integrated the regulation of securities and other financial services. The experiences of the countries in this group constitute the core of this study.[8]

[7] Moreover, it is possible that certain positive factors like the benefits from economies of scale and scope resulting from integration could be better realized in countries with small economies and financial systems.

[8] The analysis benefits from information provided by supervisors in answering Pre-Conference Surveys for the meetings held in Australia (1999), Canada (2000), Norway (2001), and Korea (2002). Information on the survey for the meeting in Australia can be found at: http://www.apra.gov.au/Policy/Meeting-of-Integrated-Supervisors.cfm. The link to information from the survey for the meeting in Canada is: http://www.osfi-bsif.gc.ca/eng/documents/notices/pages/index.asp?id=01-10-16. The analysis also benefited from information obtained from the integrated agencies web sites and from very useful comments received from representatives of several integrated supervisory agencies.

Table 1[1]: Selected Basic Indicators (2002)

Country	Population	GDP	Financial Intermediation				Securities		
	(thousands)	(US billion)	Liquid liabilities (M3)		Quasi-liquid liabilities	Domestic credit	Market capitalization	Market capitalization	Total value stocks traded
			(US billion)	(% of GDP)	(% of GDP)	(% of GDP)	(US billion)	(% of GDP)	(% of GDP)
Australia	19,581	410.6	**262.1**	**71.1**	**47.6**	**94.0**	**374.3**	**101.5**	**65.3**
Austria	8,140	203.0	..	..	..	124.9	**25.2**	**13.4**	**3.8**
Canada	31,414	715.7	483.1	67.5	43.6	81.0	**700.8**	**100.9**	**66.5**
Denmark	5,373	174.8	88.3	50.5	19.2	154.9	**95.0**	**58.8**	**43.7**
Estonia	1,358	6.4	2.7	42.6	17.0	50.3	2.4	37.9	3.8
Germany	82,495	1,976.2	..	..	..	145.3	**1,071.7**	**58.1**	**76.9**
Hungary	10,166	65.8	31.1	47.2	27.8	53.0	13.1	19.9	9.0
Iceland	284	8.6	4.1	48.1	37.4	98.2	**3.6**	**46.1**	**17.6**
Ireland	3,878	119.9	..	..	..	112.1	**75.3**	**72.9**	**21.8**
Japan	127,144	3,978.8	8,049.1	202.3	132.6	313.4	**2,251.8**	**54.4**	65.3
Korea, Rep.	47,640	476.7	494.3	103.7	93.1	116.9	248.5	52.1	166.2
Latvia	2,335	8.4	3.1	36.5	16.3	39.6	0.7	8.5	1.5
Maldives	287	0.6	0.3	50.2	26.3	43.6	..	..	..
Malta	397	**3.6**	**6.1**	**169.2**	**130.1**	**150.7**	**1.4**	**37.4**	**1.3**
Norway	4,539	189.4	106.1	56.0	8.8	54.3	**69.1**	**41.6**	**31.5**
Singapore	4,164	87.0	100.7	115.8	92.8	84.8	**117.3**	**138.3**	**74.7**
Sweden	8,924	229.8	..	..	..	**78.7**	**232.6**	**110.8**	**143.7**
United Kingdom	58,858	1,552.4	..	..		146.7	**2,217.3**	**155.7**	**131.4**
Argentina	37,928	102.2	28.6	28.0	18.9	62.5	103.4	101.2	1.3
Bahamas	314	**4.8**	**3.5**	**73.6**	**57.1**	**88.4**	..	..	..
Barbados	269	**2.8**	**2.0**	**72.0**	**51.1**	**52.0**	**1.8**	**66.3**	**0.4**
Belize	253	0.8	0.5	58.8	39.2	66.7	..	..	..
Bolivia	8,697	7.7	3.8	49.9	41.3	63.3	**1.6**	**19.5**	0.0
Brazil	174,485	452.4	149.7	33.1	25.0	64.8	123.8	27.4	10.7
Chile	15,579	64.2	29.1	45.4	34.5	74.3	47.6	74.2	4.9
Colombia	43,745	82.2	25.7	31.3	20.8	35.9	10.0	11.8	0.3
Costa Rica	3,942	16.9	6.7	39.7	25.8	36.8	**2.3**	**15.2**	**1.4**
Dominican Republic	8,635	21.3	8.4	39.6	28.6	45.1	**0.1**	**0.8**	..
Ecuador	13,112	24.3	**5.2**	**24.8**	**15.6**	**28.0**	1.7	7.2	0.1
El Salvador	6,524	14.3	0.7	4.9	4.0	5.6	**1.5**	**11.1**	**0.2**
Guatemala	11,992	23.3	7.1	30.6	18.1	15.7	**0.2**	**1.1**	**0.0**
Guyana	772	0.7	0.6	91.7	70.9	89.7	..	..	..
Haiti	8,286	3.6	1.5	42.4	28.5	37.1	..	..	..
Honduras	6,755	6.6	3.7	56.6	43.4	34.1	..	..	..
Jamaica	2,613	8.0	3.9	48.5	33.1	27.5	5.8	73.0	1.8
Mexico	100,921	637.2	156.1	24.5	14.5	26.6	103.1	16.2	4.4
Nicaragua	5,335	**2.4**	**1.5**	**64.2**	**52.9**	**54.5**	..	..	..
Panama	2,940	12.3	9.4	76.4	65.6	90.7	**2.6**	**21.6**	**0.4**
Paraguay	5,510	5.4	2.0	37.5	28.6	29.9	**0.4**	**5.5**	**0.2**
Peru	26,749	56.9	18.2	32.0	20.9	23.9	13.4	23.5	2.0
Suriname	423	0.9	0.5	59.2	33.2	34.3	..	..	..
Trinidad and Tobago	1,318	9.4	5.0	53.2	39.8	42.7	6.5	69.4	1.8
Uruguay	3,381	12.3	8.9	72.5	67.0	92.9	**0.2**	**0.8**	**0.0**
Venezuela, RB	25,093	94.3	16.8	17.8	7.8	15.0	4.0	4.2	0.1

[1] Liquid liabilities or M3 are the sum of currency and deposits in the central bank, plus transferable deposits and electronic currency, plus time and savings deposits, foreign currency transferable deposits, certificates of deposit, and securities repurchase agreements, plus travelers checks, foreign currency time deposits, commercial paper, and shares of mutual funds or market funds held by residents. Quasi-liquid liabilities equal the M3 money supply less transferable deposits and electronic currency. Domestic credit refers to financial resources provided to the private sector, such as through loans, purchases of non-equity securities, and trade credits and other accounts receivable that establish a claim for repayment. For some countries these claims include credit to public enterprises. Market capitalization (also known as market value) is the share price times the number of shares outstanding. Stocks traded refer to the total value of shares traded during the period.
Figures in bold refer to the most recent available date. (..) Indicates that the information is not available.

Source: World Development Indicators, World Bank. 2003.

Basic Information Regarding the Integration Processes

This section provides basic information about the processes of regulatory and supervisory integration in the ten countries under study, including information about the agencies' objectives and the scope of their activities. Information on the agencies' web pages appears in Annex 1.

AUSTRALIA

The Australian Prudential Regulatory Agency (APRA) was established in 1998, following the Australian Prudential Regulation Authority Act, as a statutory authority with considerable autonomy from the government.

The main objective of integration was to harmonize requirements and eliminate inconsistencies in supervision wherever possible. APRA's mission is "to establish and enforce prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions we supervise are met within a stable, efficient and competitive financial system."

APRA supervises banks, building societies, credit unions, insurance companies, friendly societies and superannuation funds. The agency is responsible for the prudential supervision of individual institutions, while other agencies are responsible for issues related to market conduct, consumer protection or competition policy. In particular, the Australian Securities and Investments Commission is responsible for conduct of business issues as well as for the regulation of securities intermediaries and exchanges.

CANADA

The Canadian Office of the Superintendent of Financial Institutions (OSFI) was created following the July 1987 enactment of the Office of the Superintendent of Financial Institutions Act to ensure a coordinated approach to supervision and a modern regulatory framework. OSFI's mission is to safeguard policyholders, depositors and pension plan members from undue loss.

The agency was given the powers to supervise and regulate all federally regulated financial institutions on a consolidated basis. OSFI is responsible for supervising all banks and all federally registered trust companies, loan companies, cooperative credit associations, insurance companies, and pension plans.

OSFI is a prudential regulator with minimal market conduct provisions and is not in charge of competition policy regulation. As we stated before, the supervision of securities activities is being carried over by local authorities in Canada.

DENMARK

The Danish Financial Supervisory Agency (*Finanstilsynet*) was established as the integrated financial supervisory authority in January 1988 following the merger of the Supervisory Authority for Banks and Savings Banks and the Insurance Supervisory Authority. In 1990 the integrated supervisor incorporated the Supervisory Authority for Mortgage Credit Institutions. The agency's mission is "to help maintain confidence in the financial sector –both in relation to society and to the individual person– by ensuring that financial legislation is observed, participating in the elaboration of financial legislation, and collecting and publishing information related to the financial sector."

The *Finanstilsynet* supervises credit institutions, investment companies and associations, insurance companies, pension funds companies and securities companies. It is not responsible for supervision of competition or market practices legislation within the financial sector, but regulates market conduct and disclosure in the securities sector.

ICELAND

The Financial Supervisory Authority of Iceland (FME) was established in January 1999 as an independent governmental body responsible for the official regulation and supervision of financial operations. The agency's main role is to ensure that the activities of parties subject to supervision are in accordance with laws and regulations governing such activities, and that financial activities are in other respects consistent with sound and proper business practices. The FME emphasizes the good conduct of business practices, regulating market conduct, disclosure and consumer protection in all sectors of the financial market.

The FME supervises the operations of commercial and savings banks, other credit institutions, insurance companies, companies and individuals engaged in insurance brokerage, undertakings engaged in securities services, mutual funds, management companies, stock exchanges and regulated over-the-counter markets, securities depositories, pension funds, and other entities authorized by law to receive deposits.

JAPAN

The Japanese Financial Supervisory Agency was established in June 1998 as an administrative institution responsible for the inspection and supervision of private sector financial institutions and the surveillance of securities transactions. In July 2000, the agency became responsible for financial system planning and was reorganized into the Financial Services Agency (FSA). In January 2001, the FSA was established as an external organ of the Cabinet Office. The FSA's objectives are to ensure a stable and dynamic financial system, and protect consumers (depositors, insurance policyholders and securities investors).

The agency is responsible for the inspection and supervision of banks, securities companies, insurance companies and other private financial institutions. The FSA requires financial institutions to disclose to the public their business and financial reports. The Securities and Exchange Surveillance Commission (which is part of the FSA) is responsible for ensuring compliance with the rules of securities and financial futures markets. The FSA is not responsible for overseeing competition policy.

KOREA

As a consequence of the financial crisis of 1997, the government launched the Presidential Committee on Financial Reform. The committee recommended the reform of the central bank and the financial supervisory structure. Legislation was enacted in December 1997 establishing a single supervisory body for financial supervision. The government established the Financial Supervisory Commission (FSC) in April 1998 and the Financial Supervisory Service (FSS) in January 1999. The FSS was created through the consolidation of four separate supervisory agencies (Banking Supervisory Authority, Securities Supervisory Board, Insurance Supervisory Board, and Non-bank Supervisory Board).

The mission of the FSC and FSS is to maintain the integrity of the financial market, ensure the fairness of financial transactions and protect the rights and interests of the public. The agencies adhere to five basic principles: accountability, transparency, compatibility with international standards, protecting individual market participants, and market mechanisms and discipline.

The FSC mainly deals with policy formulation for the financial markets, having supervisory responsibilities in three primary areas: resolution of issues relating to financial supervision, delegation of supervisory authority to the FSS, and overseeing the restructuring of the financial sector. Matters relating to the securities and futures markets are largely delegated to the Securities and Future Commission (SFC) set up under the FSC.

The FSS is charged with enforcement responsibility over Korea's financial companies under the general direction of the FSC and the SFC. In particular the FSS supervises banks, securities, insurance, and nonbank institutions. The FSS regulates market conduct, disclosure, and consumer protection in all supervised industries. However, it is not in charge of regulating competition policy.

NORWAY

The experience of Norway's integrated regulation starts as far back as 1983 when the Banking Inspectorate acquired some of the functions of the Securities Bureau of the Ministry of Finance. In 1986 the *Kredittlsynet*, Norway's Banking Insurance and Securities Commission, was established following the merge of the Banking and Insurance Inspectorates.

The mission of the *Kredittlsynet* is to promote satisfactory levels of capital strength, risk awareness, management and control in institutions under its supervision; detect circumstances that threaten the stability of the financial system and the maintenance of preparedness for dealing with problems in the financial sector; ensure compliance with laws and rules; and provide a regulatory framework that fosters the smooth functioning of markets, both for supervised institutions and their users.

The *Kredittlsynet* is responsible for the regulation of banks, finance companies, mortgage companies, insurance companies, pension funds, securities trading, estate agencies, debt collection, and accounting and auditing activities. How those companies conduct business and other consumer protection concerns are not the agency's primary responsibility. However, *Kredittlsynet* regulates market conduct in the securities market and regulates disclosure to a certain extent through regulations pertaining to information to the customers of financial institutions.

SINGAPORE

In 1970, Singapore's Parliament passed legislation leading to the formation of the Monetary Authority of Singapore (MAS), which was established in January 1971. The legislation gives MAS the authority to regulate all elements of monetary, banking and other financial intermediation services in Singapore. The government brought the insurance industry under MAS regulation in April 1977, and securities regulation was transferred to MAS in September 1984.

MAS is not only an integrated supervisory agency, but it also implements monetary policy acting as the central bank. The agency's mission is "to promote sustained and non-inflationary growth of the economy, as well as, foster a sound and progressive financial service sector." MAS supervises the banking, insurance, securities and financial futures industries, and is in charge of prudential supervision, market and business conduct regulation and disclosure requirements. However, it is not responsible for competition policy.

SWEDEN

The Swedish Financial Supervisory Authority (*Finansinspektionen*) was created in July 1991 as a public authority responsible for supervising companies in the insurance, credit and securities markets. The agency's aim is to contribute to the stability and efficiency of the financial sector and to promote consumer protection. The FSA is responsible for prudential supervision of banks and other credit institutions; securities companies and fund management companies; stock exchanges, authorized marketplaces and clearinghouses; and insurance companies, friendly societies and insurance brokers.

Finansinspektionen is also responsible for issues related to market conduct. However, there is a specific authority for consumer protection. The FSA is not responsible for the development or implementation of competition policy.

UNITED KINGDOM

The decision to merge banking supervision and investment services regulation in the United Kingdom was announced in May 1997. The first stage of the reform was completed in June 1998, when responsibility for banking supervision was transferred to the Financial Services Authority (FSA) from the Bank of England. The Financial Services and Markets Act, implemented on December 2001, transferred to the FSA the responsibilities of several other organizations, including the Building Societies Commission, the Friendly Societies Commission, the Investment Management Regulatory Organization, the Personal Investment Authority, the Register of Friendly Societies, and the Securities and Futures Authority.

The FSA has four statutory objectives: to maintain market confidence, to promote public understanding of the financial system, to secure consumer protection, and to reduce the scope of financial crime.

The FSA sets prudential and conduct of business standards, and supervises firms, including deposit takers, insurance, investment firms, major financial groups, and markets and exchanges. The agency also has enforcement powers and provides an appropriate degree of protection for consumers, but does not regulate competition policy.

Scope

This section summarizes the scope of activities covered by the different integrated supervision agencies and provides an explanation of their regulatory responsibilities.

ACTIVITIES

As already mentioned, in order to become members of the Integrated Regulation Group, countries must have integrated banking and insurance regulation. Thus, all integrated supervisors cover both types of activities. Additionally, all the agencies, with the exception of Australia and Canada, also regulate or supervise securities activities and eight of the agencies also supervise pension funds. Table 2 summarizes the information regarding the financial activities regulated by the integrated agencies.

Table 2 shows that once countries opted to integrate financial supervision they adopted an inclusive approach, covering most of the financial activities.

RESPONSIBILITIES

The analysis of agencies' responsibilities takes into account prudential policy, prudential implementation, market conduct, disclosure of information, payments system, and competition policy. Table 3 summarizes this information.

All the agencies included in the sample regulate prudential policy and implementation,[9] while no agency regulates competition policy (which is usually the responsibility of a specific authority). Payments systems are not usually the responsibility of the integrated agencies. Singapore is the exception because the supervisory agency (MAS) also acts as the central bank.

The supervisory agencies in the United Kingdom, Sweden, Japan and Iceland have the most responsibilities, while Australia's agency has the fewest. Conduct of business responsibilities and

Table 2: Major Categories of Regulated Financial Institutions

Country	Banking	Insurance	Securities	Pension Funds
Australia	X	X		X
Canada	X	X		X
Denmark	X	X	X	X
Iceland	X	X	X	X
Japan	X	X	X	
Korea	X	X	X	X
Norway	X	X	X	X
Singapore[a]	X	X	X	
Sweden	X	X	X	X
United Kingdom	X	X	X	X[b]

a) MAS has the power to regulate pension funds if they are structured as a collective investment scheme under the Securities and Futures Act (2001). Currently, there are no such pension funds under regulation.

b) Although the UK has a specialized agency that supervises pension funds, the integrated supervisor (FSA) is involved in the supervision of prudential aspects related to pension funds established as individual accounts and that are privately administered.

Source: Agencies' web pages.

[9] The case of Korea is peculiar. As mentioned earlier, the FSC has the responsibility for policy formulation,

the regulation of securities institutions in Australia are the responsibility of a separate agency.[10]

Table 3 shows that, while the central responsibilities of the integrated agencies are prudential policy and prudential implementation, the agencies with power to regulate securities have also some degree of responsibility over market conduct and disclosure.

Table 3: Regulatory Responsibilities*

Responsibility	Australia	Canada	Denmark	Japan	Iceland	Korea	Norway	Singapore	Sweden	United Kingdom
Prudential Policy	Y	Y	Y	Y	Y	N	P	Y	Y	Y
Prudential Implementation	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Market Conduct	N	P	P	Y	Y	Y	P	P	Y	Y
Disclosure	N	P	P	Y	Y	Y	P	P	Y	Y
Payments System	N	N	N	N	P	N	N	Y	N	N
Competition Policy	N	N	N	N	N	N	N	N	N	N

* Y denotes Yes, N denotes No, and P denotes partial responsibilities.

Source: Questionnaire. Meeting of Integrated Supervisors. Sydney, Australia. 1999, Carmichael (2001), Agencies' web pages, and comments from representatives from the Agencies.

while the FSS carries out the implementation and enforcement of those policies.

[10] In fact, Australia has followed a functional approach to regulatory integration, where separate agencies are in charge of different regulatory responsibilities, which in turn are associated to different market failures (see section 6 on organizational structures).

Regulatory Powers

In all countries, the supervisory agencies have well defined mandates that are either established by legislation or through other means. Most countries have also further described supervisory agency mandates through a mission statement or specific agency objectives. Common subjects in the mission statements include trust, confidence, sound business standards, stability, prompt corrective action, competition, fairness, and integrity.

All the integrated agencies studied have regulatory powers to inspect and request information, establish guidelines, appoint an administrator, issue or prepare regulations, withdraw licenses, and establish fit and proper rules. However, as Table 4 shows, there are similarities and differences among the countries regarding other regulatory powers. The majority of the integrated agencies also have authorization, licensing and enforcement powers (the latter include, for example, suspending operations, removing directors or auditors or transferring engagements). Regulatory agencies in Japan, Singapore and the United Kingdom have the most powers, while Sweden's regulatory agency has the fewest.

The group of integrated agencies is not homogeneous regarding their regulatory powers. However, they share more similarities than differences. Interestingly, differences in the allocation of regulatory powers do not seem to be related with whether the integrated supervisor is also in charge of regulating securities activities. The distribution of the regulatory powers of the agencies in Australia and Canada (they do not regulate securities) does not seem to significantly differ from those of the other integrated regulators.

Table 4: Regulatory Powers *

Powers	Australia	Canada	Denmark	Iceland	Japan	Korea	Norway	Singapore	Sweden	United Kingdom
Licensing	Y	P	Y	P	Y	N	P	Y	Y	Y
Standards	Y	Y	N	Y	Y	Y	Y	Y	Y	Y
Remove Directors	N	Y	N	N	Y	Y	P	Y	N	Y
Remove Auditors	N	Y	Y	N	Y	Y	P	Y	N	Y
Suspend Operations	N	Y	Y	P	Y	N	P	Y	N	Y
Direct Penalties	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Transfer Engagements	Y	N	Y	P	Y	N	Y	Y	N	Y

* Y denotes Yes, N denotes No, and P indicates partial power, meaning that the agency is subject to reference to the appropriate Ministry.

Source: Pre-Conference Survey. Integrated Financial Supervisors Conference- Oslo, Norway. 2001, Agencies' web pages, and comments from representatives of the Agencies.

Accountability

Most agencies seem to operate with a fair degree of independence from government. The financial institutions under supervision currently fund the agencies except in the case of the Japanese FSA, which is funded by the government. Korea's FSS is partially funded by the Bank of Korea. The fact that most of the agencies are funded by the regulated industries is important because it makes it possible for them to be independent of the nation's finance or economic ministry, to which (in most cases) they report, either directly or indirectly (see Taylor and Fleming, 1999). All agencies state that they receive sufficient financial resources. The majority of the agencies have the right to establish their own budgets, which must often be approved by the government.

Australia, Iceland, Singapore, Sweden and United Kingdom are accountable to boards that have extensive oversight responsibilities. Norway is accountable to a board with limited responsibilities and the Korean FSS reports to the FSC. Beyond the boards, the Norwegian and Korean regulators are ultimately accountable to their respective governments. Canada, Denmark and Japan are not accountable to boards but to government ministers.[11]

In all cases where a board exists, the government (often the minister of finance) appoints the directors. The Canadian and Danish regulatory agencies have a chief executive officer that is appointed by the government. In Japan, the government appoints the most senior staff of the agency (see Table 5).

Most agencies are subject to an independent audit of their financial statements, and could be subject to a government audit pertaining to effectiveness. Furthermore, often the agencies have meetings with government and central bank authorities to discuss and make decisions on important issues.[12]

In summary, although the agencies seem to operate with a fair degree of autonomy, all of them report directly or indirectly to the government, in many cases through boards whose directors are appointed by the government.

Table 5: Accountability

Country	Report to a Board	Report Directly to the Government
Australia	X	
Canada		X
Denmark		X
Iceland	X	
Japan		X
Korea	X	
Norway	X	
Singapore	X	
Sweden	X	
United Kingdom	X	

Source: Pre-Conference Survey. Integrated Financial Supervisors Conference- Oslo, Norway. 2001.

[11] OSFI has recently created its own advisory board to provide guidance and oversight mainly on govemance issues.

[12] As already mentioned, Singapore's MAS acts as the central bank as well as supervisory agency.

Organizational Structures

There is no single standard organizational structure for the integrated supervisors. For the purposes of this paper, we analyze the structures of the agencies in terms of their similarities and differences regarding to two extreme integration models. One model is based on an institutional approach and the other one is based on regulatory functions. In the first model, the agency integrates the specialized supervisors but maintains separate regulatory divisions that are primarily assigned to supervise institutional groupings (banking, securities, financial groups, etc.). The second model is based on regulatory functions, where regulation is assigned to separate agencies (or separate divisions within an integrated agency), each of them primarily devoted to a particular source of market failure across all the financial institutions and/or activities that are subject to that particular failure.

An institutional integrated model is relatively easier to implement, but tends to preserve the identities of the predecessor agencies. On the other hand, a functional model is able to break down the identities of the predecessor agencies. So far, the experiences of several countries illustrate that no integrated approach has followed either of these two extreme models, which reflect the extremes of a continuum of feasible organizational structures. Most integrated agencies fall somewhere in between the extremes.

There is no evidence to show that agencies whose organizational structure falls closer to one of the extreme models are more or less successful than those whose organizational structure more closely resembles the other extreme.[13]

Most of the integrated supervisory agencies reviewed in this paper combine aspects of the institutional and functional models. The supervisory agencies in Denmark, Korea, and Norway more closely resemble the institutional model; that is, the organizations have different divisions to deal with the various institutions. The supervisory agencies of Australia, Canada, and Japan are organized in a way that is closer to the functional model. In particular, Australia has different agencies to deal primarily with issues associated with each type of market failure. The Australian Prudential Regulatory Agency (APRA) is in charge of prudential regulation across all the financial activities. Issues related to the disclosure of information and market conduct fall within the purview of the Australian Securities and Investments Commission. The Australian Competition and Consumer Commission deals with competitive behavior and the Reserve Bank of Australia intervenes in issues related to the payments system or with systemic implications.[14] To illustrate this issue and provide more detailed information on the different structures, the organization charts of several integrated agencies are included in Annex 2.

[13] This statement is in agreement with Mwenda and Fleming (2001), who state that until there is a longer track record of experiences it is difficult to come to firm conclusions about the optimal internal structure of the integrated agencies.

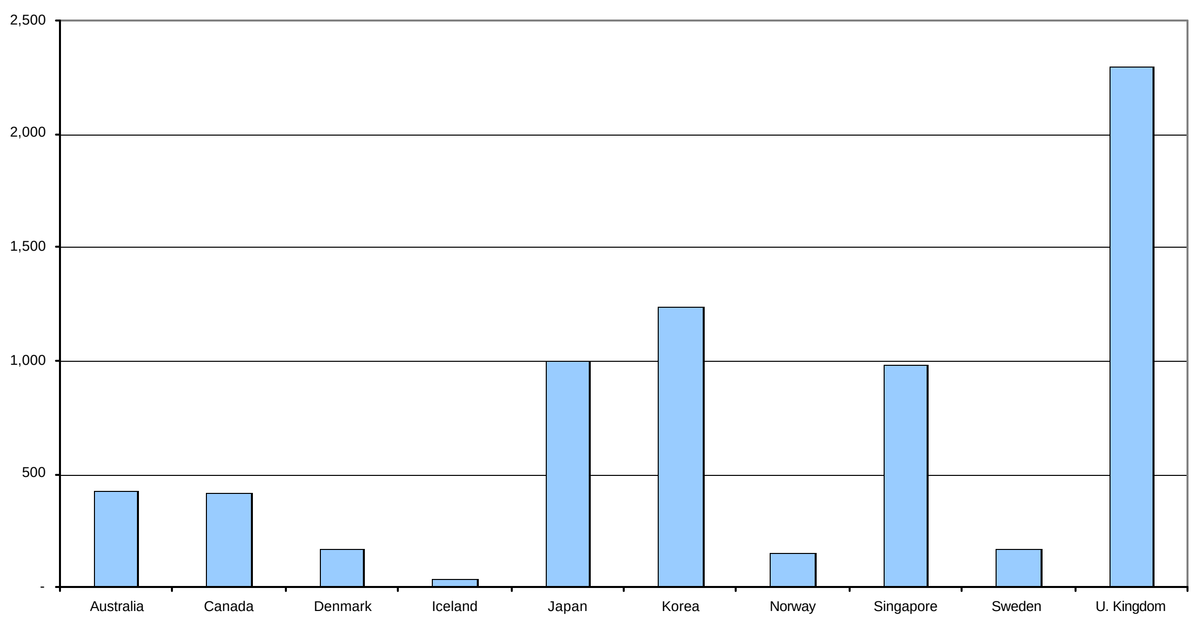
[14] The interested reader can get more information on the integrated approach followed by Australia by consulting Carmichael (2001).

Staff Resources

One of the arguments often mentioned for the establishment of an integrated agency is the potential to achieve administrative economies of scale, particularly regarding the number and use of staff. The size of the agencies studied in this report varies from approximately 2,000 employees in the case of the United Kingdom to 35 employees in Iceland (see Figure 2).

Not surprisingly, the agencies in the sample are reporting a high degree of commonality in the area of personnel policies, particularly regarding recruitment standards, formal training programs, career development initiatives, position ratings and compensation policies. The agencies have a preference for employees with a broad knowledge of financial markets and encourage employees to be engaged in supervisory work in different sectors, but also consider expert knowledge on sector specific issues an important attribute.

Figure 2: Number of Full-time Employees



Source: Agencies' web pages, comments from agencies representatives, and information from Courtis (2001)

The realization of economies of scale in relation to the number of employees in recently integrated agencies varies. The newly formed agencies in Australia, Korea and the United Kingdom have fewer employees than their predecessors, while, in Japan, there was an increase in the number of employees after the integration. The Scandinavian agencies established during the mid-1980s showed an increase in the number of employees, although it was argued that this might be a consequence of the increasing complexity of the financial business over the years.

An important issue related to the management of staff resources refers to the risk of a negative impact on the staff of the integrating agency during the transition process. In this regard, information from a recent survey of several integrated financial sector supervisors (Luna Martinez and Rose, 2003) shows that, in several countries, the integration processes resulted in the demoralization of some staff members and contributed to the departure of experienced personnel from the agencies being merged.

It seems that the number of years since the agency was established is a relevant factor in analyzing recruitment procedures. The relatively older integrated agencies tend to recruit from the private sector, while the recently established ones recruit mainly from their predecessor agencies. Most agencies offer competitive salaries, but they do not try to compete with the top end of the private financial sector. In many cases they try to attract staff through a combination of adequate salaries, good working conditions, attractive training programs and by promoting a sense of the importance of "public service" in potential employees (Carmichael, 2001).

The integrated agencies covered in this paper recognize the need to develop a consistent approach to the supervision of the different sectors and a consistent methodology is emerging. However, at the same time, supervisors know that they must take into account some fundamental differences between the financial activities.

The degree of commonality achieved in the supervision of the activities is higher in banking and securities than in banking and insurance.[15] The accounting for banking and securities in most countries is identical or substantially the same. However, there are more differences with respect to insurance accounting. Likewise, the definition of components of capital is similar in banking and securities but less so in insurance. In other areas the opposite prevails. For example, countries report a higher degree of commonality in their approach to risk assessment with banking and insurance than with banking and securities. Despite the progress already achieved, there is much to be done in order to continue harmonizing the regulation and supervision of the different financial sector activities and services.[16]

In assessing the way that countries are implementing integrated supervision, three topics deserve special attention: the handling of financial conglomerates, the risk assessment process, and crisis management.

TREATMENT OF FINANCIAL CONGLOMERATES

Australia, Iceland, Singapore, Sweden and the United Kingdom allow multi-activity institutions that encompass banking and securities. All the countries studied allow financial conglomerates. However, it is noteworthy that all countries, but Singapore, insist that the underwriting of insurance be conducted in a separate institution.[17]

Most of the integrated agencies define financial conglomerates as companies that are part of a group consisting mainly or only of companies providing financial services. There seems not to be any distinction if the companies in the group represent one or more of the specific sectors (banking, insurance and securities). However, in most countries the conglomerates are restricted to undertaking financial activities.

In all cases capital adequacy requirements and large exposure limits are applied to the institution as a whole. All integrated agencies apply capital adequacy requirements to banking groups on a consolidated basis, generally adjusting for any investment in insurers. All countries, except Canada and Sweden, require banks to also satisfy the capital requirements on a non-consolidated basis.

Large exposure limits are applied on a consolidated basis in all countries, except Korea. These limits generally only apply to banking and securities activities; adjustments are made if insurance companies form part of a conglomerate.

The supervisory agencies of Australia, Canada and the United Kingdom have specific divisions to supervise financial conglomerates. In all the other agencies sampled the institutional units supervise the conglomerates, with cooperation taking place between the different departments.

[15] Summary of Responses, Pre-Conference Survey. Integrated Financial Supervisors Conference - Toronto, Canada May 22-23, 2000.

[16] Information obtained from their recent survey leads Luna Martinez and Rose (2003) to arrive at a similar conclusion.

[17] Although MAS does not insist that underwriting be conducted in a separate institution, MAS encourages banks to subsidiarize their insurance and securities activities in a separate legal entity.

Countries reported that they are working toward convergence in areas such as the approach to off-site examination and consolidated supervision of institutions forming part of a financial group.

Table 6 summarizes the instruments used to regulate the top holding or parent company of a financial conglomerate. It should be noted that the majority of the instruments identified in the table are used in all the countries.[18]

Table 7 summarizes the experiences of the agencies in connection with the rules or best practices that are suitable to application across sectors. It is interesting to note that the already integrated agencies report that a large number of standards are suitable for application across sectors. This confirms one of the main benefits of integrated supervision.

Best practices regarding fitness and propriety, enforcement powers and procedures and internal control/corporate governance are considered by

Table 6: Instruments to Regulate the Parent Company of a Conglomerate

Instruments	Australia	Canada	Denmark	Iceland	Japan	Korea	Norway	Singapore*	Sweden
Licensing of Holding Companies and /or Group Structure	X	X		X	X	X	X		
Fit & Proper Requirements	X	X	X	X	X	X	X	X	X
Solvency and Capital Requirements	X	X	X	X	X	X	X		X
Monitoring of Intra-group Transactions	X	X	X	X	X	X	X	X	X
On Site Inspections	X	X	X	X	X	X	X		
Meetings with Group Management	X	X	X	X	X		X		
Demanding Information about Unregulated Entities in the Group	X	X	X	X	X	X	N/A		X
Assessing Risk on a Consolidated Basis	X	X	X	X	X	X	X		X

* Major financial holding companies require MAS approval, MAS uses all the supervisory tools listed in the table to regulate them.

Source: Pre-Conference Survey, Integrated Financial Supervisors Conference-Oslo, Norway, 2001, and comments from Agencies' representatives.

[18] Holding companies are not regulated in the United Kingdom, but the FSA does include financial holding companies in consolidated supervision.

almost all agencies as suitable to be applied across sectors. However, market conduct rules, capital requirements, maximum exposure rules and reporting format seem to be the most difficult to apply across sectors. While confirming that capital requirements can be applicable across sectors, information provided by Australia's agency underlines that they "necessitate careful tailoring to ensure appropriate application across different sectors." Furthermore, although agencies declare that a large number of standards are applicable to more than one sector, they also indicate that they may be unsuitable for all sectors.

Table 7: Rules or Suitable Best Practices Applied Across Sectors

Concept	Australia	Canada[a]	Denmark	Iceland	Japan[b]	Korea	Norway	Singapore	Sweden
Licensing Requirements	X	X	X	X	X	X	X		X
Enforcement Powers and Procedures	X	X	X	X	X	X		X	X
Capital Requirements	X	X			X	X	X		
Rules/Guidelines on Organizational Set-up of Groups	X	X	X	X	X	X	X	X	X
- Ownership Regulation	X	X	X	X	X	X	X	X	X
- Organizational Structure	X	X	X	X	X	X	X		X
Ethical Guidelines	X	X	X	X	X	X	X		X
Fitness and Propriety	X	X	X	X	X	X	X	X	X
- Of Owners	X	X	X	X	X	X	X	X	X
- Of Managers	X	X	X	X	X	X	X	X	X
Rules on Professional Secrecy	X	X	X	X	X	X	X		
Internal Control/Corporate Governance	X	X	X	X	X	X	X	X	X
Intra-group Transactions and Exposures	X	X	X	X	X	X	X		X
Maximum Exposure Rules	X	X	X		X	X			
- Reporting Format	X	X	X		X	X			X
- Role of Auditor	X	X	X		X	X	X	X	X
Market Conduct Rules	X		X	X	X	X			

(a) An "X" implies some degree of harmonization but not necessarily full harmonization.
(b) The degree and the manner in which they are applied may vary according to the sector concerned.

Source: Pre-conference Survey, Integrated Supervisors Conference, Norway, 2001 and comments from Agencies representatives.

RISK ASSESSMENT PROCESS

The risk assessment process is key for the development of supervisory activities. It is an important indicator of the institution's financial performance and therefore an instrument to inform the institutions on the supervisor's view of their risk profiles. In the majority of the agencies, risk analyses form part of the risk assessment process as an integrated component.

The objectives of the risk assessment process are common for banking and insurance supervision for most of the countries. When they are not yet common, convergence is expected. Most countries do risk assessment on both a consolidated and a firm basis.

According to the Pre-Conference Survey for the Norway Meeting of the Integrated Group, seven countries seem to apply, or are planning to apply, the same principles of supervisory review to banks and to insurance companies. The other countries have transferred some of the principles and/or are examining the issue. Development of common principles that take account of the differences in risks and prudential standards are highlighted. This is not regarded as an easy task and the need for training of supervisory staff has been underscored by several countries.

Risk assessment analyses include credit risk, balance sheet and market risk, and operational risk. All types of risks are considered important for consolidated supervision.

The intention across the agencies is to have a system that is applicable to all institutions. It is noted that this takes time and adaptation of principles to different natures of business. In addition, it is also necessary to build the required competence. Australia's APRA, whose institutional organization is closest to the functional model, reports that its supervisory methodology is applicable to all regulated industries. The challenge lies in developing prudential standards and supervisory practices that are consistent across industries while still addressing the issues that are industry specific.

The implementation of systems of risk-based supervision has implied major reorganizations of the agencies. Some agencies feel that this has provided a more effective use of supervisory resources.

The experiences of the countries covered in this study show that progress takes time and requires considerable effort. Yet, these countries have made progress in harmonizing the risk assessment process and converging toward an integrated approach to financial risk assessment.

Table 8: Organizations Involved in the Resolution of a Crisis in a Supervised Institution

Country	Integrated Supervisory Agency	Central Bank	Government	Deposit Guarantee Agency	Others
Australia	X	X	X		
Canada	X	X	X	X	X
Denmark	X	X	X	X	
Iceland	X	X	X	X	
Japan	X	X	X	X	
Korea	X		X	X	X
Norway	X	X	X	X	
Singapore	X	X			X
Sweden	X	X	X	X	
United Kingdom	X	X	X		

Source: Questionnaire. Meeting of Integrated Supervisors. Sidney, Australia. 1999, and Agencies' web pages.

CRISIS MANAGEMENT

All integrated supervisory agencies would play a role in resolving a crisis in a supervised institution (see Table 8). In fact, they would be expected to take the lead role. However, in the Australian case, APRA will only act as adviser if the Reserve Bank (or the government) decides to provide emergency support to an institution. In Denmark, if the crisis were related to large financial institutions the Ministry of Economic Affairs would take the lead role.

Central banks would also participate in crisis management in the majority of the countries, with Korea being the exception. In Denmark, the central bank would become involved only if a large bank is in crisis. Governments would become involved in resolving a crisis in most of the cases.

Another party that would be involved in crisis resolution is the agency in charge of deposit guarantee schemes. Exceptions are Australia, Singapore and the United Kingdom. In Singapore, other self-regulatory organizations such as the Stock Exchange and the Singapore International Monetary Exchange may become involved.

Involvement of different agencies in crisis management and resolution is also an indicator that the integrated supervisory agencies do not necessarily concentrate excessive power. At least, under certain circumstances their actions have to be coordinated with those of other important players, like central banks and/or ministries of finance.

Conclusions and Final Thoughts

Several conclusions can be reached from the study of the various cases of integrated supervision discussed in this paper.

It is evident that several countries with very diverse characteristics have been able to integrate their regulatory structures, showing that the size of the national economy and the financial sector are not relevant to the decision of whether or not to integrate financial supervision. The study also shows that the scope of financial activities and services covered by the integrated supervisors is broad, including in most cases banking, insurance, securities, and pension funds.

Prudential policy and implementation are regulatory responsibilities for all the integrated supervisors. Market conduct and disclosure of information are responsibilities for those agencies that regulate securities activities. However, the regulation of payment systems and competition policy are not generally part of the responsibilities of the integrated supervisors.

The integrated agencies are not homogeneous regarding regulatory powers. However, there are more similarities than differences in this regard among the supervisors. Moreover, the allocation of regulatory powers among the integrated agencies does not seem to differ regardless of whether or not the agencies supervise securities activities.

Most of the integrated supervisors operate with a good degree of independence from government. However, all of them are directly or indirectly accountable to government, in many cases through boards.

There is no single organizational structure for the agencies. Most of them are structured in a way that reflects aspects of both institutional and functional organizational models. There is no evidence that organizational structures close to one model are better than others.

There are indications that better management of staff resources could be attained through integration, particularly by using a reduced number of employees more efficiently in technical tasks. However, it has also been reported that during the transition period the integration process has had a negative effect on staff morale in the agencies to be merged, contributing to the loss of some experienced staff.

The good practice of integrated supervision is not an easy task. In particular, it takes time and considerable effort to achieve harmonized procedures across the different financial activities and to implement other actions in order to maximize the benefits of integration. Three aspects on how countries implement integrated supervision are particularly relevant: the treatment of financial conglomerates, the process of risk assessment, and crisis management.

Most integrated agencies benefited from utilizing a majority of the instruments available to regulate conglomerates or the parent company. Although it is recognized that not all rules can be applied for all the financial activities, the integrated agencies are reporting significant progress toward the application of a large number of standards across all the activities.

A lot of progress has also been achieved in harmonizing risk assessment processes and converging toward a truly integrated supervisory approach. However, this task is not easy and takes time.

All the integrated supervisors play an important role in managing financial crises. However, in the presence of systemic risk, central banks and/or ministries of finance also actively participate in the process. This is an indication that not all integrated supervisors concentrate excessive powers.

The experiences of the countries considered in this paper confirm that there is no one way of integrating financial regulation and supervision. However, these experiences reaffirm the advantages of integration and offer many lessons. These lessons will prove useful not only for those countries that are currently undergoing the process of integration, but also for those that are currently considering doing so.

Although a lot can be learned from the experiences of the countries that have already integrated their regulatory structures, as this paper shows, most of the integrated experiences are not long enough to provide sufficient information to extract definite recommendations on some relevant issues. Yet, the analysis and the information presented in this paper permit the identification of some issues that deserve further research.

First, it is argued that the regulatory and supervisory approaches should follow the structure of the financial markets. However, it should be recognized that the way in which countries regulate their financial activities also has an effect on market developments. This interaction between regulation and market structure and development deserves careful analysis.

Second, most countries in the world are trying to follow and implement international financial standards. However, those standards have been formulated following a specialized regulatory approach. We have banking supervision standards, securities regulatory standards, insurance best practices or recommendations, etc. How should these standards be considered in the context of integrated supervision? Are they affecting the processes of integration or the way in which integrated supervision is implemented? The interrelationship between the specialized standards and integrated supervision should be carefully studied.

Third, how can the process of integrating risk assessment across different activities and institutions be perfected? Should the integrated supervisors try to homogenize the risk assessment processes or should they devote more efforts to directly assessing the risk of financial conglomerates?

Fourth, it is argued that merging specialized supervisory agencies of different sizes could lead to the concentration of the attention of the integrated supervisor on one or two main activities (i.e., banking) and in not paying enough attention to other relevant financial services (i.e., pension funds). Do the experiences of the integrated supervisors confirm this argument? If so, could that be efficient?

Lastly, research is required in order to empirically determine and quantify whether financial supervision is better and more efficient under an integrated or a specialized approach.

This is just a list of proposed issues to be further studied. Other issues can also be identified. Discussion and research on the subject of integrated supervision will continue in the near future. We hope that the analysis and information provided in this paper will contribute to that discussion and stimulate further study.

Bibliography

Abrams, R. and M. Taylor. 2000. Issues in the Unification of Financial Supervision. Working Paper No.213. International Monetary Fund.

Bjerre-Nielsen, H. 2000. Strategic Considerations in the Danish Financial Supervisory Authority. Contribution to the 22nd SUERF Colloquium, 27-29 April 2000.

Briault, C. 1999. The Rationale for a Single National Financial Services Regulator. Occasional Paper Series No.2. Financial Services Authority. United Kingdom. May.

________ 2002. Revisiting the Rationale for a Single National Financial Services Regulator. Occasional Paper Series No.16. Financial Services Authority. United Kingdom. February.

Carmichael, J. 2001. Experiences with Integrated Regulation. *The Financial Regulator*. Volume 6, December 2001. Central Banking Publications. London, United Kingdom.

Courtis, N. (editor) 2001. *How Countries Supervise their Banks, Insurers and Securities Markets 2002.* Central Banking Publications. London, United Kingdom.

Demaestri, E. and F. Guerrero. 2003. *The Rationale for Integrating Financial Supervision in Latin America and the Caribbean*. Sustainable Development Department Technical Papers Series: IFM-135. Inter-American Development Bank.

Demaestri, E. and G. Ferro. 2003. Integrated Financial Supervision and Private Pension Funds. Inter-American Development Bank. Mimeo.

Financial Services Authority. 2001. Introduction to the Financial Services Authority. November 2001. http://www.fsa.gov.uk/pubs/other/fsa_intro.pdf.

Financial Supervisory Commission of Korea. 2001. Financial Reform and Supervision in Korea. June 2001. http://www.fsc.go.kr/Eng/final.pdf.

Finansinspektionen. 2002. Who We Are and What We Do. April 2002.
http://www.fi.se/english/index.asp.

Finanstilsynet. 2001. Objectives, Functions and Structure of an Integrated Supervisory Authority. Conference on Challenges for the Unified Financial Supervision in the New Millennium, July 2-4 2001, Tallin, Estonia. http://finanstilsynet.inforce.dk/sw2734.asp.

Llewellyn, D. 1999. The Economic Rationale for Financial Regulation. Occasional Paper Series No.1. Financial Services Authority. United Kingdom. April 1999.

________. 1999. The Institutional Structure of Regulatory Agencies. In Courtis, N., ed., *How Countries Supervise their Banks, Insurers and Securities Markets*. Neil Courtis Ed. Central Banking Publications. London, United Kingdom.

Luna Martinez, J. and T. Rose. 2003. International Survey of Integrated Financial Supervision. Working Paper No. 3096. World Bank.

Mwenda, K. and A. Fleming. 2001. International Developments in the Organizational Structure of Financial Services Supervision". Paper presented at a seminar hosted by the World Bank on September 20th, 2001.

Pre-Conference Survey. Integrated Financial Supervisors Conference. Toronto, Canada. May 22-23, 2000.

Pre-Conference Survey. Integrated Financial Supervisors Conference. Oslo, Norway. June 20-21, 2001.

Questionnaire. Meeting of Integrated Supervisors. Sydney, Australia. May 1999. http://www.apra.gov.au/Policy/Meeting-of-Integrated-Supervisors.cfm.

Taylor, M. and Fleming, A. 1999. Integrated Financial Supervision: Lessons from Northern European Experience. World Bank. September 1999.

The Japanese Financial Services Agency. 2001. Leaflet. http://www.fsa.go.jp/info/infoe/pamphlet_e.pdf.

World Bank. 2003. *World Development Indicators*. Washington D.C.

Annex 1

INTEGRATED REGULATORS ON THE WEB

Australia: Australian Prudential Regulation Authority (APRA)
http://www.apra.gov.au/

Canada: Office of the Superintendent of Financial Institutions (OSFI)
http://www.osfi-bsif.gc.ca/

Denmark: The Danish Financial Supervisory Authority (Finantilsynet)
http://finanstilsynet.inforce.dk/sw99.asp

Japan: Financial Services Agency (Japanese FSA)
http://www.fsa.go.jp/indexe.html

Iceland: The Financial Supervisory Authority (FME)
http://www.fme.is/fme-eng.nsf/pages/index.html

Korea: Financial Supervisory Service (FSS)
http://english.fss.or.kr/en/englishIndex.jsp

Norway: The Banking, Insurance and Securities Commission of Norway (Kredittilsynet)
http://www.kredittilsynet.no/wbch3.exe?p=1190

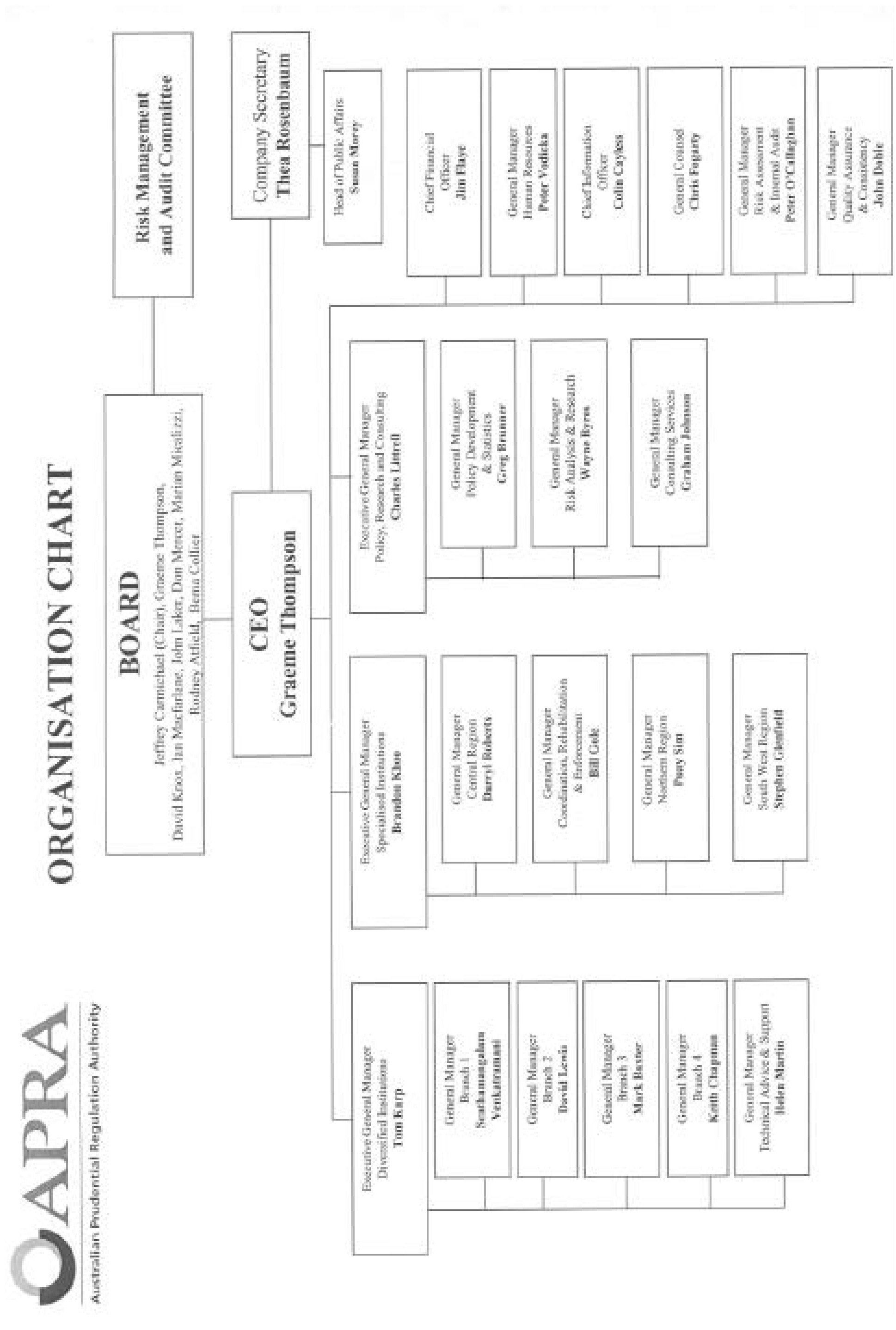
Singapore: Monetary Authority of Singapore (MAS)
http://www.mas.gov.sg/

Sweden: Finansinspektionen (the Swedish Financial Supervisory Authority)
http://www.fi.se/english/index.asp

United Kingdom: Financial Services Authority (FSA)
http://www.fsa.gov.uk/

Annex 2
INTEGRATED REGULATORS ORGANIZATIONAL CHARTS

Australia: Organizational Structure of APRA

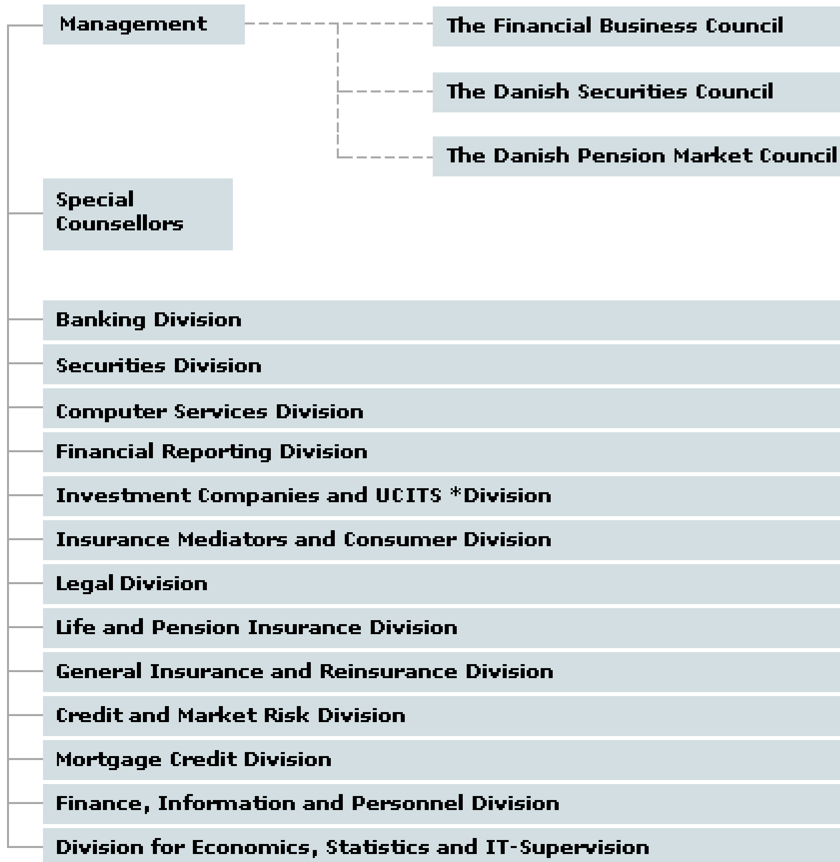


Canada: Organizational Structure of the Office of the Superintendent of Financial Institutions

Nick Le Pan
Superintendent

- **Julie Dickson** — Assistant Superintendent, **Regulation Sector**
  - **Patty Evanoff** — Senior Director, Legislation and Precedents Division
  - **Paul Fecser** — Senior Director, Registration and Approvals Division
  - **Jerry Goldstein** — Director, Research Division
  - **Tony Maxwell** — Managing Director, International Liaison Division
  - **Margaret Pearcy** — Director, Communications and Public Affairs Division
  - **Alain Prévost** — General Counsel, Legal Services Division
  - **JoAnne Bagnall** — Senior Director, Quality Assurance and Performance Standards Division
- **John Doran** — Assistant Superintendent, **Supervision Sector**
  - **Wayne Adams** — Senior Director, Financial Institution Group
  - **Ron Bergeron** — Senior Director, Financial Institution Group Regions
  - **Chris Cardoza** — Senior Director, Conglomerate Group Deposit Taking Institutions
  - **Carl Hiralal** — Senior Director, Conglomerate Group
  - **Pamela Hopkins** — Managing Director, Supervision
- **Michael Hafeman** — Assistant Superintendent, **Specialist Support Sector**
  - **Lorey Hoffman** — Senior Director, Credit Risk Division
  - **Donna Bovolaneas** — Senior Director, Accounting and Financial Information Division
  - **Allan Brender** — Senior Director, Actuarial Division
  - **Nicolas Burbidge** — Senior Director, Compliance Division
  - **Bob Hanna** — Senior Director, Capital Division
  - **Abhilash Bhachech** — Managing Director, Financial Services Technology
  - **Ted Price** — Senior Director, Capital Markets Division
- **Donna G. Pasteris** — Assistant Superintendent, **Corporate Services Sector**
  - **Rose Bussiere** — Senior Director, Human Resources
  - **Dennis Leroux** — Director, Office Management and Technical Services
  - **Christine Walker** — Senior Director, Finance & Informatics Services

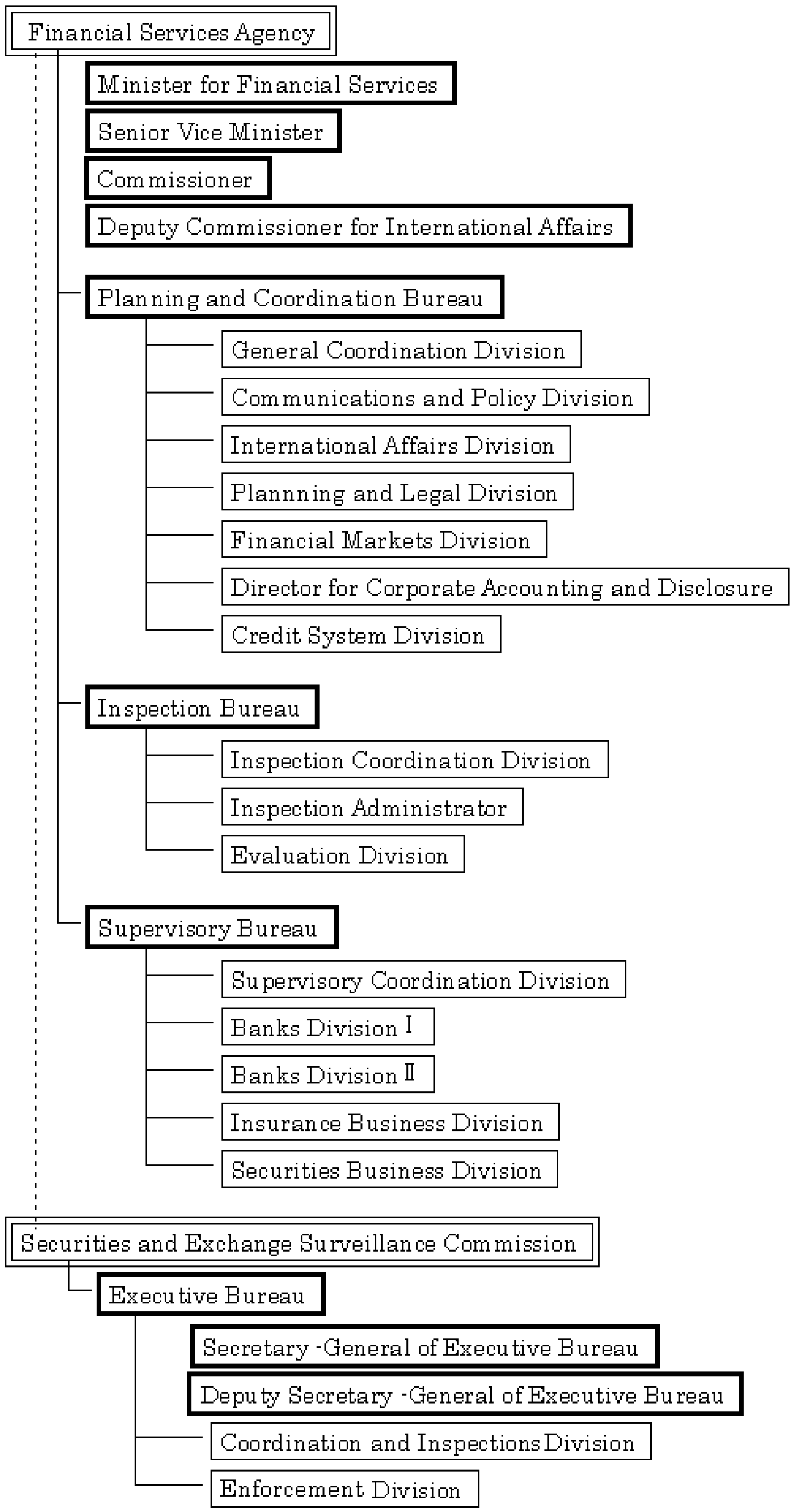
Denmark: Organizational Structure of the Supervisory Authority



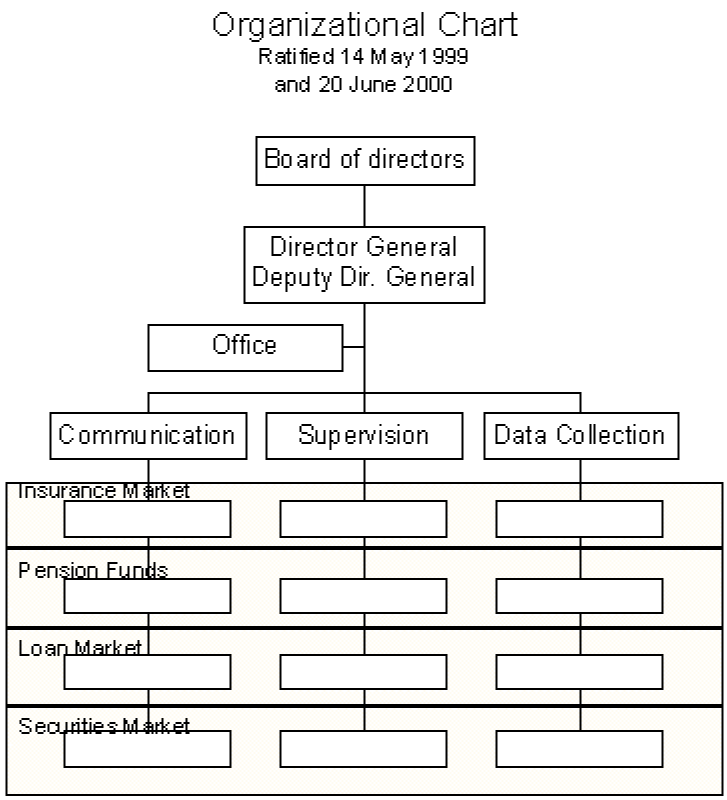
*Undertakings for Collective Investment in Transferable Security.

The presentation of the divisions follows the alphabetical order in the Danish organisation chart.

Japan: Organizational Structure of the FSA

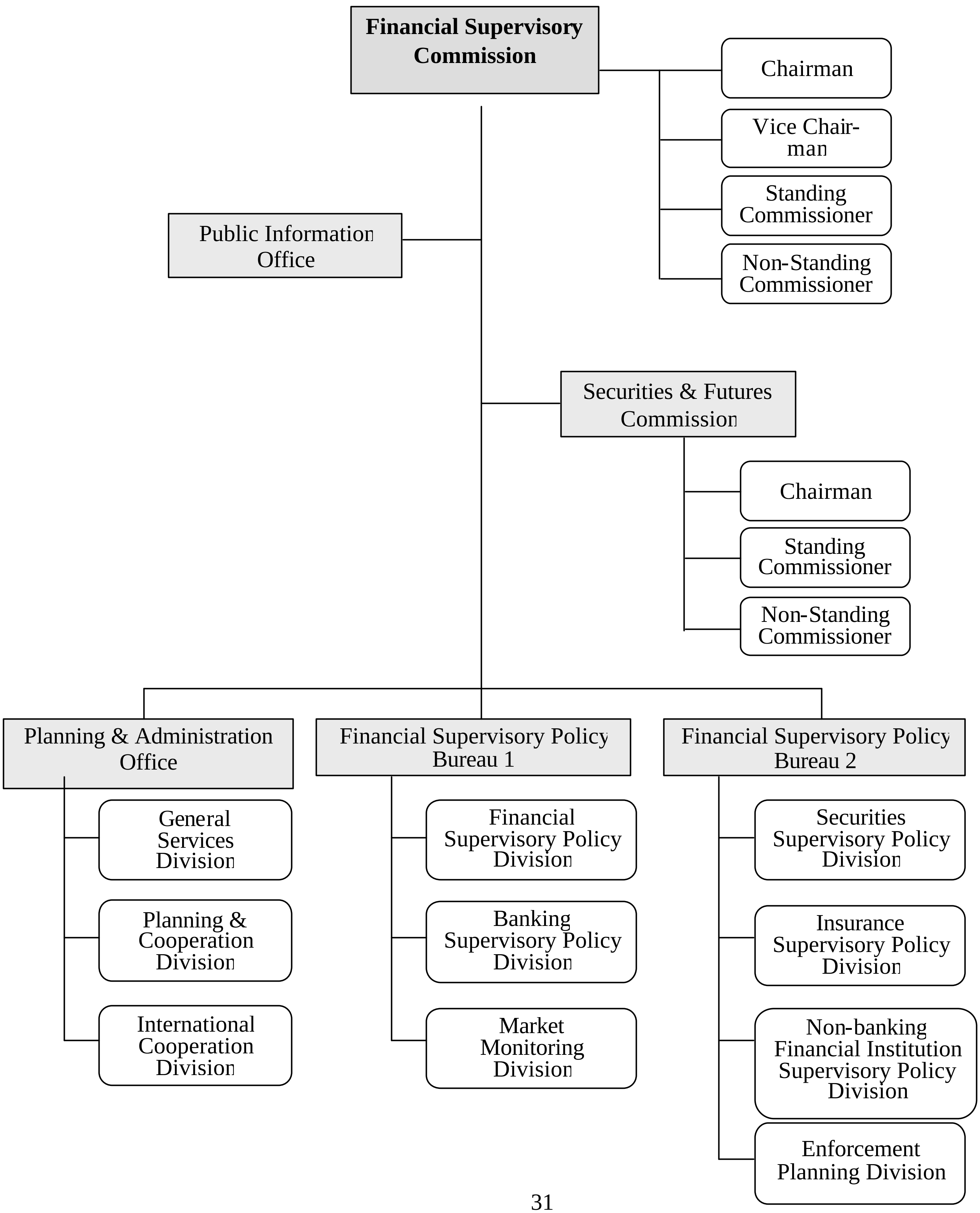


Iceland: Organizational Structure of The Financial Supervisory Authority

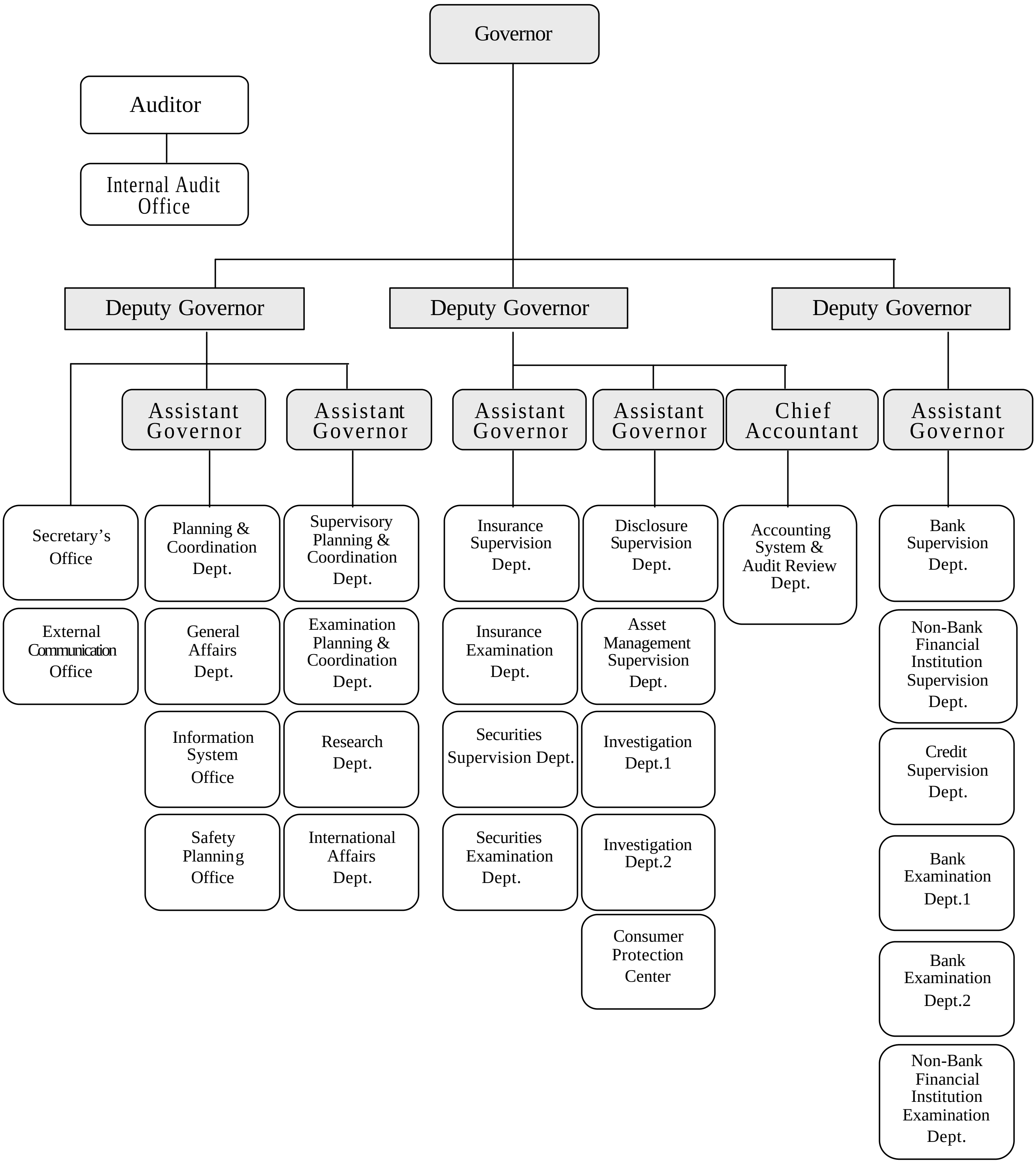


Korea: Organizational Structure of FSC and FSS

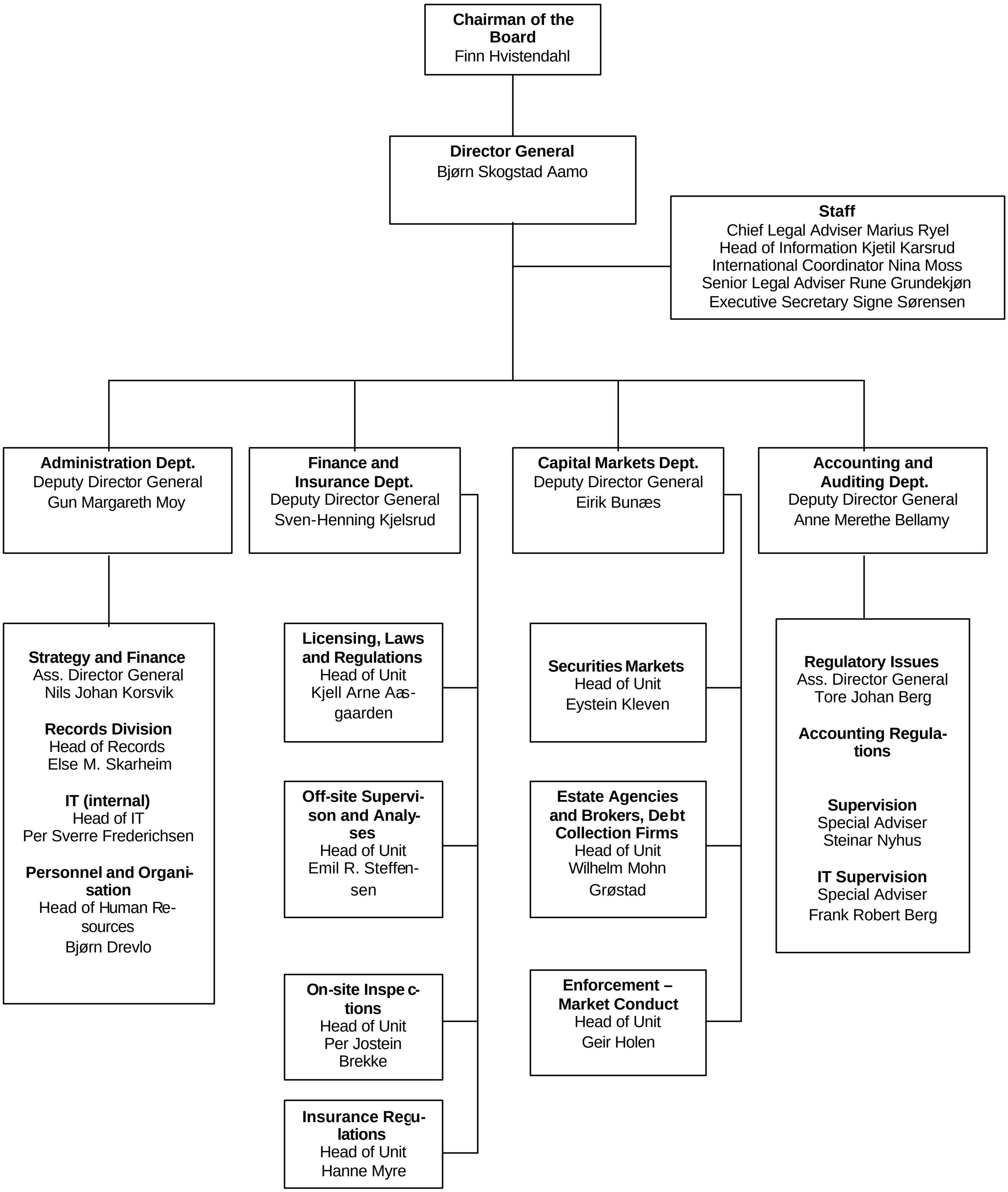
Organizational Structure of FSC



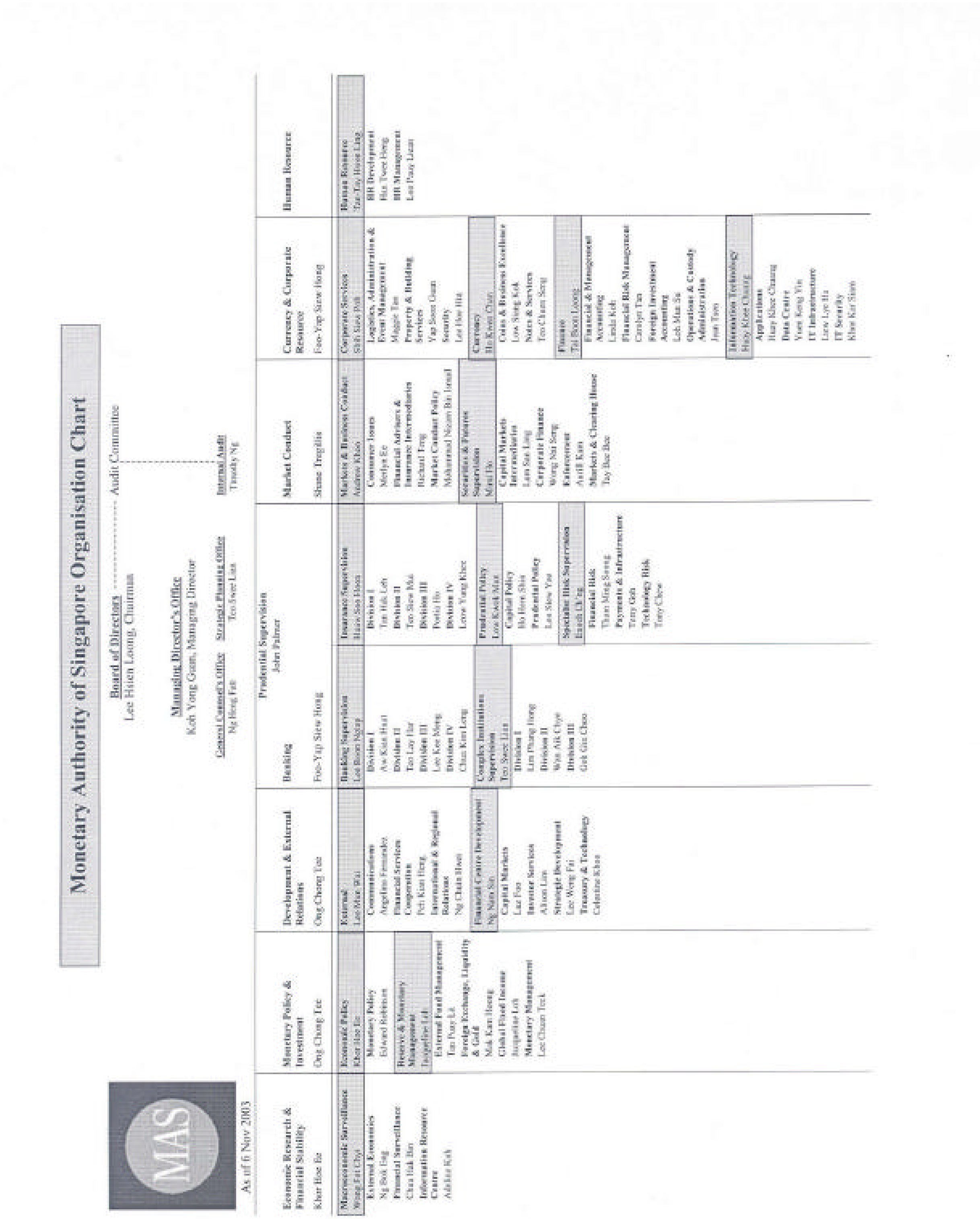
Organizational Structure of FSS



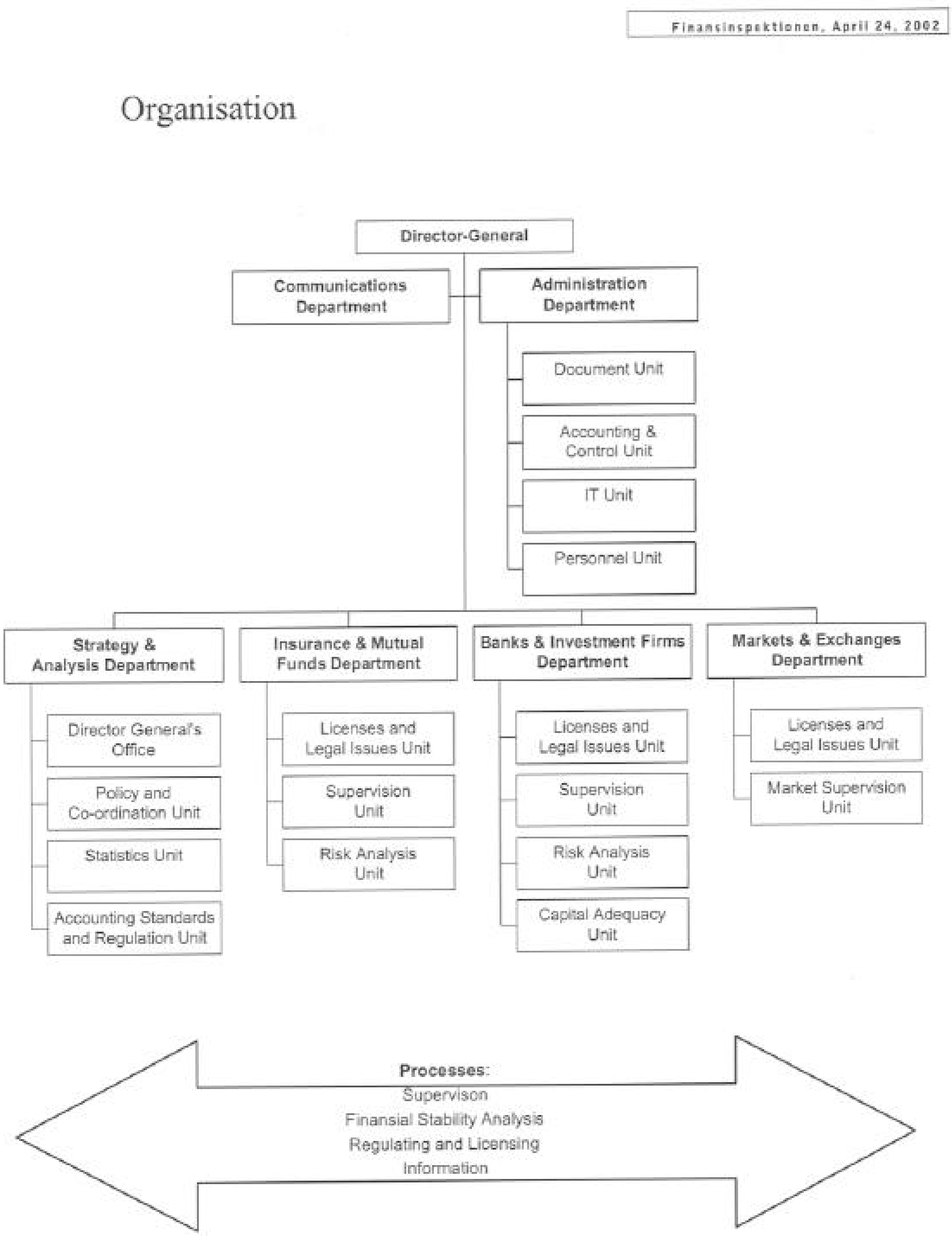
Norway: Organizational Structure of Banking, Insurance and Securities Commission



Singapore: Organizational Structure of the Monetary Authority



Sweden: Organizational Structure of the Financial Supervisory Authority



United Kingdom: Organizational Structure of the Financial Services Authority