FINANCIAL SUPERVISION IN EUROPE

Zapodeanu Daniela

University of Oradea, Faculty of Economics, University Street, No.1, 410087, Oradea, danizapodeanu@yahoo.com, 0740133142

Coroiu Sorina Ioana

University of Oradea, Faculty of Economics, University Street, No.1, 410087, Oradea, sorina_coroiu@yahoo.com, 0740027103

Abstract: There are different systems of financial supervision, specific to the country in which they are applied. In Europe, there are three main supervisory models, each one with advantages and disadvantages. This paper analyses the characteristics of these models, in the European countries.

Keywords: financial supervision, supervisory institutions, European countries.

The search of an adequate format for the regulation and supervision of financial system has stirred considerable interest in Europe in the last years.The EU member states have chosen different models to supervise their financial systems. We can identify at least three main models, that are currently in force in EU member states: the centralized model, a single supervisory authority; the vertical model, an institutional supervision; and the horizontal model, a supervision by objectives. Each model has its specific characteristics.

The Centralised Model

The centralized model, or single supervisor, provides only one supervisory authority over all financial system. This model was adopted especially in the early stage of financial systems when the central bank dominated, being the only supervisory institution.

The financial system's changes during the time, for example the fast growth of conglomerates, have determinated some national governments to review the structure of financial supervision. Nowadays, the single supervisor usually differs from the central bank and is responsible for supervising and regulating all the segments of financial sector: banking, securities markets, insurance.

In Europe, this model was first established in the late -1980s, in the Scandinavian countries.

Denmark established its single supervisor on January 1988, the Finanstilsynet, as part of the reorganization of the Ministry of Industry.

As a consequence of the banking crises of early 1990s, Sweden established in 1991 an authority named the Finansinspektionen, which is now responsible for supervising activities over all financial system, it promotes the stability and the efficiency of the financial system, ensures the protection of consumers, it performs also a regulatory activity, by issuing norms that market participants have to respect[269].

United Kingdom established the centralized model, too. In 1997, the former Securities and Investment Board changed its name in the Financial Services Authority (FSA). In 1998, all the regulatory powers on prudential supervision of the Bank of |England were transferred to the FSA. This new institution (FSA) is a private company, independent from the government, even though its board is appointed y the Treasury.

In Germany, in May 2002, the Federal Financial Services Supervisory Authority (FFSSA) was established as the single supervisor, while the Central Bank (Bundesbank) remained with a role in banking supervision. FFSSA has a functional and organizational autonomy, even though it is under a legal and supervisory control of the Ministry of Finance.

In Austria there were two main supervisory authorities: the Federal Minister of Finance, for banking and insurance supervision, and the Federal Securities Authority for securities markets. In April 2002, was created the Austrian Financial Market Authority, as a single supervisory institution, with the role of supervising banks, securities markets, insurance sector and pension funds.

---

[269] Enrico Maria Cervellati, Eleonaora Fioriti Financial Supervision in EU Countries, , SSRN Working Paper Series, January 2006, p 4;

Ireland created in May 2003 a single supervisory institution, the Irish Financial Services Regulatory Authority, which took over the responsabilities held before by the Central Bank and other supervisory authorities.

In Belgium there were two supervisory institutions: the Banking an Finance Comission, created in 1935 with the role of banking and securities superviser, and the Insurance Control Office, created in 1975 with the role of supervising the insurance companies, mortgage companies, pension funds and insurance brokers. Since 2004, in Belgium there is a centralized model supervision, represented by the Banking, Finance and Insurance Commission.

The Vertical Model

This model developed as a consequences of the great crises of 1930s. It represents an institutional supervision, a segmentation of the financial system in three main sectors: banking, securities and insurance; the supervisory competences being well defined for each main sector.

This vertical approach facilitates the practical implementation of supervisory powers, it avoids useless duplications of controls and can reduce regulatory costs; conversely, it is not able to ensure a stabilizing system of controls in a context characterized by a fast growth of financial conglomerates, progressive integration of financial markets, blurred borders of the financial sectors.

Greece is the only pure example of this model in Europe. The financial sector supervision is divided in with three groups of authorities, that have responsibilities over, respectively, the banking sector, the securities market and the insurance segment. Credit institutions are supervised by the Central Bank, the Hellenic Capital Market Commission and the Directorate of Insurance Enterprises and Actuaries of the Ministry of Development, General Secretariat of Commerce. The Supervision Division of the Bank of Greece, verifying the conformity with the rules of capital adequacy, liquidity, quality of assets and provisions. The Hellenic Capital Market Commission is a self-governing institution which acts under the jurisdiction of the Ministry of National Economy: it supports the stability of the capital market, it safeguards investors' interests and it enforces their confidence on a smooth functioning of the market. The Directorate of Insurance Enterprises and Actuaries has tasks and competences about the regulation of the insurance sector, focusing its attention on the solvency of the insurance companies[270].

Even if they present elements of supervision by objectives, the supervisory architecture of Spain and Portugal are based on the vertical model.

The Spanish supervisory system is represented by four authorities: the Bank of Spain, that supervises credit institutions; the National Securities Market Commission, whose role is to supervise the capital markets and to ensure their stability and transparency as well as investors' protection; the General Insurance and Pension Funds Directorate, a public institution within the Ministry of Economy, responsible for supervising the insurance sector; and the Directorate General Treasury.

Portugal's financial system is regulated by three authorities: Central Bank of Portugal, the Securities Market Commission and the Portuguese Insurance Institute, each one having a supervisory and regulatory role in the area that is under its jurisdiction. In the idea of the financial system development, in 2000, was established the National Council of Financial Supervisors, to cooperate among supervisory authorities

The Horizontal Model

This model is based on a supervision by objectives. Each supervisory function is under the jurisdiction of a given authority, independently of the supervised subject. There is no strict separation between sectors, each authority has cross-sector regulatory and supervisory powers in pursuing is function.

Italy's financial supervisory system is based on the institutional model, but mainly includes elements of the supervision by objectives, as well as other peculiarities. The Italian's vertical model is structured in several authorities: the Bank of Italy, responsible for the banking sector; the Insurance Commission, responsible for the insurance segment; and the Securities Commission, for the securities markets. There are also others authorities: the Pension Funds Commission, that supervise pension funds, and the Antitrust Authority, even thought the antitrust supervision of credit institutions remains responsibility of the Central Bank of Italy.

---

[270]Enrico Maria Cervellati, Eleonaora Fioriti - Financial Supervision in EU Countries, , SSRN Working Paper Series, January 2006, p 8

The institutional model has been implemented in the insurance and banking sectors, while the horizontal one in the supervision of the securities markets. The Italian financial system is regulated by two basic legal provisions: the Banking Law and the Securities Law. The Italian banking sector is supervised by two institutions: The Credit Committee, an inter-ministerial committee, presided by the Ministry of the Treasury, which enacts general and political directives; and the Ministry of the Treasury, that issues ordinances[271]

The Bank includes a General assembly of participants, a superior council, which has administrative and advisory tasks and a Governor, appointed for life, who represents the Bank and has responsibilities for financial and credit supervision.

France is an example of a hybrid supervisory system, in which elements of the institutional and horizontal models overlap. The legislative framework is represented by several fundamental acts: the Securities and Exchange Ordinance (1967), that established the Opérations de Bourse (COB)., the first Stock Exchange Commission in Europe; the French Banking Act 84-46 (1984), with the role of credit institutions supervision; the Statute of the Bank of France (1993); the Insurance Code, that regulates the activity of the Insurance Commission.

The Banking Act established three supervisors: the Banking Regulatory Committee; the Credit Institutions Committee; and the Banking Commission. In 1996, the Financial Activity Modernization Act 96-597, transposed the European Investment Services Directive into the French legislative system, amending the Banking Act. This act extended the jurisdiction of the above-mentioned supervisory authorities and of the National Credit Council to cover all investment service providers, credit institutions and investment firms, too. The names of the first two bodies were modified into Banking and Financial Regulatory Committee and Credit Institutions and Investment Firms Committee.

In the French securities markets supervisory system, until 2003 there were two securities market regulators and supervisors: the Conseil des Marchés Financiers (CMF) and the Commission des Opérations de Bourse (COB). For a supervisory system more efficient and transparent, now, in France, there is a single authority supervising the securities markets, the Autorité des Marches Financiers (AMF) in which the previous two authorities have merged together with the Conseil de Discipline de la Gestion Financière. The AMF is organised as an independent public authority with legal personality[272]

A more simple supervisory system is the one of the Netherlands that is also an example of shift from the institutional to the horizontal model of supervision. Formerly, the supervision system on insurance and banking sectors was industry based: the Nederlandsche Bank, mainly supervised credit institutions, while the Pensioen & Verzekeringskamer, supervised pension funds and insurance companies. On October 2004, these two authorities merged into a single supervisory authority. The supervision on securities market, instead, has been attributed to the Netherlands Authority for the Financial Markets since March 2002. Therefore, if in the past supervision had been focused on different segments of the financial sector, nowadays it is along functional lines: the Central Bank and the Insurance Supervisory Authority are responsible for ensuring prudential supervision, while the Authority for Financial Markets performs conduct of business supervision.

Conclusions

It is hard to choose a model, because each one has advantages and disadvantages, each model is specific to the country in which they are applied.

The EU member States have chosen in practice different supervisory models. The pure institutional model seems not to be adequate to the current financial systems, characterized by the blurring of borders between sectors, by the rising of financial conglomerates and the development of cross-sectoral instruments. In fact, even the countries that have a vertical kind of supervision as their basis have turned, at least to some extent, to the supervision by objectives. Interestingly several countries have decided to adopt the single supervisor model. First adopted by the Scandinavian countries, after the choice of the United Kingdom, several other EU countries have chosen this model to better cope with the new financial environment they face.

---

[271] Eddy Wymeersch-The Structure of Financial Supervision in Europe; Aboaut Single, Twin Peaks and Multiple Financial Supervision, European Business Oranization Law Review, Vol 8, No 2/2007 in SSRN Working Papers, p 43;

[272] Eddy Wymeersch-The Structure of Financial Supervision in Europe; Aboaut Single, Twin Peaks and Multiple Financial Supervision, European Business Oranization Law Review, Vol 8, No 2/2007 in SSRN Working Papers, p 42;

While the member States are moving to the horizontal model, both with multiple authorities or with a single supervisor, the choice at the European level is going in the very opposite direction. Following the Lamfalussy report, the supervision of the European financial system is organized in a vertical way. In other words, even if it is not possible to define the best model of supervision from a theoretical point of view, the contradiction between the choices made by the single member State and the one taken at the EU level clearly arises[273].

References:

1. Eddy Wymeersch-The Structure of Financial Supervision in Europe; Aboaut Single, Twin Peaks and Multiple Financial Supervision, European Business Oranization Law Review, Vol 8, No 2/2007 in SSRN Working Papers.
2. Enrico Maria Cervellati, Eleonaora Fioriti - Financial Supervision in EU Countries, , SSRN Working Paper Series, January 2006
3. Di Giorgio, G. and Di Noia, C. -“Financial Regulation and Supervision in the euro Area: A Four-Peak Proposal”, Financial Institutions Center, The Wharton School, 2001
4. Freshfields Bruckhaus Deringer - *How Countries Supervise their Banks, Insurers and Securities Markets*, Central Banking Publications, 2005.
5. Helena Holopaienen – Integration of Financial Supervision, Bank of Finland Discussion Papers, 12/2007.

[273] Financial Supervision in EU Countries, Enrico Maria Cervellati, Eleonaora Fioriti, SSRN Working Paper Series, January 2006, p 13