FINANSTILSYNET
THE FINANCIAL SUPERVISORY AUTHORITY OF NORWAY

# Integrated supervision in Norway: Organisational structure, history and experiences

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# Outline:



- Presentation of Finanstilsynet, the Financial Supervisory Authority of Norway
- Historical background and organisational developments
- Advantages of the model and challenges

# Finanstilsynet is:

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- A government agency reporting to the Ministry of Finance
- An independent authority that:
  - operates on the basis of legislation given by the Parliament (the Storting)
  - gives independent advice to the Ministry
  - makes independent decisions on supervision of individual institutions
  - is financed by the entities under supervision

# Accountability

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- Finanstilsynet accountable to the Ministry of Finance
- Annual letter of allocation based on the budget
- Parliament informed through annual White Paper on financial market issues and Budget
- Reporting by Finanstilsynet:
  - Annual and semi-annual reports to MoF and Parliament
  - Quarterly meeting with MoF
  - Annual reports to the public
- Information to the media/the public
- Regular meetings with the Norwegian Central Bank and other relevant authorities
- Tripartite meetings with MoF and Central Bank

# Board – non-executive

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- 5 members + 2 alternates appointed by the MoF + 2 staff representatives
- 4-year term (renewable)
- One observer from the Central Bank
- Meets once a month (normally)
- Works on consensus (no voting)
- Politically ”neutral”

- Director General appointed for 6 yrs (renewable) participates in board meetings - prepares cases

# Finanstilsynet's main goals

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«Finanstilsynet's main goal is to promote **financial stability and well functioning markets** through its supervision of institutions and markets.

Behind this goal lie important economic considerations and a desire to protect consumers and investors. Financial stability and well functioning markets are crucial to economic growth and employment, which in turn are a prerequisite for a high standard of welfare and good conditions of living.»

***(From Finanstilsynet's Strategy)***

# The main goals are concretised through the following six intermediate goals:

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1. Sound financial institutions and firms with a fit and proper management, and good internal control and risk management
2. A robust infrastructure ensuring satisfactory settlements and payments
3. Good monitoring of risk in the household and corporate sector and in real estate and securities markets
4. Adequate information to investors and users in the financial market, and good quality financial reporting by listed companies
5. To promote financial market actors' compliance with the rules of conduct and to seek to prevent conduct which may undermine confidence in the financial market
6. To ensure that critical situations are handled with minimal harmful effects *(efficient crisis management)*

# Wide scope of supervision:

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- Banks
- Finance companies
- Insurance companies
- Insurance intermediaries
- Pension funds
- Mortgage companies
- Investment firms
- Management companies for investment funds
- Regulated Markets (Stock Exchanges etc.)
- IFRS compliance
- Prospectuses
- Auditors/auditing firms
- External Accountants
- It-Supervision
- Real estate agents
- Debt-collection agencies

# Principles for organizing supervision in Norway ⇨ ”Twin Peaks” within a single financial supervisor

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## Financial Stability – Prudential Supervision

One big department with functional specialisations:

- Licensing – legal
- Off-site supervision/analyses
- Macro-economic surveillance
- Banking supervision
- Insurance supervision
- Risk models (Basel II / Solv II)

## Well Functioning Markets – Business and Market Conduct

Capital markets department:

- Investment firms
- Stock-exchanges
- Infrastructure
- Market abuse
- Real estate agents

Accounting (IFRS) and Auditing department

- Prospectuses

# Finanstilsynet's organisation

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- **The Board**
  - **Director General**
    - **Staff:** General Counsel; Director of Communications; Head of International Relations; Special Adviser (AML) / Controller
    - **Administration**
      - Personnel and organisation
      - Strategy and Finance
      - ICT (internal)
      - Records Management and Archives
    - **Finance and Insurance Supervision**
      - Licensing, Laws and Regulations
      - Analysis and Reporting
      - Banking Supervision
      - Insurance Supervision
      - Solvency Regulation – Risk Models
    - **Accounting and Auditing Supervision**
      - It supervision
      - Financial Reporting Supervision
      - Auditors and External Accountants
      - Prospectuses
    - **Capital Markets Supervision**
      - Securities Institutions
      - Market Conduct
      - Estate Agencies and Brokers, Debt Collection Firms

# Staff in Finanstilsynet

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**Current staff: 255**

**Permanent staff at the end of 2009:**

- **246 staff**
- **52% women**
- **87% with higher education**
- **25% have more than 5 years experience from the supervised sectors**

➢ **Low turnover: 6% in 2009**

**Stability of staff**

# Education of staff as pr 31.12.2009

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- **30 % higher education in economics and finance**
- **12 % actuaries and chartered accountants**
- **22 % lawyers**
- **23 % with other higher education**
- **13 % without higher education**

# Finances - costs

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- Annual budget adopted by the government / the Parliament (the Storting) based on proposal by Finanstilsynet
- The expenses are apportioned among the various institutional groups under supervision the previous year – based on the extent of the supervision. Levied according to the size of the institutions (e.g. total assets or premiums…)
- Finanstilsynet's expenditure 2006–2010:
  - 2006: NOK 171.6 mill.
  - 2007: NOK 198.2 mill.
  - 2008: NOK 236.2 mill.
  - 2009: NOK 266.7 mill.
  - Budget 2010: NOK 286.9 mill. **(est € 35.57 mill)**

# Number of principal supervised entities

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| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| **Savings banks** | **126** | **124** | **123** | **121** | **118** |
| **Commercial banks** | **14** | **15** | **16** | **18** | **20** |
| **Life insurance companies** | **6** | **9** | **10** | **11** | **12** |
| **Non-life insurance companies** | **46** | **44** | **44** | **45** | **45** |
| **Investment firms**<br>**(* New securities trading act in 2007 requires licence for investment advisers)** | **75** | **85** | **132*** | **154** | **150** |
| **Management companies for securities funds** | **21** | **23** | **23** | **22** | **26** |
| **Auditors** | **5,495** | **5,567** | **5,670** | **5,777** | **5,943** |
| **Auditing firms** | **569** | **730** | **789** | **825** | **820** |
| **External accountants** | **7,179** | **7,472** | **7,966** | **8.340** | **8,780** |
| **External accounting firms** | **2,632** | **2,652** | **2,691** | **2.676** | **2,693** |
| **Estate agencies** | **642** | **682** | **717** | **611** | **516** |
| **Lawyers' practices incl. estate agencies** | **1,213** | **1,355** | **1,324** | **1.307** | **1,346** |
| **Debt collection agencies** | **121** | **117** | **112** | **110** | **105** |

# Number of on-site inspections by type of institutions

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| | 2008 | 2009 |
|---|---|---|
| Banks, finance | 37 | 58 |
| Insurance companies | 6 | 8 |
| Insurance intermediaries | 3 | 7 |
| Pension funds | 6 | 4 |
| Investment firms | 19 | 21 |
| Other securities market firms | 1 | 3 |
| Auditors | 29 | 47 |
| External accountants | 60 | 49 |
| Estate agencies | 66 | 30 |
| Debt collection agencies | 13 | 12 |
| Data processing centres | 4 | 2 |

# Principles underlying supervision in Norway

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- Financial institutions themselves (board/management) are primarily responsible for the management and control of their own activities (corp.gov.)
- The whole financial market/all financial institutions are subject to public regulation and supervision
- Capital requirements apply to all financial institutions – both on a consolidated and solo level.
- Active risk-based supervision with a number of on-site inspections pr year and close contact (quarterly meetings) with management in the most important financial institutions

# Supervisory instruments:

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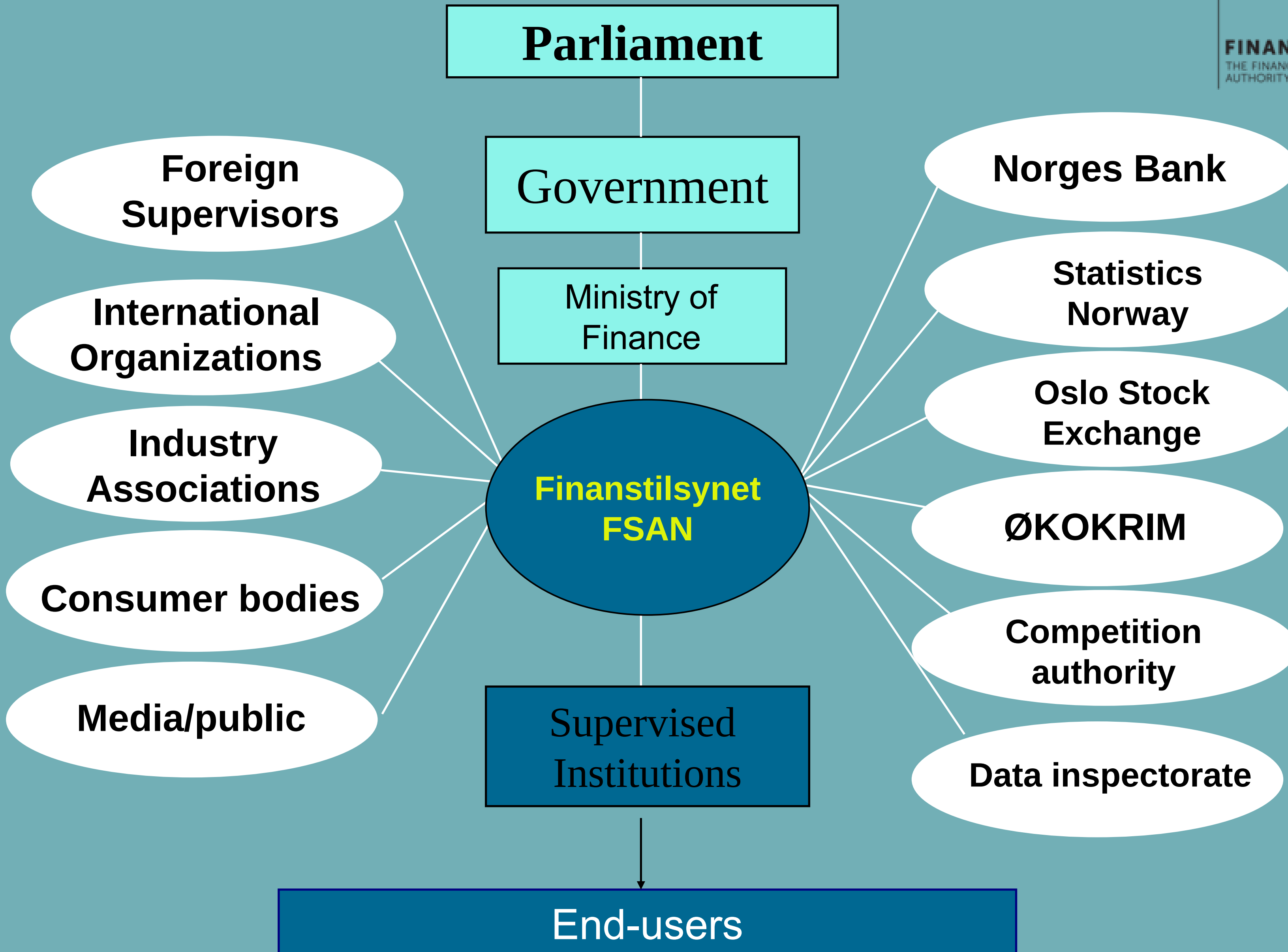
- Licensing - compliance
- Off-site supervision and analysis *(one joint database)*
- Macroeconomic surveillance - since 1994
- On-site inspections
  - regular and surprise inspections / company specific and thematic
- Drafting/adopting acts and regulations
- International cooperation
  - Contribute to regulatory development and supervisory convergence
- Information, communication and technology
- Organisational development, management and administration (staff training)

# Finanstilsynet's key relations - stakeholders



# Tripartite cooperation

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- The Ministry of Finance has the overarching responsibility for financial stability and financial regulation
- Norges Bank (the Central Bank) is responsible for executing the monetary policy
- Finanstilsynet supervises the individual institutions and prepares/drafts laws and regulations.
- Since 1994, FSA Norway has a program for macro-economic surveillance combined with information from the supervised insitutions and information on developments in the economy and markets.
- Tripartite cooperation is carved in stone and intensified over the last years with frequent high level meetings.
  - At least 2 meetings pr year ⇨ last year 7 meetings

# Relations between Finanstilsynet and the Central Bank

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Based on guidelines communicated to Ministry and Parliamant

- Full access for the Central Bank to all financial information, including inspections reports – a common financial reporting database
- Top-level meetings focusing on financial stability
- Regular meetings at department head level
- Monthly meetings at expert level e.g. on liquidity supervision
- Cooperation with the Central Bank on providing input to key regulatory projects (hearings) – such as Basel III
- Regular discussions on the operation of deposit guarantee fund and crisis management

# The 3 pillars of financial stability

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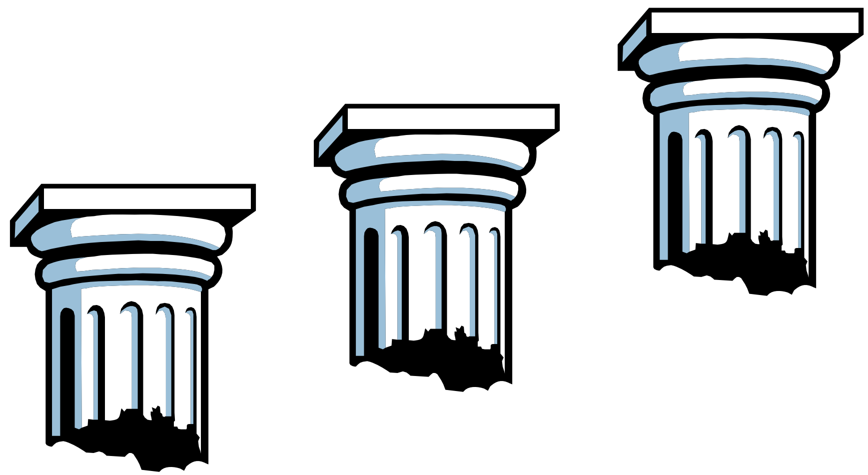
- Ministry of Finance
- Central Bank
- Supervisory Authority



# Creation of an integrated supervisor

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Establishment of the integrated financial supervisor in Norway – historical and political background and developments

# Early Supervision

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1900 – the first bank inspector appointed

*Supervising savings banks*

1911 – Insurance Council established

*Prudential supervision since 1938*

1918 – Brokers control agency

*Supervision of real estate agents as of 1931*

1925 – Banking inspectorate (prudential supervision)

⇨ *3 agencies reporting to 3 ministries*

# Challenges

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- Regulation and supervision of financial activities divided between 3 ministries:
  - Banking inspectorate under the Ministry of Finance
  - Insurance Council under the Ministry of Social Affairs
    - but credit practice of life insurers regulated by MoF
  - Brokers Control Agency under the Ministry of Trade
- In the 1970's the Ministry of Finance demanded overhaul of insurance legislation (dating from 1911)

1983 – Securities supervision merged with banking supervision under MoF

1985 – MoF propose merger

⇨ insurance transferred to MoF

⇨ *All supervisors reporting to MoF*

# Driving forces behind integration:

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- Financial market liberalization and deregulation required better financial supervision
- To prevent financial instability and enhance the efficiency in the financial markets
- The predecessors had difficulties in attracting relevant and qualified expertise
- Blurred boundaries between banking, securities and insurance sectors and initiatives to create financial conglomerates

# Main reasons for merger in 1986

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- The main reasons given for merger:
  - possibilities for more efficient supervision as both the banking and insurance industries where exposed to similar changes in markets and competition
  - The need to strengthen supervision of securities markets was underlined.
  - Administrative rationalization (IT-systems and recruiting experts)

# Kredittilsynet – now Finanstilsynet – was established in 1986 by the merger of:

- **The Bank Inspection** (founded 1900)
  - The Securities Commission ("Brokers Control Agency") had been incorporated at an earlier stage (1983) and included supervision of real estate agents (since 1931)
- **The Insurance Council** (founded 1911)
  - Proper, fullfledged supervision of insurance began 1992 (after dealing with banking crisis – experiences transferable)

⇨ ***First integrated financial supervisory authority***

# The integrated supervisory model

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Singapore (1984), **Norway** **(1986)**, Denmark (1988), Malta (1988), Sweden (1991), UK (1997/1998), Japan (1998), Iceland (1999), South Korea (1999), Hungary (2000), Estonia (2001), Latvia (2001), Germany (2002), Austria (2002), Ireland (2003), Belgium (2004), Liechtenstein (2005), Slovakia (2006), the Czeck Republic (2006), Poland (2008), Switzerland (2009), Finland (2009)

**Joint supervision for bank and insurance:**

Canada (1987), Australia (1998),The Netherlands (2005), France (2010)

# Supervisory responsibilities added since 1986:

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- Supervision of auditors since 1988
- Debt collection agencies since 1989
- Macro-economic surveillance program introduced in 1994
- Supervison of external accountants added in 1999

*Latest changes:*

- 21 December 2009 – changed the Norwegian name to "Finanstilsynet" in connection with move to new premises (renting office space from the Central Bank) – still "the Financial Supervisory Authority of Norway"
- Control of Prospectuses as of 1 May 2010

# Development of organisational structure:

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- The basic organisational structure of Finanstilsynet has been fairly stable since 1991. (International Department dismantled in 1995)
- Thoroughly reviews both in 1999 and in 2004 did not lead to significant changes
- As Finantilsynet was assigned new responsibilities, including monitoring compliance with IAS/IFRS, some minor organisational adaptations were considered from early 2005.
- One on-site inspection unit divided into separate banking and insurance units
- A new unit dealing with risk models and solvency regulations (Basel II and Solvency II) was added in 2006
- The current organizational chart is partly structured along institutional lines, partly along functional lines, depending on the department. In addition, there is cooperation across sections and departments.

# Number of employees

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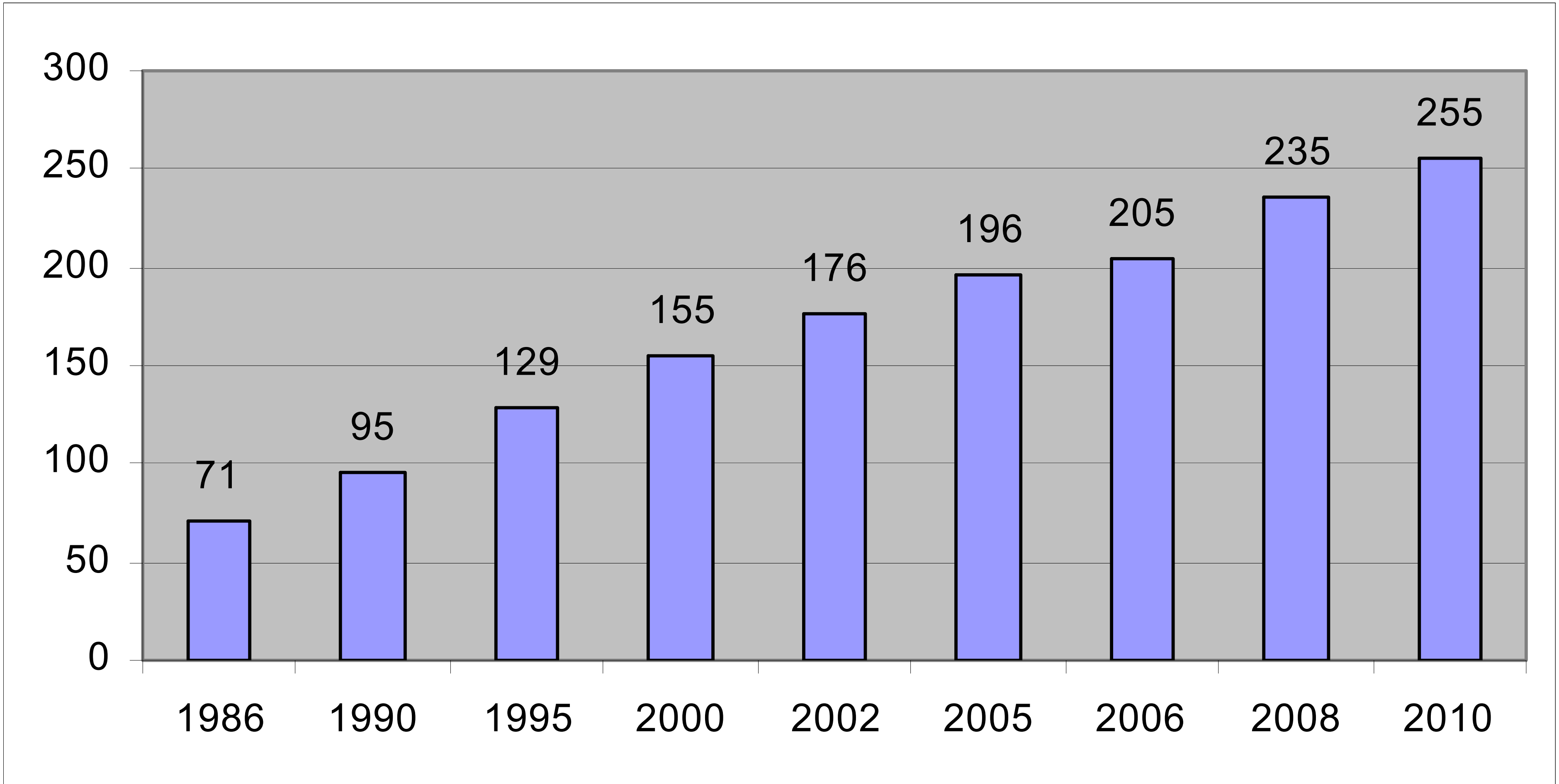

# Legislation and supervision

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- Act on Financial Activities and Financial Institutions of 10 June 1988 ensured that all financial activities in Norway were subject to regulation, capital requirements and precise requirements as to consolidation of subsidiaries and larger ownership shares in other companies/activities.
- The Act replaced the act on financial activities of 11 June 1976 which had a wide definition of financial activities but lacked requirements on regulation and own funds.
- The use of financing companies by banks in order to avoid regulations as well as blurring of borders between banking and insurance were important political motives (driving forces) behind the act.
- The Act has crucial provisions regarding large exposures which contribute to curbing risk
- Ownership restrictions

# Advantages of the integrated model and challenges

Based on the Norwegian Experience

# Rationale for integration:

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- Easier to achieve the financial stability goal?
- Easier to cooperate and coordinate measures
- Internationalisation of financial markets – less supervisors in the field ⇨ easier cooperation
- Blurred boundaries between banking, securities and insurance sectors? (etc.)
- Particularly relevant in highly concentrated financial sectors where financial conglomerates dominate the market

# Advantages of integration:

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- Significant economies of scale in organisation:
  - Administrative, IT, and other support functions
  - Easier to recruit and retain qualified staff (professional environment) ?
  - Offer better career opportunities
  - Efficiency in training and development of staff
  - Job-rotation – varied and challenging tasks…

# Advantages of integration:

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- Significant economies of scale and scope in regulation and supervision:
  - ➢ Supervisory functions - certain common or similar supervisory functions
  - ➢ Expertise can be "moved around" as needed
- Avoid regulatory arbitrage
  - ➢ Consistency of rules and supervisory measures
- Avoid supervisory ”gaps” (sectors or activities not being supervised)
  - ➢ Hence better supervision of financial conglomerates
- Better coordination of financial stability issues (in cooperation with CB and MoF)

# Staffing:

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*Integrated supervisor:*

- May more easily attract well-qualified professionals and generalists (e.g. legal experts) looking for a broader range of expertise
- Emphasis on recruitment from the financial market (professional experience from supervised sectors)
- May be easier to keep people – job rotation
- May have more resources allocated to internal training and development of staff
- Challenges with regard to pay level *(public servants)*

# Supervision in the Central Bank?

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- Already in 1970 proposal to merge banking supervision with the Central Bank due to banking supervisor's lack of resources and difficulties in recruiting
- Not passed by Parliament ⇨ hence independent integrated supervisor created
- After banking crisis in 1987-92 ⇨ new proposal to transfer the supervisory authority to the Central Bank -
- In both cases it was turned down by the Parliament
- ➢ The supervisory authority came out strengthened – with increased resources

**Current crisis: Norway less affected**

- No suggestions have been put forward to merge with central bank as the current system has proven effective and efficient

**Importance of separating monetary policy from supervision**

# Some effects of integration:

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- In Scandinavian countries, we have seen that financial supervision obtained a higher status after integration
- Improved standing for financial supervision and the supervisor
- Integrated agencies more successful in securing funding
- Offer career progression which has enabled to recruit and retain well-qualified staff

# Increased powers (authority)

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- One agency with more authority than several smaller agencies
- More "authority" " behind supervisory decisions and recommendations
  - ➢ More influence on politics and market
- Wider mandate and wider responsibility give more authority and competence to influence regulatory developments and political decisions?

# Pitfalls/Challenges:

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- Easy to preserve ”old” supervisory agencies as separate institutional departments under one umbrella *(no ”real” integration)*
- Real integration requires efficient internal organizational structures facilitating cooperation and communication *(cultural differences)*
- Solution may be a matrix organization
  - ➢ management structures combining functional and institutional models
- Conflicts of interest within an organization with different conflicting priorities? (need for Chinese walls internally)

➢ Challenge: takes time to become truly integrated

# Some arguments:

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- Only logic and feasible in small countries with small financial markets (Scandinavian and Eastern European countries…)?

- ➢ But after the UK FSA was formed in 1997:  more attention to integrated model
- ➢ Consumer protection - Financial education – consumer complaints ➔ To which extent? (UK/Ireland)
  - ✓ Underlying goal to protect the policyholders/investors/depositors
  - ✓ Ombudsman system and complaints boards
- ➢ Possible conflict of interest between consumer interests and prudential/financial stability concerns?

# Flexibility:



***An integrated supervisor:***

- May have a more flexible budget
- May more easily funnel funds from one area to another, in difficult times
- May temporarily assign expert staff to another area in pressure times or a crisis situation

# Independence-accountability-transparency

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*Operational and financial independence - Accountability*

- Established by law
- Delegation of authority: by Ministry of Finance (Parliament)
- Budgetary decisison: budget approved by MoF/Parliament
- Reporting to MoF and Parliament
- Funding: by industry

*Independence enhanced by:*

- Non-executive supervisory Board
  - Overseeing general policy and operations
  - Act as buffer between Ministry and supervisory authority

*Transparency*

- of political process, supervisory functions and measures

Strict ethical guidelines

Controller function (reporting to management)

# Relation to supervised entities

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- Integrity – avoid conflict of interest
- Legal protection for supervisory staff
- Ethical guidelines for supervisors (e.g. prohibiting equity trading and addressing client relationship to financial institutions)
- A strong centralized supervisory agency may be better ”armed” to stand against strong financial conglomerates with economic power and political influence (act as a counterweight)

⇨ Independence and Integrity

# Supervisory cooperation and information sharing

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- Cooperation between supervisors and other relevant authorities at national level
  - E.g. cooperation with central bank for crisis management and financial stability issues
- International cooperation (financial institutions/ conglomerates with cross borders operations )

# International cooperation

- EU/EEA
  - Level 2 Committees (with Ministry of Finance)
  - Level 3 Supervisory Committees (CEBS, CESR, CEIOPS, JCFC)
  - Conferences, meetings, seminars, training
  - EU/EEA MoU's
- Nordic
  - Meetings at various levels
  - General Nordic MoU
  - Company-specific MoUs
- Global
  - IOSCO, IAIS, IOPS, (Basel Committee)
  - IFIAR, FATF, OECD
- Bilateral MoU's
  - with some EU supervisors
  - Switzerland (insurance)
  - China (securities markets)
  - Russia
  - India

# Participation in international meetings

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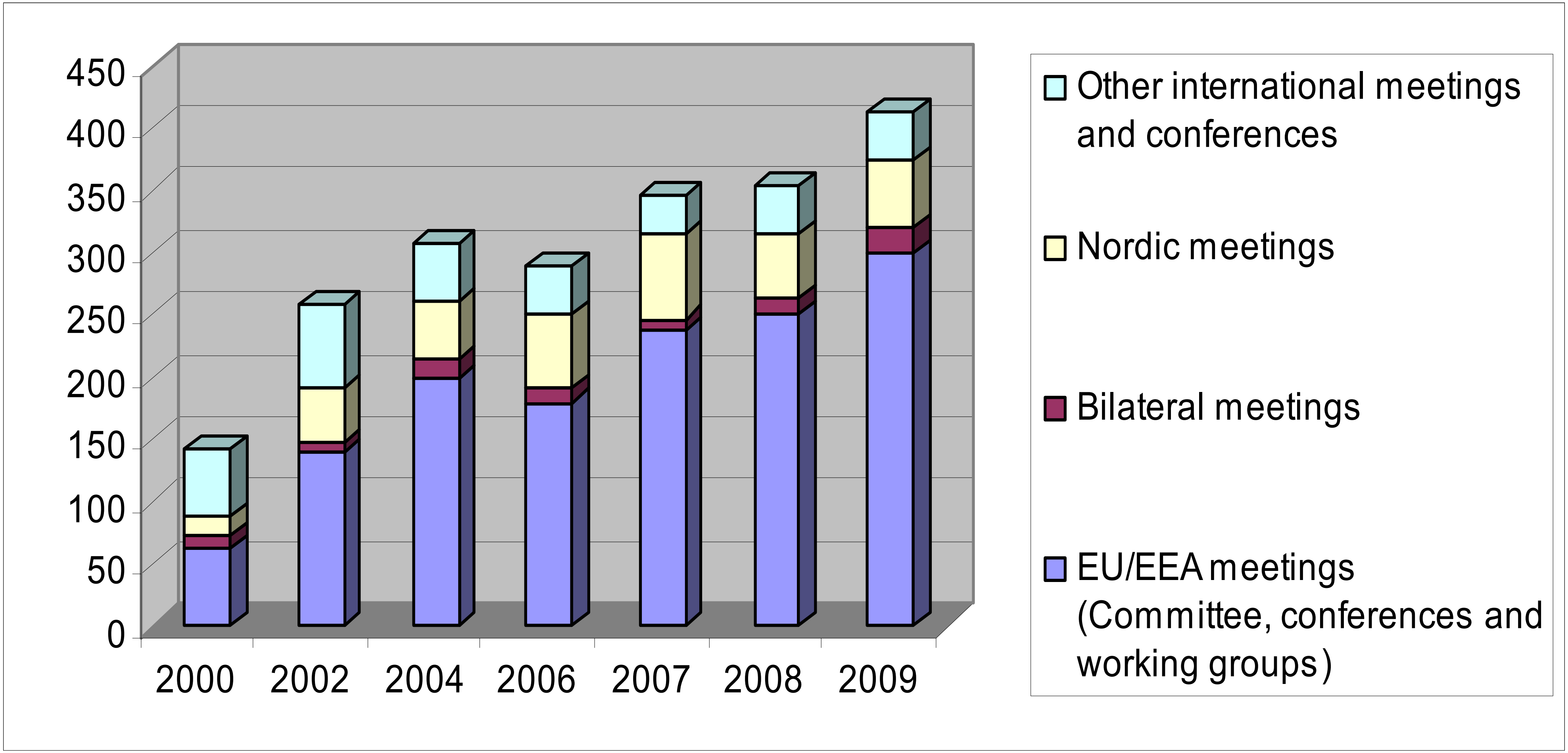

# Challenge to an integrated supervisor



- International supervisory organisations and committees not (yet) integrated
- Challenge for management of integrated supervisor to keep informed and to know who is the relevant counterpart
- Challenge to keep up with international regulatory developments:
  - Staffing
  - Prioritization

    ⇨ Cannot participate in all the international fora

# Conclusion

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- Supervisory synergies – professional and administrative
- Integration gives flexibility to regulate a changing financial market more efficiently and avoid supervisory and regulatory gaps
- Efficient internal organisational structures:
  - Ensure real integration (not only on paper – but in practice)
  - Focus on competence and experience
- Good relationships with other key parties:
  - A supervisor may stay independent while maintaining a good dialogue with Ministry, partners and industry

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