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Unifying Financial Sector Supervision – Finland's Experience

Presentation at Banka Slovenije

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Bank of Finland

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Outline of the presentation

1. The financial crisis – lessons learned
2. Bank of Finland's core functions – financial system oversight
3. Bank of Finland and Financial Supervisory Authority



Lessons learned from the financial crisis

- ◆ Need to ensure that important activities are not obscured from supervisors' oversight
- ◆ Supervision suffered from inadequate coordination between central banks and financial supervisors
- ◆ There was not enough dialogue between micro and macro supervision; micro-supervisors' knowledge of the risks exposures of individual institutions not available to macro-supervisors.

Case: The Bank of England and Northern Rock

- ◆ In autumn of 2007 Britain experienced its first bank run of any significance since the reign of Queen Victoria. The run was on a bank called Northern Rock.
- ◆ This was extraordinary, for Britain had been free of such episodes since early in the third quarter of the 19th century
- ◆ The episode led to profound reconsideration of the role of financial supervision.



Proposed reforms in Britain

- ◆ The Chancellor of the Exchequer: “At the heart of the crisis was a rapid and unsustainable increase in debt that our macroeconomic and regulatory system utterly failed to identify, let alone prevent.”
- ◆ “No-one was controlling levels of debt, and when the crunch came no one knew who was in charge.”
- ◆ “Can the macroprudential regulator do their job if they don’t have an intimate knowledge of what is happening in individual firms?”

16 June 2010 **Speech at The Lord Mayor’s Dinner for Bankers & Merchants of the City of London by The Chancellor of the Exchequer, The Rt Hon George Osborne MP, at Mansion House**

New prudential regulator will be created

- ◆ The UK Financial Services Authority will cease to exist in its current form
- ◆ A new Prudential Regulation Authority (PRA) will be created, and it will operate as a subsidiary of the Bank of England
- ◆ The PRA will conduct prudential regulation of entities such as deposit-takers, insurers and investment banks
- ◆ A separate Consumer protection and markets authority (CPMA) will focus on protecting consumers and ensuring market integrity

Interlinkages show need for cooperation





The two roles of Bank of Finland



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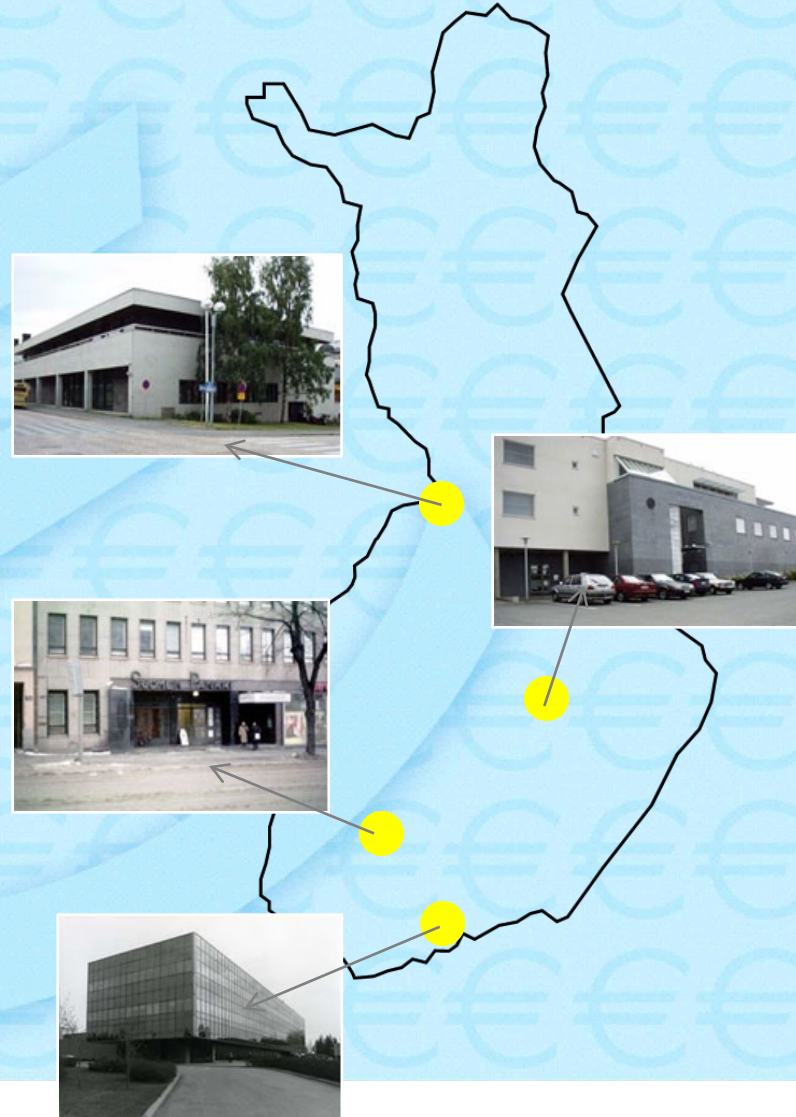
1. Finland's monetary authority



2. Member of the Euro system

Bank of Finland

- ◆ Fourth oldest central bank in the world
 - Established in Turku in 1811, moved to Helsinki in 1819
- ◆ The Bank of Finland employs about 450 staff; the Financial Supervisory Authority about 215
- ◆ Regional offices in Tampere, Kuopio, Oulu and Vantaa



Organisation

Parliamentary
Supervisory Council



Board

Monetary
Policy and
Research

Financial
Markets and
Statistics

Banking
Operations

Currency

General
Secretariat

Administration

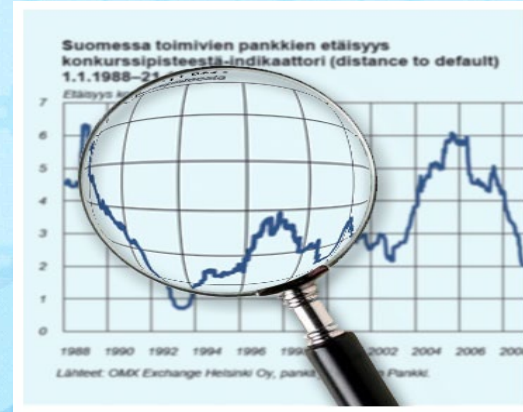
Internal Audit

Financial
Supervisory
Authority
(FIN-FSA)

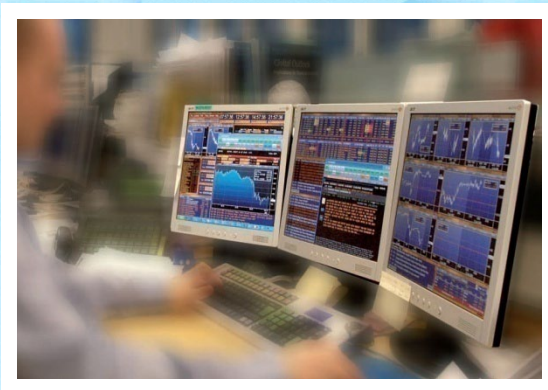
Bank of Finland's four core functions



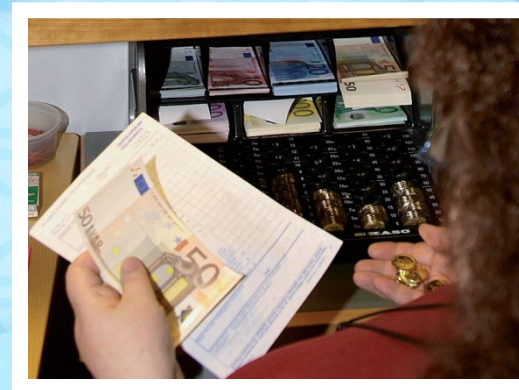
Monetary policy



Financial stability



Banking operations



Cash supply

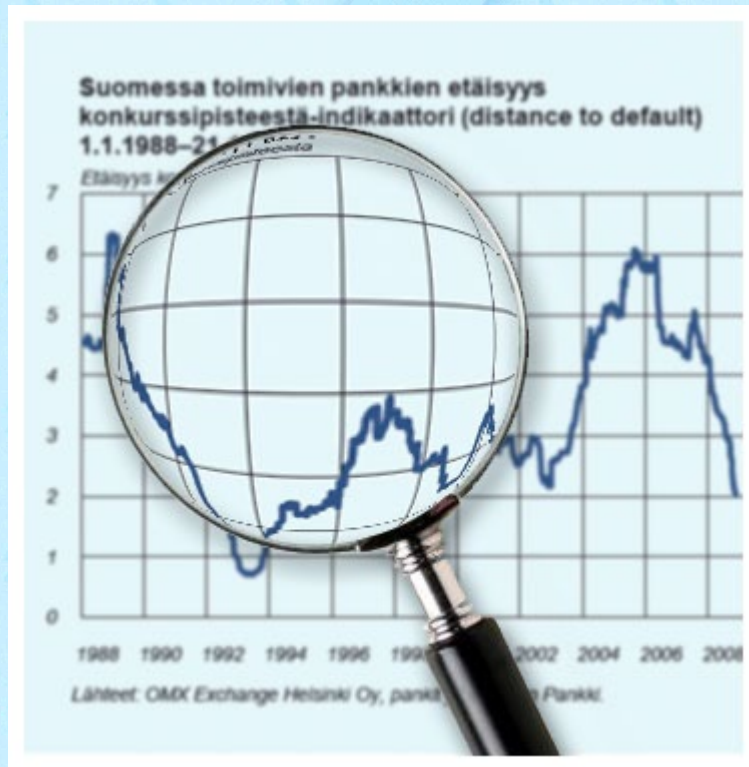
Monetary policy

- ◆ Monetary policy objective: **price stability**



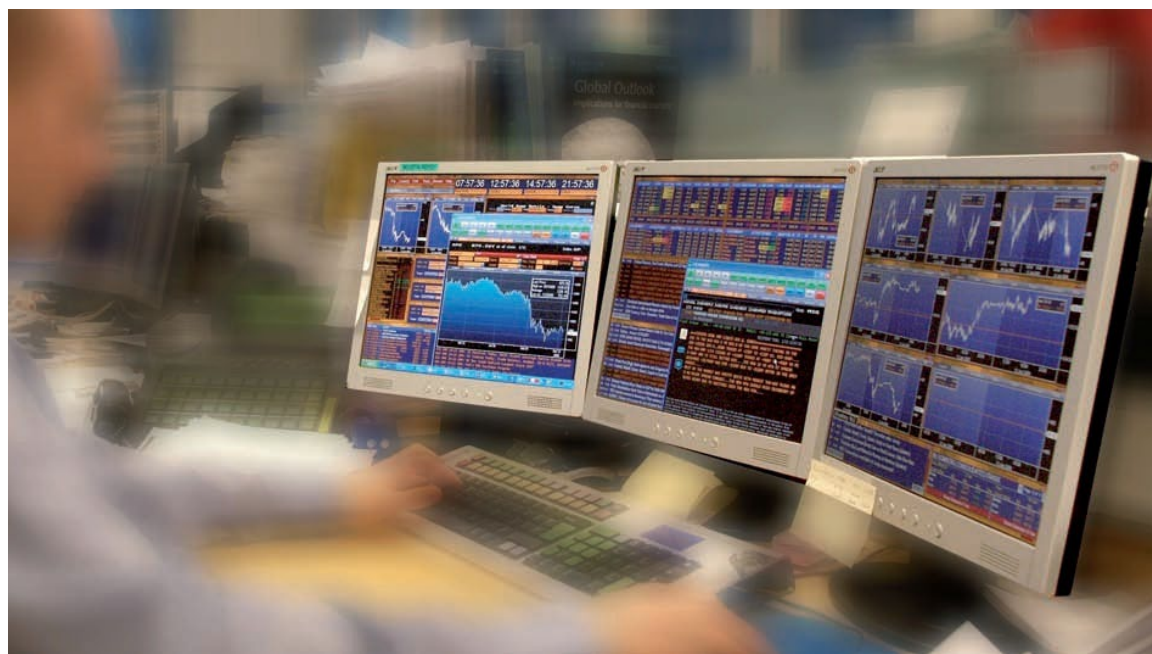
- ◆ The Bank of Finland participates in the preparation, decision-making and implementation of Eurosystem monetary policy
- ◆ The Governor of the Bank of Finland, as a member of the ECB's Governing Council, is one of those deciding on euro area monetary policy
- ◆ Research & Bofit

Financial stability



- ◆ The Bank of Finland **monitors the financial system as a whole**
- ◆ The objective is to maintain stable, reliable and effective financial and payment systems in Finland
- ◆ **The Financial Supervisory Authority (FIN-FSA)**, operating in connection with the Bank of Finland, supervises individual banks, insurance companies and securities markets
- ◆ The financial crisis has prompted development of common euro area and EU supervisory frameworks

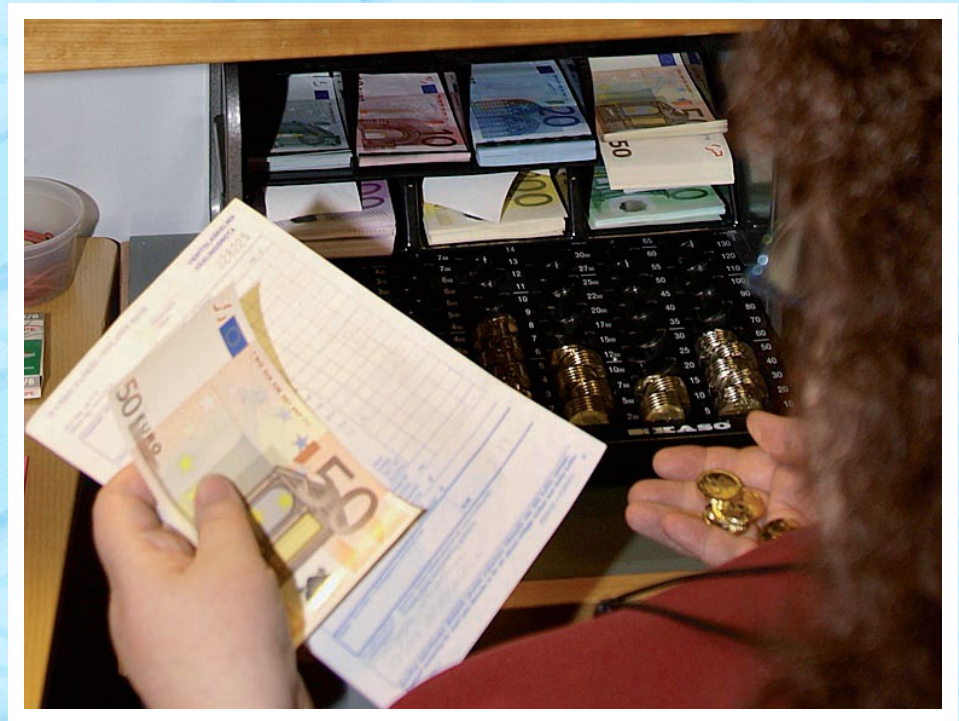
Banking operations



- ◆ The Bank of Finland is the bank of banks
- ◆ With responsibility for
 - **Implementing Eurosystem monetary policy** in Finland
 - Securing the banking system's liquidity
 - Transmitting large-value payments between banks

Cash supply

- ◆ Exclusive right to issue cash in Finland
- ◆ Responsibility for ensuring the fitness and authenticity of cash in circulation





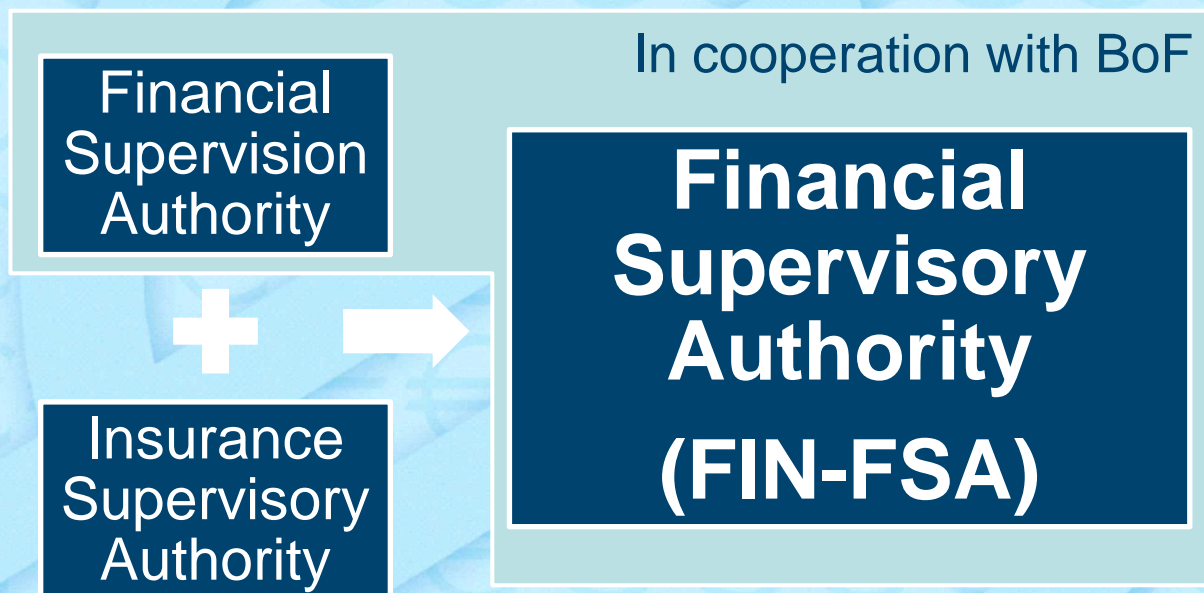
Financial Supervisory Authority (FIN-FSA)

Supervisor of the financial and insurance
sectors and securities markets

Supervisory reform in Finland

- ◆ Decision on the merger of financial and insurance supervisions taken prior to the financial crisis
- ◆ New Financial Supervisory Authority commenced operations at the beginning of 2009
- ◆ Experience of financial crisis confirmed the necessity of
 - combining the supervision of various financial sector risks
 - close cooperation with the central bank (micro/macro)
- ◆ Other factors behind the merger
 - Ability to compete for professional staff
 - Synergies of supervision
 - Efficient supervision of financial and insurance conglomerates

FIN-FSA founded in 2009



Position of Financial Supervisory Authority (FIN-FSA)

- ◆ Operates administratively in connection with Bank of Finland
- ◆ Independent in its decision-making
- ◆ Funded mainly by supervised entities
- ◆ Budget EUR 27 million, 2010
- ◆ Number of staff: ca 215
- ◆ Number of key supervised entities: ca 830

Board of non-executive directors

- ◆ Own board of non-executive directors; five members (Bank of Finland, Ministry of Finance, Ministry of Social Affairs and Health + two independent members)
- ◆ Deputy Governor of the Bank holds chairmanship in board of the FSA
- ◆ Director General nominated for five years; by Parliamentary Supervisory Council on proposal by the board
- ◆ Annual FIN-FSA budget approved by FIN-FSA board and confirmed by Bank of Finland

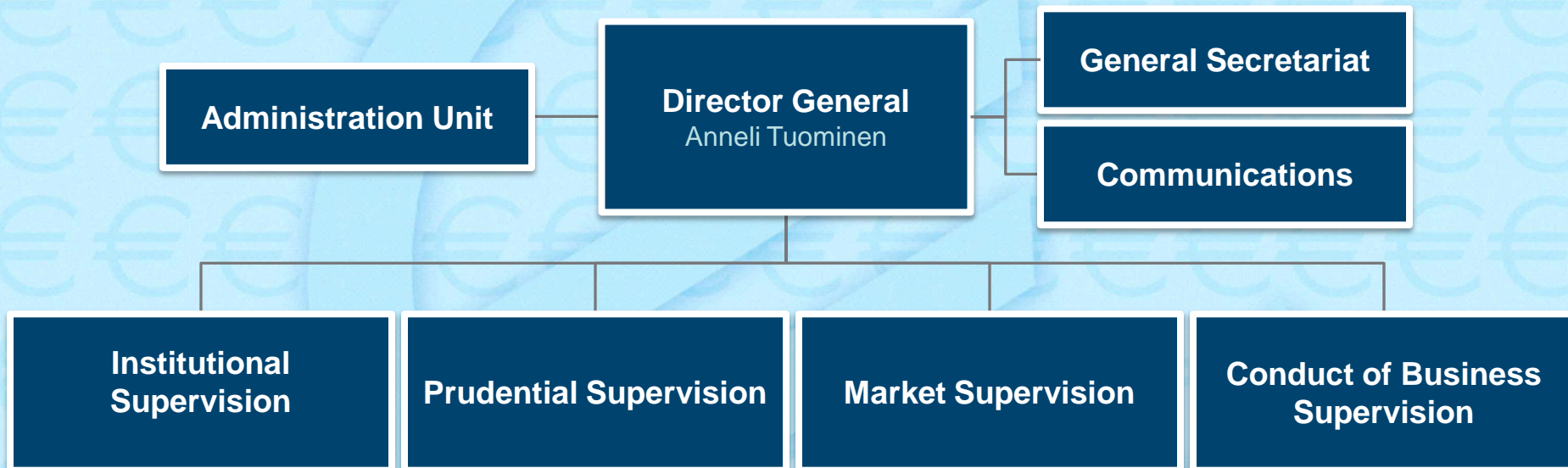
FIN-FSA's supervised entities

- ◆ Banks and other credit institutions
- ◆ Non-life, life and reinsurance companies
- ◆ Employee pension insurance companies
- ◆ Pension funds
- ◆ Pension, sickness and other insurance funds
- ◆ Unemployment funds
- ◆ Insurance brokers
- ◆ Other participants in the insurance sector
- ◆ Investment firms
- ◆ Management companies
- ◆ Central securities depository
- ◆ Stock exchange
- ◆ Payment institutions

FIN-FSA also supervises

- ◆ Listed companies' disclosure obligations and IFRS financial reporting
- ◆ Securities trading
- ◆ Disclosure obligations in respect of major shareholdings
- ◆ Securities offerings and public tender offers

FIN-FSA's organisation based on main functions



Institutional Supervision

- ◆ Responsible for building an overall picture of supervised entities' business, capital adequacy and risks
- ◆ Reviews applications for authorisation from banks and financial market participants
- ◆ Assesses internal governance and financial statements of supervised entities and the legality of their operations
- ◆ Responsible for coordinating international cooperation within colleges of supervisors

Prudential Supervision

- ◆ Responsible for supervising the risks and risk management of supervised entities
 - Supervision takes the form of inspections and analysis of regular reporting
- ◆ Responsible for analyses and reports on the financial situation and risks of supervised entities
- ◆ Responsible for research and systems development at FIN-FSA
- ◆ Responsibilities further include development of best practices for EU supervisory authorities and coordination of inspection activity

Market Supervision

- ◆ Supervises listed companies
 - Investor information
 - Securities offerings
 - IFRS Financial statements
 - Savings products and services
- ◆ Supervises functioning of market infrastructure
- ◆ Investigates potential market abuse
- ◆ As a member of Auditing Board of the Central Chamber of Commerce, takes part in supervisory work of auditors and its further development

Conduct of Business Supervision

- ◆ Responsible for supervising relationship between financial service providers and customers
 - Customer information, marketing of financial sector services, providers' conduct towards customer
- ◆ Approves banks' account terms and supervises insurance terms of insurance providers
- ◆ Supervision of customer information for the general public
- ◆ Review of the applications for authorisation and registration filed by investment firms, fund management companies and insurance brokers and of notifications for cross-border service provision
- ◆ Supervises activities of unemployment benefit funds

Intensification of international supervisory and regulatory cooperation

- ◆ Supports creation of EU's new supervisory framework
- ◆ Strengthens cooperation especially among Nordic supervisory authorities in order to cover all relevant risk areas
- ◆ Fosters division of labour between supervisors and specialisation within international colleges of supervisors
- ◆ Seeks to influence regulatory developments that are key to Finnish financial market stability, competitiveness and customer protection by actively participating in preparatory work at an early stage.

Benefits of the institutional arrangement



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Combination of macro
and micro prudential
oversight and supervision

No duplication of work

Common data, exchange
of information,
cooperation in analysis
and stress tests

Services provided by
Bank of Finland

FINANSSIVALVONTA
FINANSINSPEKTIONEN
FINANCIAL SUPERVISORY AUTHORITY





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Thank you for your attention