

***First Conference on Pension Regulation and
Supervision in Latin America***

San Jose, Costa Rica, 10-11 July 2003

**Structures of Supervision for
Pension Funds**

**Integrated Financial
Supervision**

***Edgardo Demaestri
Inter-American Development Bank***

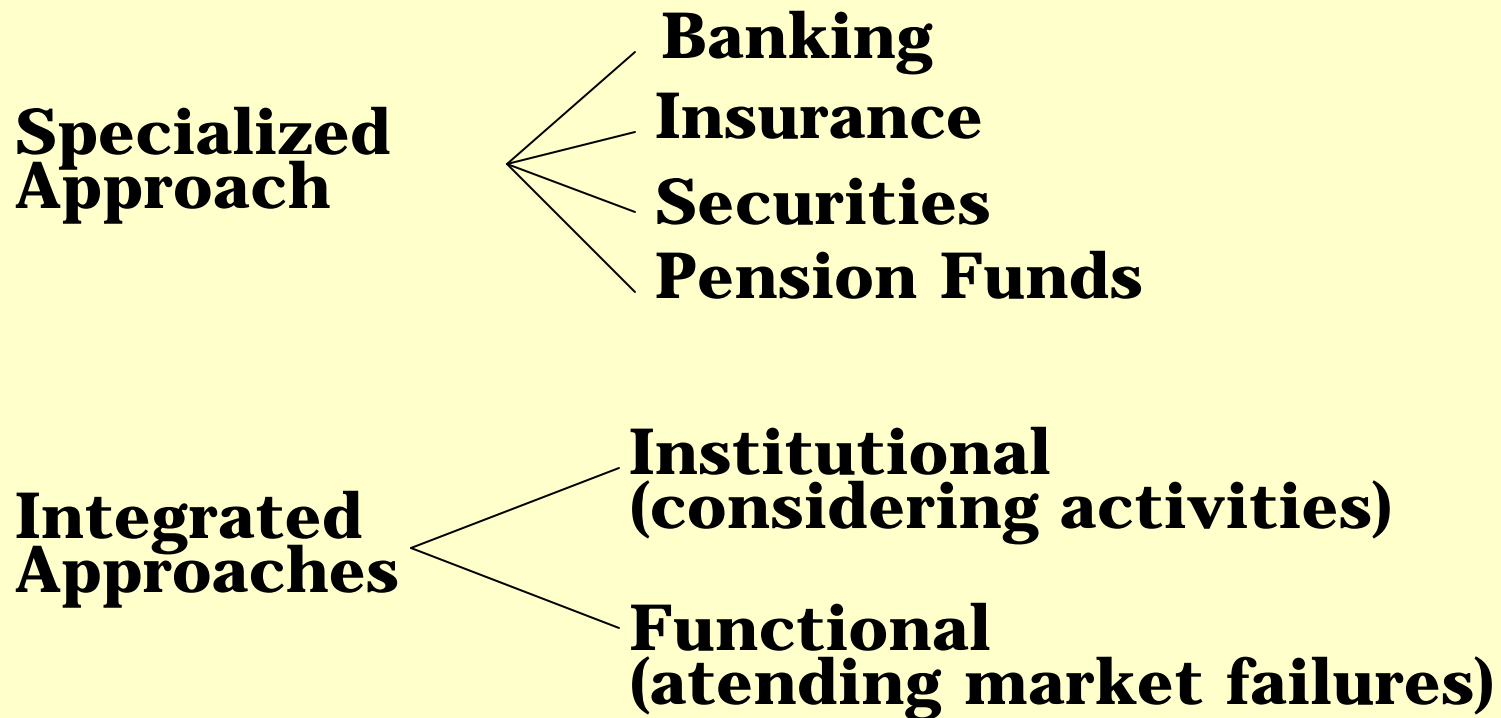
Objectives

- **Conceptualize Institutional Aspects of Financial Supervision**
- **Propose an Analytical Framework**
- **Analyze Costs and Benefits of Institutional Approaches for Supervision**
- **Provide Information of Experiences with Integration**

Plan of Presentation

- **Institutional Structures of Supervision**
- **Analytical Approach**
- **Objectives of Financial Regulation**
- **Arguments Against Integration**
- **Arguments for Integration**
- **Efficacy and Efficiency of Integration**
- **Country Experiences**
- **Effects of Pension Fund “Peculiarities”**

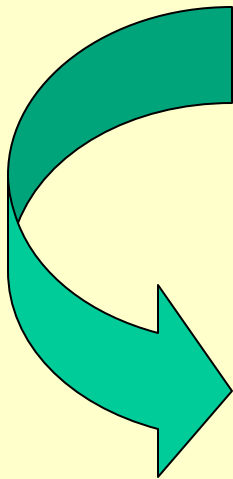
Institutional Structures of Financial Supervision



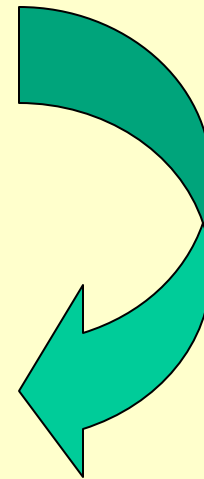
Analytical Approach

Efficacy

Efficiency



**Objectives
Financial
Regulation**



Objectives of Financial Regulation

- **Consumer Protection**
- **Systemic Stability**
- **Financial Sector Efficiency**

Main Arguments Against Integration

- **Moral Hazard**
- **Christmas Tree Effect**
- **Bureaucratic Leviathan**
- **Regulatory Capture**

Separation of Banking Supervision from the Central Bank

- **Issues Related to Monetary Policy**
 - **Costs – Benefits for Monetary Policy**
 - **Lender of Last Resort**
- **Issues Related to Banking Regulation**
 - **Coordination Difficulties**
 - **Availability of Information**
 - **Quality of Human Resources**

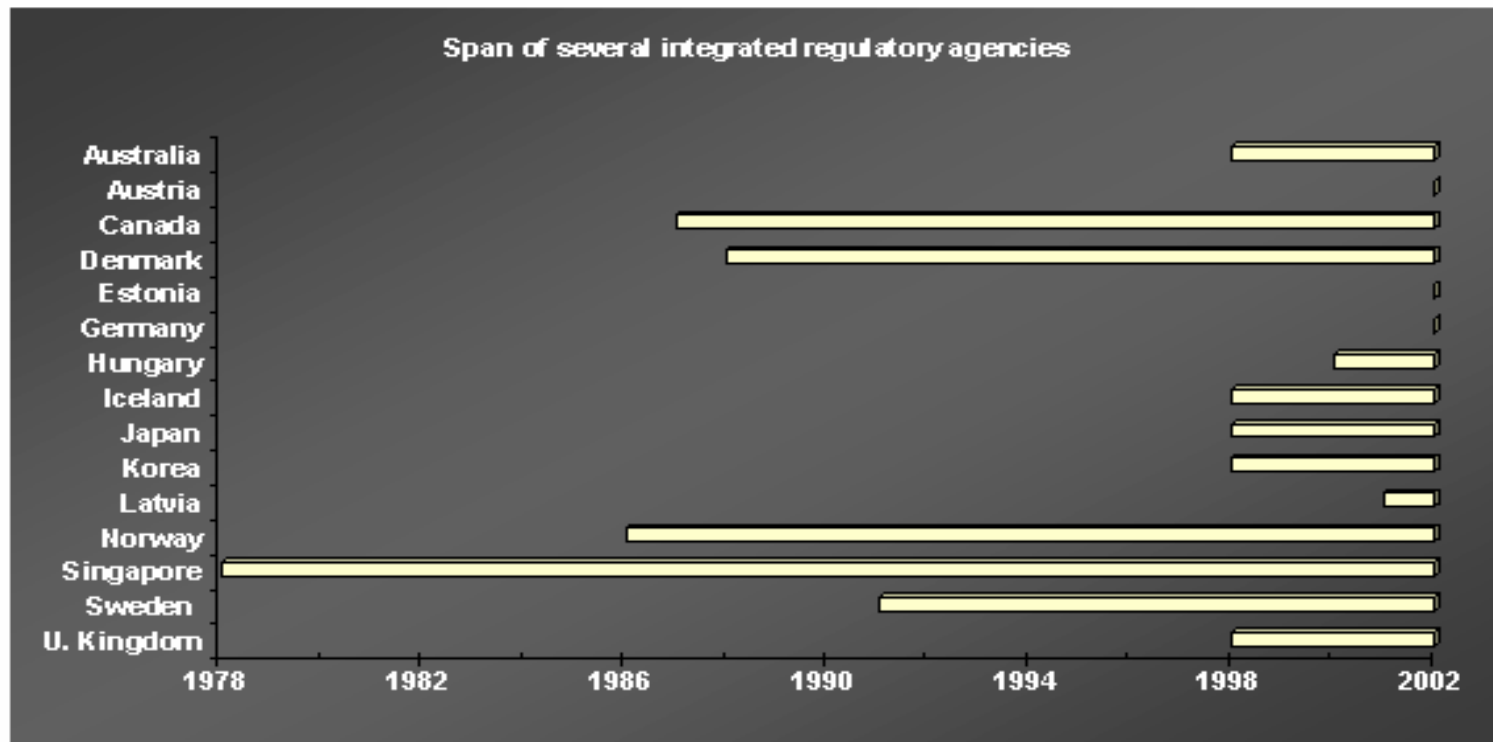
Main Arguments for Integration

- **Economies of Scale and Scope**
- **Prevalence of Financial Conglomerates**
- **Competitive Neutrality**
- **Transparency and Accountability**

Efficacy and Efficiency of Integrated Approaches to Fullfill Objectives

ISSUES	OBJECTIVES	INTEGRATED APPROACH	
		Efficacy	Efficiency
Moral hazard	Consumer Protection System Efficiency Systemic Stability	+/- + +	
Regulatory capture	Consumer Protection System Efficiency Systemic Stability	+ + +	+
'Christmas Tree' Effect	Consumer Protection System Efficiency Systemic Stability	+ + +	
Bureaucratic Leviathan	Consumer Protection System Efficiency Systemic Stability	+ + +	+/-
Separation from Central Bank	Consumer Protection System Efficiency Systemic Stability	+/- + +	
Economies of Scale and Scope	Consumer Protection System Efficiency Systemic Stability	+ + +	+
Financial Conglomerates	Consumer Protection System Efficiency Systemic Stability	+ + +	+ + +/-
Competitive Neutrality	Consumer Protection System Efficiency Systemic Stability	+ + +/-	+ + +
Transparency and Accountability	Consumer Protection System Efficiency Systemic Stability	+ + +	+ + +

Date of Establishment of Integrated Supervisory Agencies



Financial Activities Supervised by Integrated Agencies

Agencies	Banking	Insurance	Securities	Pension Funds
Australia	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	X	X	X	
Sweden	X	X	X	X
U. Kingdom	X	X	X	

Pension Fund “Peculiarities”

- **Importance of Regulatory Objectives**
- **Legal Forms of Pension Funds**
- **Taxonomy of Pension Funds**
- **Regulation of Pension Funds**

Relative Importance of Financial Regulation Objectives

Objectives	Banking	Insurance	Securities	Pension Funds
Consumer Protection	Middle Importance	Middle Importance	Low Importance	High Importance
Systemic Stability	High Importance	Low Importance	Low Importance	Low Importance
Financial Sector Efficiency	High Importance	Middle Importance	Low Importance	Middle Importance

Legal Forms of Pension Funds

- **Trust, Foundations or Mutual Funds**
- **Participation in Insurance Funds**
- **Bank or Insurance Company Accounts**
- **Accounts in Pension Fund Managing Companies**

Taxonomy of Pension Funds

- **Public or Private Sector Plans**
- **Mandatory or Voluntary**
- **Defined Contribution or Defined Benefit**
- **Occupational or Personal**

Regulation of Pension Funds

Prudential Regulation

Vs

Conduct of Business Approach

Reactive

Vs

Proactive