

## **Risk in Financial Conglomerates: Management and Supervision**

**Iman Van Lelyveld and Arnold Schilder**

Financial conglomerates, combining banking, securities trading, and insurance, have become an important part of the financial landscape in many countries. Cross-sector consolidation has been fostered by trends such as disintermediation, globalization, and deregulation, creating new challenges for both the group's management as well as for regulators. We discuss the theoretical reasons why supervisors are interested in the riskiness of a financial firm and why-for firms-a similar concern emerges from the theory on risk management, both from a market and a firm perspective. After describing the Dutch institutional setup, we turn to the discussion of the following question: How can a supervisor devise a framework of supervision that does justice to a financial conglomerate's own responsibility and, at the same time, safeguards the general public's interest? The framework, we feel, should be similar in flavor to the Supervisory Review, as proposed in the new Basel accord.