Cross-Sector Supervision: Which Model?

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The organizational structure of financial supervision is, or has been, under revision in many countries-including the United Kingdom, Germany, the Netherlands, the United States, and Australia-in response to market developments. Several papers have been written about the different models adopted, either promoting a single model in isolation or comparing different models and concluding that there is no uniform best model, but that each should be seen within the context of its own financial system. The purpose of this paper is to take the analysis one step further by focusing on the key question as regards the organizational structure: what are the pros and cons of combining different supervisory activities within one organization? In this context, we start by briefly describing the old and new Dutch supervisory models. The question is how did we arrive at the new model? To answer this question, we take a closer look at financial market developments. We then compare cross-sector organizational models for financial supervision. We introduce a new framework for comparing these models and apply it to the functional model of the Netherlands and the integrated model of the United Kingdom. While confirming the familiar conclusion that there is no uniform best model, this paper also systematically investigates the trade-offs involved in different organizational structures.