Nout Wellink: 50th anniversary of the Dutch Act on the Supervision of Credit Systems

Opening remarks by Mr Nout Wellink, President of De Nederlandsche Bank and President of the Bank for International Settlements, at the conference on the occasion of the 50th anniversary of the Dutch Act on the Supervision of Credit Systems, Amsterdam, 24 April 2002.

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It is a great privilege to welcome you here in Amsterdam at the conference 'Banking Supervision at the Crossroads'. This conference has been organised to celebrate the adoption of the Act on the Supervision of the Credit System in the Netherlands 50 years ago. That was when banking supervision in our country was first formalised. It replaced a system of voluntary arrangements between De Nederlandsche Bank and the private banks. In my opening remarks today, I will look back at the past half century, that has taken us from informal gentlemen's agreements to the phenomenal complexity of Basel II. We still aim for agreement and most of the time try to behave like gentlemen, but the world has become a different place. And it will continue to change rapidly! The question we are faced with is how supervisory practices should respond and in particular - and that is the theme of the conference - to what extent they should converge.

I am very happy that we have a number of prominent speakers that are willing to shed light on this important question. First of all, I must inform the audience that due to unforeseen obligations in Parliament, Minister Gerrit Zalm will unfortunately not be able to join us this afternoon. However we are happy that in his place Mr Kees van Dijkhuizen is willing to deliver the keynote speech this afternoon. As the highest civil servant at the Ministry of Finance, Mr. van Dijkhuizen takes a keen interest in financial supervision in this country.

We furthermore are very honoured to have in our midst Mr William McDonough, President of the Federal Reserve Bank of New York and chairman and of the Basel Committee on Banking Supervision, Mr Jochen Sanio, Chairman of the new Federal Office for the Supervision of Financial Services in Germany and Mr Tom de Swaan, Chief Financial Officer of ABN AMRO.

As mentioned, the Dutch Act on the Supervision of Credit Systems formalised the supervisory task of De Nederlandsche Bank. It was a response to the major changes in the financial and economic environment that took place between the two World Wars. The banking crises of the nineteen twenties, the Glass Steagall Act in the United States, the growing role of the banking sector in the economy: they all made it clear that a sound functioning of the banking system was too important to be arranged informally. In this respect it is noteworthy that supervision on the insurance sector was formalised even further back in time and exists almost 80 years now. But, of course, in the decades that have passed since then the financial environment has kept on changing, and with it the challenges that supervisors face. Two trends have been particularly prominent in the past decades. The first is the enormous increase in cross-border activities made possible by the liberalisation of capital markets. The second is the blurring of the borderlines between banking, insurance and securities activities. These fundamental developments are the driving force behind the increasing need for convergence of supervisory practices across borders and sectors.

Let me illustrate by looking at our experiences in the Netherlands. The international dimension of our major financial institutions has increased dramatically. As a result, in some cases nowadays more than half of assets and profits are related to activities in foreign countries. There are no signs that the internationalisation of the financial industry will slow down, rather on the contrary. In a world where national financial systems and institutions are increasingly dependent upon one another, it is obviously crucial for financial stability that high and comparable supervisory standards are maintained everywhere.

This has long been recognised in the field of banking regulation. Indeed, it was reflected in the establishment and the work of the Basel Committee, as well as in the work of the European committees in this field. In this context I would like to express my great respect for the leadership shown by Bill McDonough in steering the ship 'Basel II' through stormy seas to a save haven. This difficult task could not be in better hands than those of a former US Navy officer! Importantly, as part of Basel II, there is wide recognition that besides having convergence in regulation, it is equally important that supervisory practices (the implementation of the rules!) converge. The creation of the Accord

Implementation Group by the Basel Committee, and the work being done by the Groupe de Contact in Europe reflect this understanding.

It is important to keep in mind that the importance of cross-border convergence is not confined to the banking industry. It equally applies to other parts of the financial sector, such as insurance. This brings me to the other main trend that I mentioned, i.e., the blurring of the borderlines between banking, insurance and securities activities.

Here too, the development in this country is a case in point. We have been frontrunners when it comes to financial conglomerates or bank assurance, institutions that combine banking, insurance and securities activities. As is well known, the Netherlands houses a couple of world's major internationally active financial institutions. Most of the major Dutch banks currently combine banking, insurance and securities activities. The emergence of these conglomerates was made possible by the lifting, in 1990, of the prohibition on combining banking and insurance activities in one financial institution.

As the importance of cross sectoral financial activity increases, so does the need of the supervisory response. The main challenge in this field is to achieve a consistent approach in the supervision at the group level as well as at the level of the entities within the conglomerate. Consistency does not imply that the approaches should be identical. It should be interpreted as avoiding the potential for regulatory arbitrage as well as regulatory overlap.

Again, we try to take the lead in the way we organise supervision in the Netherlands. Co-operation between bank and insurance supervisors dates back to the early nineties and has performed well. Nevertheless in anticipation of a continuation of the trend that I have described, we have come to the conclusion that a cross sectoral approach to supervision is the right way forward. In this approach we make a clear distinction between prudential and conduct of business supervision. It assigns the responsibility for these inherently different objectives to separate authorities.

This is not to say that this is the only way to address this challenge. It depends on the specific characteristics of the financial sector in a country which design is best suited. In our case, for instance, we have a highly concentrated financial sector with institutions that are, almost by definition, systemically relevant. As a consequence we considered it essential to link prudential banking supervision with the central bank and its other functions such as oversight of the payment system and providing lender of last resort facilities. But as I said, circumstances and the solutions chosen will vary from country to country. This is fine, as long as the approaches have at least one thing in common: they should be designed with the aim of ensuring consistency. Consistency not only in regulation, but also in supervisory practice. This is an important precondition for achieving a level playing field for the international financial industry.

Let me add, as a final observation, that in achieving this goal, there is an important complementary role to be played by market discipline. Meaningful disclosure by financial institutions is a potentially powerful tool in furthering the cause of a level playing field between countries and across institutions.

Ladies and gentlemen, let me conclude.

Looking back in history, we are a far cry now from where we were fifty years ago, when our predecessors introduced formal banking supervision in the Netherlands. Looking forward into the future, I am pretty sure that our successors will not be celebrating the centenary of the Act on the Supervision of Credit Systems, or even the centenary of insurance supervision 20 years from now. We will have entered a cross sectoral world long before then! And as to the topic they will be discussing, that could well depend on the turning we take on the crossroads that we are at now.

Thank you for your attention. I wish you all an interesting and entertaining conference.