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Organizational Alternatives for Supervisors

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Contents

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Introduction[1]

Financial supervisors can be responsible for meeting a wide range of supervisory objectives. Their objectives might be prudential in nature, such as mitigating risk to the financial system, promoting the safety and soundness of financial institutions, and protecting their customers or investors from undue loss. But their objectives might also be related to the operation of markets: maintaining the fairness and efficiency of markets, promoting market development, and advancing financial inclusion. The mandates of some supervisors focus on just one or a few of these objectives, while other supervisors might be expected to deal with the full range.

Similarly, the scope of some supervisors extends across the entire financial system, while others are limited to a particular sector or subsector. Some supervisors cover a wide geographic area, perhaps even beyond national boundaries, while the jurisdiction of others is limited to a political subdivision of their country.

In spite of this diversity, all supervisors have at least one thing in common: they need to organize themselves in a manner that will help them to achieve their supervisory objectives. Appropriate organizational choices can enable supervisors to identify and respond to risks in order to achieve their objectives. But a dysfunctional organization can impair a supervisor's ability and willingness to act effectively and efficiently, and cause their failure to achieve supervisory objectives.

Objectives

No organization is perfect. Each organizational alternative comes with trade-offs to be weighed. For example, many countries are consolidating the supervision of various sectors within one agency. This can offer a range of benefits, such as greater operational efficiency and lower risk of supervisory gaps and overlaps. However, as research has shown, it is not a panacea:

> *"Our findings leave little doubt: consolidation in supervision and good supervisory governance are negatively correlated with resilience; the degree of involvement of the central bank in supervision did not have any significant impact on resilience. Finally, the impact on resilience of the supervisory regimes is deeply intertwined with the quality of public sector regulation in general, and with the degree of financial liberalization in particular. Each supervisory feature can have a different impact depending on the overall setting."*[2]

Organizational alternatives exist at several levels. The broadest level is the institutional architecture, which defines the institutions involved in supervision and their respective responsibilities. Another level is the organizational structure within a particular supervisory institution; this structure might be the way its staff have been organized into various departments. This can be extended, for example, to alternatives for organizing the work processes within and among departments, and to alternatives for managing human resources and organizational culture.

This note is designed to help guide a supervisor toward making appropriate choices when considering the suitability of organizational alternatives in the context of its particular circumstances. The next section of the note discusses the role that supervisory objectives and international standards might play when considering organizational alternatives. It is followed by sections that discuss organizational alternatives at each of the levels mentioned above: institutional architecture, organizational structure, and other issues.

[1] This note was prepared by Michael Hafeman on behalf of Toronto Centre.
[2] See IMF, 2011, "The Economic Crisis: Did Financial Supervision Matter?" page 22.

Supervisory Objectives and International Standards

To be successful, any organization–-including financial supervisors and the entities they supervise–-should have clear objectives, a way to identify risks to the achievement of those objectives, and a well-organized way to achieve the objectives.

Supervisory objectives should be a fundamental point of reference when assessing organizational alternatives. Would the proposed alternative achieve its objectives, or would it impede the supervisor in attaining their success? Would a different approach be even better? Unfortunately, answering such questions is not always straightforward. Supervisory objectives are typically driven by legislation, which is not always clear. Also, as highlighted above, some supervisors can be responsible for a wide range of objectives. These objectives sometimes compete for attention and resources, and might even conflict with one another. So an organizational alternative might enhance the achievement of one objective, while detracting from the achievement of another. Compromises might have to be made, but such decisions should at least be informed by an assessment of their potential effects on the success of the supervisor.

In assessing the success of financial supervisors in the aftermath of the Global Financial Crisis, the IMF identified two main drivers of supervisory effectiveness: an ability to act, and a willingness to act.[3] It noted that the *ability* to act is enhanced by factors such as:

- legal authority
- adequate resources
- clear strategy
- robust internal organization (where decision-making processes are well-defined and supervisors are accountable), and
- effective working relationships with other agencies.

The *willingness* to act is enhanced by factors such as:

- a clear and unambiguous mandate
- operational independence
- accountability
- skilled staff
- a healthy relationship with industry (where the supervisor is able to dialogue with industry, but maintain an arm's-length relationship), and
- an effective partnership with boards.

The factors mentioned by the IMF are reinforced by the international standards for financial supervisors.[4] Although the international standards differ from one another to take account of the unique characteristics of each financial sector, there is considerable commonality in their expectations regarding the operation of supervisory institutions. They highlight the need for a clear supervisory mandate and objectives, operational independence, adequate powers and resources, skilled staff who observe high professional standards, clear and consistent processes, accountability, transparency, protection of confidentiality, and the exchange of information with other supervisors.

[3] See IMF, 2010, "The Making of Good Supervision: Learning to Say 'No'."
[4] See BCBS, 2012, "Core Principles for Effective Banking Supervision"; IAIS, 2015, Insurance Core Principles; IOPS, 2010, "Methodology for Review of Supervisory Systems using IOPS Principles"; IOSCO, 2013, "Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation"

Consideration of these identified success factors and international standards might raise many questions, the answers to which can help to guide decisions regarding organizational alternatives. For example, would a proposed change in organizational structure help to enhance the clarity and consistency of supervisory processes? Would it contribute to the ability to attract, develop, and retain skilled staff? Would it enable the organization to make use of its limited resources more flexibly and effectively? Would it facilitate the exchange of information with other supervisors, both within the organization and externally?

Accordingly, it can be useful to develop a set of criteria that you can use in assessing various organizational alternatives. The criteria should reflect your own supervisory objectives and other organizational objectives and constraints, such as service standards and budget constraints. The criteria should also reflect the scope of your considerations; for example, the criteria that are relevant when considering institutional architecture will probably differ from those that are relevant when considering organizational structure, or the way tasks are allocated within a department.

Institutional Architecture

The institutional architecture identifies the institutions involved in supervision, and defines their respective responsibilities. Although they can greatly affect the way financial supervision is carried out, decisions regarding the institutional architecture are typically made by politicians and other policy-makers, rather than the supervisors themselves. Nevertheless, supervisors might be able to influence decisions regarding institutional architecture. But even if their influence is limited, they still have to live with the outcome of these decisions. So it is useful for supervisors to understand the various alternatives and their potential implications on the conduct of supervision.

The institutional architecture in a jurisdiction often evolves over time and can become quite complex. It will reflect the history, politics, and culture of the jurisdiction. If it is to be effective, it should also be appropriate to the level of economic development of the jurisdiction, the nature and scope of its financial system, and the financial and human resources available to carry out supervision. For example, if there are no publicly traded securities or private-sector pension plans in a jurisdiction, then it might well be inappropriate to establish separate institutions to regulate and supervise the securities and pensions sectors.

Complexity in the institutional architecture can take various forms. In some cases, there are supranational arrangements through which at least some aspects of supervision are carried out at a regional level; examples include the European Union-level supervisory institutions, bank supervision in the Eastern Caribbean region, and insurance supervision in francophone West Africa. In other cases, the responsibilities for supervision within a jurisdiction might be shared between institutions operating at the national level, and those operating within a political subdivision. Responsibilities for the supervision of various financial sectors might be handled by separate institutions, integrated into a single supervisory institution, or something in between. Responsibilities for the supervision of a financial sector might be handled by the same institution responsible for its regulation, or not. Banking supervision might be handled by the central bank, or by a different institution, or shared between them. Conventional banks and insurers might be supervised by one institution, while microfinance entities and microinsurers are supervised by another. Prudential supervision and market-conduct supervision might be carried out by the same institution, or separately. Responsibility for macroprudential supervision might be assigned to one institution, or handled through collaboration among several supervisory institutions, the central bank, and the finance ministry. In some jurisdictions, some aspects of supervision are carried out by self-regulatory organizations and consumer protection schemes, such as deposit insurers. Almost certainly, there are other forms of complexity than those mentioned above. Accordingly, before considering any significant changes to the institutional architecture, it is essential that policy-makers have a clear picture of the current architecture and understand any legal, or other, constraints to changing it.

Much has been written about various institutional architectures and their advantages and disadvantages: For instance,-a document prepared by the OECD provides general guidance on designing a policy framework for financial regulation, including the institutional architecture,[5] and suggests several principles for design: maximize synergies (of policy objectives, policy instruments, information, expertise, and administration); ensure consistency and coherence in the use of policy instruments; align incentives and minimize potential conflicts; promote accountability; and minimize risks for the taxpayer. These principles reinforce and expand upon the possible criteria for assessing organizational alternatives that were discussed in the previous section of this note.

A G30 Report Identifies Four Basic Models:

Institutional, functional, integrated, and twin peaks, and discusses the advantages and disadvantages of each, the highlights of which are described below. This comprehensive report compares and analyzes the approaches to institutional architecture taken in 17 jurisdictions.[6]

(1) Institutional

The institutional model assigns supervisory responsibilities based upon the legal status of the financial institution. There are separate supervisors for banks, insurers, pension plans, and securities firms.

An advantage of the institutional model is that each financial institution is supervised by just one supervisor. This enables the supervisor to focus on a single sector, and to develop a high level of knowledge about its operations and expertise in supervising it. Each financial institution deals with the same supervisor on every issue, which helps to keep things simple. Traditionally, this has been the most commonly used model.

Unfortunately, the institutional model is not responsive to the current market situation in most jurisdictions. Product lines have been blurring across institutional lines, which creates possibilities for regulatory arbitrage. Also, in many jurisdictions, financial institutions are members of groups that include institutions from other sectors. They might share staff, systems, and business activities among the various institutions within the group. A supervisor whose scope is limited to a particular type of financial institution might therefore have difficultly forming a complete picture of the risks to which that institution is subject. Assessing the risks of the group as a whole, and taking action in response to those risks will require cooperation among the various supervisors responsible for the members of the group. From the point of view of the group, it must deal with multiple supervisors, perhaps even on the same issues. This model can also make it difficult to identify and mitigate systemic risk.

(2) Functional

The functional model assigns supervisory responsibilities based on the business being transacted, without regard for the legal status of the financial institution. For example, if a single entity is engaged in banking, securities, and insurance activities, each of these lines of business is overseen by a different supervisor.

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[5] See OECD, 2010, "Policy Framework for Effective and Efficient Financial Regulation, General Guidance and High-Level Checklist"
[6] See G30, 2008, "The Structure of Financial Supervision, Approaches and Challenges in a Global Marketplace."

The key advantage of the functional model is that it facilitates consistent treatment of activities. Supervisors can develop technical expertise on particular business activities, and thus might reduce the potential for regulatory arbitrage.

However, business activities must be delineated clearly enough so that their supervisor can be determined. Each entity might be monitored by multiple supervisors, and disputes among the supervisors might impede product innovation. The involvement of multiple supervisors might also make it difficult to develop an overview of the risk profile of an entity, a financial group, or the market as a whole.

(3) Integrated

The integrated model has a single supervisor, who is responsible for all aspects of supervision, across all sectors.

Consolidating all supervision within one supervisory institution deals with many of the disadvantages of the institutional and functional models. It helps to ensure a level playing field in the market and to reduce the opportunities for regulatory arbitrage. It helps the supervisor to develop risk profiles of individual entities, financial groups, and the system as a whole. Since each entity and group deals with only one supervisor, this model should facilitate communication and help to reduce the regulatory burden. It also provides opportunities for the supervisor to take advantage of economies of scale, and to achieve synergies in the use of skilled staff. Accountability is enhanced, because it is always clear which supervisor is responsible for any supervisory failure. These advantages have led many jurisdictions to move toward an integrated model.

But the integrated model can also pose some challenges. Balancing multiple supervisory objectives with respect to a single sector can be hard enough, but doing so across all financial sectors is even more difficult, particularly in maintaining focus. In a larger jurisdiction, the scope of responsibilities of an integrated supervisor might be too big to manage effectively. In this model, the need to communicate among various supervisory institutions is replaced by the need to communicate across divisions within the institution, which can be no less challenging. A trade-off for the enhanced accountability for supervision is the concentration of the risk of supervisory failure. A poorly managed integrated supervisor could compromise the safety of the financial system as a whole, not just a particular sector.

(4) Twin Peaks

The twin peaks model separates supervisory responsibilities in accordance with supervisory objectives. One supervisory institution is responsible for prudential supervision, across all sectors. Another supervisory institution is responsible for market-conduct supervision, across all sectors. A variation of this model splits the responsibilities for prudential supervision, with one supervisory institution dealing with microprudential supervision and another with macroprudential supervision.

Separating supervisory responsibilities in accordance with supervisory objectives deals with some of the challenges of the integrated model. It enhances the supervisors' ability to focus on more consistent, supervisory objectives, and helps to ensure that market conduct receives adequate attention. It can help to keep the size of the supervisory institutions more manageable, reduce the concentration risk of supervisory failure, and provide a "second set of eyes" that can help to identify risks in the financial system. These advantages have led some jurisdictions, such as the United Kingdom, to move from an integrated model to a twin peaks model.

The twin peaks model means that each financial institution will be supervised by two supervisors, perhaps even with respect to some of the same business activities. The demarcation between prudential and market-conduct issues is not always clear, and this might lead to supervisory gaps or overlaps. The supervisors will need to communicate with one another to form an overall view of an entity or a group, and their conflicting objectives might make it difficult to agree on intervention actions.

It is clear that no model of institutional architecture is perfect. The situation in a particular jurisdiction will affect the relative importance of the various advantages and disadvantages of the models. For example, if the financial system in a jurisdiction is relatively small and simple, the synergies available through the integrated model might make it the most appropriate alternative. But if the financial system is large and complex, the twin peaks model might be more appropriate. A jurisdiction in which there are no financial groups operating might find the institutional model or the functional model most appropriate, whereas a jurisdiction in which the financial system is dominated by financial groups might opt for the integrated model or the twin peaks model.

But there is no need to adopt any one of these models of institutional architecture in its entirety. In fact, there are probably relatively few jurisdictions that have done so. The approaches can be mixed to develop hybrid models that will best respond to the situation in a particular jurisdiction. For example, the banking and securities sectors might be supervised by the central bank, while the insurance and pensions sectors are supervised by another institution. Or the central bank might be responsible for microprudential supervision of banks and for the coordination of macroprudential supervision, while another institution is responsible for microprudential supervision of non-bank financial institutions and the supervision of market conduct across all sectors. In a growing number of jurisdictions, macroprudential supervision is led by one institution, such as the central bank, and carried out collaboratively with the finance ministry and the financial supervisors, wherever they might be situated.

Organizational Structure

The next level at which organizational alternatives might be considered is the organizational architecture of a particular supervisory institution. Conventionally, organizational architecture consists of the formal organization (organizational structure), informal organization (organizational culture), business processes, strategy, and human resources.[7] This section will focus on organizational structure, such as the way staff have been organized into various departments. Supervisory objectives, which should help to drive strategy, were discussed in an earlier section, while the other aspects of organizational architecture will be touched on in both this section and the next.

Organizational Structures can be categorized into Three Basic Types:

Pre-bureaucratic, bureaucratic, and post-bureaucratic.[8] Most supervisory institutions have bureaucratic structures, although some small ones might be of the pre-bureaucratic type. Pre-bureaucratic structures are common in smaller organizations, although they are most appropriate when the tasks of the organization are simple in nature, which financial supervision is generally not. Such organizations are typically characterized by centralized control and little standardization of the tasks.

Bureaucratic structures are commonly used by larger and more complex organizations. They often have a vertical structure, sometimes with many (too many) layers of management. There is a degree of standardization of the tasks, and staff are given clear, defined roles and responsibilities. There is respect for merit, and good performance is rewarded. Such structures work particularly well with a command-and-control style of management, the acceptability of which might differ by jurisdiction. Bureaucratic structures can discourage innovation, although this is probably less of a concern for a financial supervisor than it would be for a financial institution or other commercial enterprise.

[7] See Wikipedia, "Organizational Architecture".
[8] See Wikipedia, "Organizational Structure".

Some supervisory institutions fall into the post-bureaucratic category. Such organizations are still structured, but the structure might be flatter and less oriented toward a top-down approach to decision-making. For example, the organization might have a matrix structure, which is a way of combining the functional and divisional approaches. A post-bureaucratic type of organization is suited to a management style that seeks to involve and motivate staff in the achievement of organizational objectives, using techniques such as total-quality management, and the management of organizational culture.

There are Two Main Types of Bureaucratic Structures: Functional and Divisional.

Functional Structures:

- **are organized in accordance with the various functions carried out by the organization.** Functional structures are common among supervisory institutions, particularly those that supervise a single sector. For example, the structure might include three main departments: regulation, supervision, and administration.
- An advantage of a functional structure is that the staff within each department specialize in a particular function, so they will become efficient in certain tasks.
- A disadvantage of such a structure is that communication is often upward and downward within the organization, which can compromise cooperation among the various departments.

Divisional Structures:

- **are organized into self-contained divisions, each of which carries out a full range of functions.** For example, an integrated supervisory institution might include divisions such as banking, insurance and pensions, capital markets, and non-bank financial institutions. Each division would carry out regulation, supervision, and administration functions related to its assigned financial sector. Another integrated supervisor might choose to organize itself according to its supervisory objectives. In this case, for example, its divisions might include macroprudential supervision, microprudential regulation and supervision, market-conduct regulation and supervision, and market development.
- The advantage of a divisional structure is that it can be more readily aligned with supervisory objectives and the structure of the financial system than a functional structure can be. Such a structure also tends to be more flexible than a functional structure and facilitates the delegation of authority. It is still possible to develop specialized functional expertise within a division, while at the same time obtaining a broader understanding of the area of supervision assigned to it.
- The disadvantages of such a structure are the potential for rivalries among divisions and the possible duplication of resources and efforts. For example, other divisions might believe that banking supervision receives a disproportionate share of attention and resources. Or the development of separate supervisory information systems by each division can be a poor use of scarce resources.
- **Supervisors often develop organizational structures that are hybrids of the functional and divisional models.** They do so to try to capture the advantages of each, while minimizing the disadvantages. For example, an integrated supervisor might be organized into the following main divisions: regulation and enforcement; finance, administration, and technology; market development and communication; supervision of financial groups; supervision of independent financial institutions; supervision of pensions; and supervision of capital markets and intermediaries. The first three divisions would conduct activities related to all financial sectors and the needs of the entire organization.

The Matrix Structure:

- **is a hybrid in which an individual or work unit might report to two managers, one responsible for a function and the other responsible for a division.** For example, the bank supervision unit might report to both the head of supervision (who is also responsible for the supervision of other sectors) and the head of the banking division (who is responsible for all banking-related matters, including regulation, supervision, enforcement, market conduct, and market development).

- Matrix structures can operate more horizontally than either functional or divisional structures, so that communications are quicker. They also facilitate the development of specialized expertise and the selection of the most suitable individuals to deal with a particular issue.
- However, matrix structures can be quite complex, and individuals might be torn between the competing demands of more than one manager. Such structures typically have a higher ratio of managers to workers than do functional or divisional structures, which can be costly.

Organizational Design involves both Differentiation and Integration

Differentiation means dividing the work of the organization into reasonable tasks. **Integration** means coordinating the activities of the organization into a meaningful whole. For example, a supervisory institution might **differentiate** supervisory activities into off-site analysis and on-site inspection. But to be effective, it needs to have mechanisms for coordinating the off-site and on-site supervision activities and the **integration** of the findings into its risk assessments. Sometimes this might be done by grouping organizational units with similar orientations and tasks; for example, having both the off-site and on-site units report to the same manager. But this might also be done by using a matrix structure or forming supervision teams with representatives of relevant units.

Criteria for Organizational Design

When considering alternative organizational structures, it is obviously important to assess how well they support the criteria you have established, whether related to supervisory objectives, international standards, or other objectives and constraints. There are also some general criteria for organizational design that might usefully be considered:

- Simplicity: Keeping the structure as simple as possible helps those within the organization, and those outside it, to understand who is responsible for what. It can also help to enable decision-making and the simplification of business processes.
- Flexibility: The structure should help the organization to adapt to changing circumstances, such as evolution in the financial sector, seasonal workloads, and dealing with crisis situations.
- Reliability: The structure should support effective supervision, with consistent and high quality outcomes. For example, a centralized, information-technology department might be best able to develop the expertise needed to develop and maintain systems that will support data collection and analysis, and the management of supervisory workflow.
- Economy: All organizations have limitations on their resources, so it is important that they operate efficiently.
- Acceptability: The structure of the organization should be acceptable to those who deal with it, particularly those who work within it from day-to-day, but also those on the outside.

Although the structures of supervisory institutions might follow one of a few basic models, the potential variations are almost infinite. It can be useful to learn from the experiences of other supervisors in structuring and governing their organizations, as you consider alternatives for your own. In addition to speaking with other supervisors, reading their annual reports, and reviewing their websites, international organizations can be sources of examples and comparative information. For example, the IMF produced a paper that examined the governance practices of regulatory and supervisory institutions.[9] The IOPS has published several working papers on the organization of pensions

[9] See IMF, 2009, "Governance Practices at Financial Regulatory and Supervisory Agencies".

supervisors.[10] And the reports on the observance of standards and codes that are prepared as part of the Financial Sector Assessment Program (FSAPs) of the IMF and the World Bank often include information about how supervisors are structured and governed, and how they operate.[11]

Other Issues and Alternatives

As complicated as they might be, the issues of institutional architecture and organizational structure might not be the most difficult challenges involved in creating an effective supervisory institution. Supervisory institutions, like any other type of organization, are operated by people. Getting enough capable people into place, and getting them to work together to achieve the objectives of the organization, involves much more than just drawing appropriate boxes on an organizational diagram. This section will briefly discuss just a few of the challenges in doing so.

Attracting and retaining enough capable people to meet the needs of the organization is a significant challenge for many supervisors. Budgets, staffing levels, and salary ranges are often constrained, which can make it very difficult to compete with financial institutions for staff. Also, it might be very difficult to find people with specialized technical expertise, such as actuaries, in the local market. Supervisors have used a variety of techniques, such as the following, to deal with these issues:

Hire a mix of new graduates, or relatively inexperienced people, and those with long industry experience or specialized expertise.

Sometimes, experienced people near the ends of their careers welcome the chance to apply their knowledge and experience in a different setting, particularly one that provides a public service, such as financial supervision. They not only contribute directly to dealing with difficult issues, but also help to train and mentor the less experienced staff on technical matters, industry operations, and management issues.

Establish groups of technical specialists within the organization.

For example, there might be groups of specialists on actuarial matters, accounting, investments, information technology risk, capital, and anti-money laundering. The specialists work with regulation and supervision staff on policy issues, off-site analysis, and on-site inspection. They also provide a valuable training resource.

Use outside experts.

The reasons for doing so might include the following: dealing with gaps in internal resources, taking action more effectively and efficiently, obtaining information or advice, solving problems, permanently improving organizational effectiveness and efficiency, and building capacity through training and development.[12]

Use project teams and committees.

There can be many reasons that people need to work together with others outside their departments, or on tasks different than their usual assignments. For example, they might need to implement an action plan to develop new supervisory methodology, or to collaborate to supervise

[10] See, for example, IOPS, "Structure of Pension Supervisory Authorities and Their Approaches to Risk-Based Supervision".
[11] See the IMF or World Bank websites and search by jurisdiction.
[12] For more information on this topic, see the Toronto Centre's Supervisory Guidance Note, 2012, "Using Outside Experts."

a financial conglomerate.[13] The mechanism and governance structures used can vary with the nature and scope of the activity. For example, if an action plan is being implemented by three staff within a single department, one of them could be designated as project leader and be required to submit a one-page progress report to the head of the department each month. If the implementation of an action plan calls for significant resources, or involves people from different departments, the governance structure might include a project team, a steering committee, and senior management. Project teams and committees can be formed as needed and dissolved when their assignments have been completed.

Implement a multifaceted training strategy.

Even the smallest supervisory institutions often make use of a wide range of training and development opportunities. The regional and international programs offered by the Toronto Centre and other organizations are often an important part of the training strategy, particularly for the development of the staff members who are considered to have the highest potential. But an effective training strategy should also incorporate elements such as an induction program for new staff, self-directed learning that makes use of international supervisory materials, on-the-job training, internal training seminars led by staff, internal training seminars led by outside experts, and the certification and continuing professional development programs of professional bodies.

Reward good performers.

Regular performance assessments can help to identify the best performers among the staff. It is good practice to establish individual performance objectives for each individual and to tailor their training and development plans to help them achieve their objectives. In most jurisdictions, supervisors can reward the best performers by paying them at the high end of the salary range for their position. Some supervisors also pay bonuses based on the achievement of individual and organizational objectives. But good performers can also be rewarded in ways other than financially. For example, they might be assigned to work on the project team that is leading the implementation of a key action plan. They might be rotated among positions, or departments, to provide help them develop wider and deeper expertise, which should benefit both them and the organization as a whole.

Organizational changes, even those that are well-considered and supportive of the organization's objectives, can be disruptive and should be actively managed.

Organizational changes can affect the roles and responsibilities of individuals, their relationships with others in the organization and outside of it, the way their various tasks are to be performed, and how they see their future prospects. Change management can help an organization and the individuals within it to make transitions successfully, without undue disruption. Change management techniques can include involving staff in the design process, planning the transition carefully, communicating the status of the transition regularly, providing training and coaching using pilot testing, and phasing-in the changes.

Conclusion

Financial supervisors can be responsible for meeting a wide range of supervisory objectives and the scope of their mandates can differ considerably. But all supervisors need to organize themselves in a manner

[13] For more information on this topic, see the Toronto Centre's Supervisory Guidance Note, 2008, "*Implementing an Action Plan.*"

that will help them to achieve their supervisory objectives. No organization is perfect and each organizational alternative comes with trade-offs to be weighed.

Supervisory objectives should be a fundamental point of reference when assessing organizational alternatives. Various objectives sometimes compete for attention and resources, and might even conflict with one another. Compromises might have to be made, but such decisions should at least be informed by an assessment of their potential effects on the success of the supervisor in achieving the objectives.

Supervisory effectiveness is driven by an ability to act and a willingness to act. The factors that can enhance these drivers of effectiveness are reinforced by international standards for financial supervision.

It can be useful to develop a set of criteria that you can use in assessing various organizational alternatives. The criteria, such as your objectives and constraints, and the scope of the changes being considered, should be tailored to your situation.

The institutional architecture identifies the institutions involved in supervision and defines their respective responsibilities. It often evolves over time and can become quite complex. Before considering any significant changes to the institutional architecture, it is essential that policymakers have a clear picture of the current architecture and understand any legal or other constraints to changing it.

There are four basic models: institutional, functional, integrated, and twin peaks. The situation in a particular jurisdiction will affect the relative importance of the various advantages and disadvantages of the models. But there is no need to adopt any one of these models of institutional architecture in its entirety. The approaches can be mixed to develop hybrid models that will best respond to the situation in a particular jurisdiction.

Organizational architecture consists of the formal organization (organizational structure), informal organization (organizational culture), business processes, strategy, and human resources. Organizational structures can be categorized as three types: pre-bureaucratic, bureaucratic, and post-bureaucratic. There are two main types of bureaucratic structures: functional and divisional, but supervisors often develop hybrids, such as matrix structures. Organizational design involves both differentiation and integration, and should consider the criteria of simplicity, flexibility, reliability, economy, and acceptability. Although the structures of supervisory institutions might follow one of a few models, the potential variations are almost infinite.

As complicated as they might be, the issues of institutional architecture and organizational structure might not be the most difficult challenges involved in creating an effective supervisory institution. Attracting and retaining enough capable people to meet the needs of the organization is a significant challenge for many supervisors. Examples of techniques used by supervisors to do so include: hiring a mix of people; establishing groups of technical specialists; using outside experts; using project teams and committees; implementing multifaceted training strategies; and rewarding good performers.

Organizational changes, even those that are well-considered and supportive of the organization’s objectives, can be disruptive and should be actively managed.

The consideration of organizational alternatives can be a complex exercise, with many options to be examined, objectives and constraints to be observed, and trade-offs to be weighed. But the rewards in doing it well can be substantial: a supervisory institution that meets its objectives and provides a satisfying work environment for its staff.

References

Basel Committee for Banking Supervision (BCBS), 2012, "Core Principles for Effective Banking Supervision". http://www.bis.org/publ/bcbs230.htm

Core principles for banking supervision. Principle 1: Responsibilities, Objectives and Powers; and Principle 2: Independence, Accountability, Resources and Legal Protection for Supervisors are particularly relevant in the consideration of organizational alternatives.

Group of Thirty (G30), 2008, "The Structure of Financial Supervision, Approaches and Challenges in a Global Marketplace". http://www.group30.org/rpt_06.shtml

Overview: This G30 special report compares and analyzes different approaches taken in financial regulation, revealing the advantages and challenges of supervisory structures in seventeen markets. It is the first time a review of regulatory systems of this magnitude has been conducted, as it surveys the history, statutory and non-statutory elements, methods of coordination and enforcement, and current issues of each market's financial supervisory system.

International Association of Insurance Supervisors (IAIS), 2015, "Insurance Core Principles". http://iaisweb.org/index.cfm?event=showNewsDetails&nodeID=58069&moduleContentid=38953

Core principles for insurance supervision and the related assessment methodology. ICP 1 Objectives, Powers and Responsibilities of the Supervisor; ICP 2 Supervisor; and ICP 3 Information Exchange and Confidentiality Requirements are particularly relevant in the consideration of organizational alternatives.

International Monetary Fund (IMF), 2009, "Governance Practices at Financial Regulatory and Supervisory Agencies", WP/09/135, Steven Seelig and Alicia Novoa. http://www.imf.org/external/pubs/ft/wp/2009/wp09135.pdf

Abstract: This paper summarizes the results of a survey of financial supervisory agencies in IMF member countries conducted in 2007. Responses were received from 140 financial sector supervisors in 103 countries. A majority of these are separate, stand-alone agencies, though a majority of bank supervisors are part of a central bank. The survey asked respondents about their governance structure and practices, as well as practices and policies related to public transparency and accountability. Most agencies reported having operational independence. Bank supervisors were unique in viewing financial stability as part of their mandate.

IMF, 2010, "The Making of Good Supervision: Learning to Say 'No'", SPN/10/08. Jose Viñals and Jonathan Fiechter, with Aditya Narain, Jennifer Elliott, Ian Tower, Pierluigi Bologna, and Michael Hsu. https://www.imf.org/external/pubs/ft/spn/2010/spn1008.pdf

Executive Summary: The quality of financial sector supervision has emerged as a key issue from the financial crisis. While most countries operated broadly under the same regulatory standards, differences emerged in supervisory approaches. The international response to this crisis has focused on the need for more and better regulations (e.g., in areas such as bank capital, liquidity and provisioning) and on developing a framework to address systemic risks, but there has been less discussion of how supervision itself could be strengthened.

The IMF's work in assessing compliance with financial sector standards over the past decade in member countries suggests that while progress is being made in putting regulation in place, work remains to be done in many countries to strengthen supervision. How can this enhanced supervision be achieved? Based

on an examination of lessons from the crisis and the findings of these assessments of countries' compliance with financial standards, the paper identifies the following key elements of good supervision—that it is intrusive, skeptical, proactive, comprehensive, adaptive, and conclusive.

To achieve these elements, the "ability" to supervise, which requires appropriate resources, authority, organization and constructive working relationships with other agencies, must be complemented by the "will" to act. Supervisors must be willing and empowered to take timely and effective action, to intrude on decision-making, to question common wisdom, and to take unpopular decisions. Developing this "will to act" is a more difficult task and requires that supervisors have a clear and unambiguous mandate, operational independence coupled with accountability, skilled staff, and a relationship with industry that avoids "regulatory capture."

These essential elements of good supervision need to be given as much attention as the regulatory reforms that are being contemplated at both national and international levels. Indeed, only if supervision is strengthened can we hope to effectively deliver on the challenging, but crucial, regulatory reform agenda. For this to happen, society must stand with supervisors as they play their role as naysayers, in times of exuberance.

IMF, 2011, "The Economic Crisis: Did Financial Supervision Matter?" WP/11/261. Donato Masciandaro, Rosaria Vega Pansini, and Marc Quintyn.
http://www.imf.org/external/pubs/ft/wp/2011/wp11261.pdf

Abstract: The Asian financial crisis marked the beginning of worldwide efforts to improve the effectiveness of financial supervision. However, the crisis that started in 2007–08 was a rude awakening: several of these improvements seemed unable to avoid or mitigate the crisis. This paper brings the first systematic analysis of the role of two of these efforts— modifications in the architecture of financial supervision and in supervisory governance—and concludes that they were negatively correlated with economic resilience. Using the emerging distinction between macro and microprudential supervision, we explore to what extent two separate institutions would allow for more checks and balances to improve supervisory governance, and thus, reduce the probability of supervisory failure.

International Organization of Pension Supervisors (IOPS), 2010, "Methodology for Review of Supervisory Systems using IOPS Principles", http://www.iopsweb.org/principlesandguidelines/

Core principles for pension supervision and the related assessment methodology. All of the principles are relevant in the consideration of organizational alternatives.

IOPS, 2012, "Structure of Pension Supervisory Authorities and Their Approaches to Risk-Based Supervision", WP16. Taliya Cikoja.
http://www.iopsweb.org/iopsworkingpapersoneffectivepensionsupervision.htm

Abstract: This paper examines whether the Global Financial Crisis (GFC) has had an impact on pension supervision. This paper looks at the effect of the GFC on risk-based supervision (RBS), before going on to examine the potential impact on the external and internal structure of pension supervisory authorities. Drawing on survey evidence from IOPS Member authorities, the paper argues that the GFC hastened either the implementation of RBS within their organisation, or prompted a review of their RBS approach with the intensions of strengthening their risk identification methodology. In terms of the organisational structure of pension supervisory authorities, the supervisory approach of the pension authority and the changes within the supervisory structures themselves, rather than at the macro organisational level, proved more critical during the GFC. Following an analysis of the different internal structures of pension supervisory authorities (i.e., the portfolio approach; functional approach; or hybrid approach), the paper

concludes that internal changes were manifested as either reorganisation of internal structures, or via supervisory methodological changes, and/or through changes in resources, particularly human and technical resources.

International Organization of Securities Commissions (IOSCO), 2013, "Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation". http://www.iosco.org/library/pubdocs/pdf/IOSCOPD359.pdf

Core principles for securities regulation and the related assessment methodology. Part A, Principles Relating to the Regulator (1 to 9), are particularly relevant in the consideration of organizational alternatives.

Organization for Economic Cooperation and Development (OECD), 2010, "Policy Framework for Effective and Efficient Financial Regulation, General Guidance and High-Level Checklist". http://www.oecd.org/finance/financial-markets/44362818.pdf

Foreword by Angel Gurria, Secretary-General: The structure and operation of financial systems have undergone marked changes in the past couple of decades, driven by dramatic improvements in technology, product innovation, integration, competition, and policy, regulatory, and trade reforms.

These developments have led to a dynamic, sophisticated, and global financial services arena that can foster economic growth. Yet, the financial and economic crisis has revealed many shortcomings in our approach to financial regulation.

The Policy Framework for Effective and Efficient Financial Regulation: General Guidance and High-Level Checklist is a tool that can support ongoing efforts by policymakers, regulators, and supervisors to achieve stronger, more resilient financial systems. It is the product of the joint work of the Committee on Financial Markets and the Insurance and Private Pensions Committee, and was the subject of a broad public consultation.

The Policy Framework is not meant to substitute for the more focused standards and guidelines of international standard-setting bodies in the financial sector. Its purpose is instead to guide strategic thinking and promote governmental leadership and action so that the financial system can play its vital role in the functioning of the economy.

The Policy Framework challenges policy makers to think about the fundamentals of financial regulation in a globalised financial system. I hope that you will put it to good use both in setting national policy, and in underpinning international co-operation.

Wikipedia, 2015, "Organizational Architecture".
https://en.wikipedia.org/wiki/Organizational_architecture

Wikipedia, 2015, "Organizational Structure". https://en.wikipedia.org/wiki/Organizational_structure