The Structure and Operations of Financial Regulatory and Supervisory Authorities

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DECLARATION

I undersigned hereby make a declaration that the contents of this thesis are solely my original work. I can confirm that any partial part or whole of this thesis has not been presented to any other Universities for consideration of the award of a PhD degree or any similar degree.

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DEDICATION

This thesis is dedicated to

My loving parents:

Dr. Abdulrahman Aljarallah
Mrs Asma Algaith

and

The memory of my loving grandparents

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Abstract

Finance is an industry that needs to be regulated and supervised continuously to protect the interests of all its stakeholders. To do so, financial regulatory and supervisory organisations have been set up on the regional, national and international levels. On each level, these organisations support and guide the financial industry and protect its stakeholders. In order to deliver regulatory and supervisory services successfully, financial regulatory and supervisory organisations require a stable organisational structure and systematic operations. This research hence aims to deliver three key objectives. The first objective is to critically analyse the factors that have an impact on the structure of a financial organisation. The second is to identify and analyse the factors that influence the operations of a financial regulatory and supervisory organisation. The third and final objective is to investigate how international standards and enhance cross-border cooperation can be harmonising for the purposes of international financial regulatory authorities.

To conduct this research, a qualitative approach to data collection was undertaken by conducting semi-structured interviews. The data was collected from a group of 44 participants, all senior financial regulators from across the globe. Of these, 21 participants came from developed economies, while 16 were from developing economies and seven from international regulatory bodies. The data was then analysed using a thematic analysis approach to examine the findings from the information given by the respondents. The data analysis identified five global themes and 13 organisational themes which were used to evaluate the factors affecting the structure and operations of the financial regulatory and supervisory organisations represented by the respondents. In addition, the themes identified were also used to evaluate the factors and barriers that directly impact upon international financial regulations.

The study revealed that the structures of both financial regulatory and supervisory organisations are directly affected by external factors such as politicians, public opinions, market trends and market developments. The findings indicate that radical events, such as financial crises, typically lead to structural and operational changes within financial regulatory and supervisory organisations. The research also revealed that human culture and behaviour impact significantly upon the operations of both national and international financial regulatory and supervisory organisations. In terms of operation and structure of international financial regulatory organisations, the research found that a lack of communication, competition and accountability are major factors that hinder the effective application of financial regulatory and supervisory policies. Based on the findings of the study, the researcher suggests that before establishing a structure of financial regulatory authority, the founders should establish clear objectives. They should determine how the authority can be integrated into the existing national or international scenario, endeavour to limit the impact of external influences and then work to promote internal development. In terms of the operations of financial regulatory and supervisory organisations, the research here has emphasised the role and importance of human and cultural aspects of each respective country. Here, the study highlights these factors and recommends the policies that should be put in place to protect the cultural beliefs, norms and bias of each group. In order to harmonise operations between international and national financial regulatory authorities, it is further recommended that these organisations take into account the differences between legal and cultural traditions. These differences apply across their respective regions entailing that these organisations should aim to be independent of political influence and power.

Overall, the research delivers an understanding of the factors that affect the structure and operations of financial regulatory and supervisory organisations. It proposes recommendations that can be adopted by these organisation, to help reduce the redundancy of work and encourage increasing cooperation and harmony between the various organisations that govern and supervise the financial industry, both at the national and international level.

Keywords: Regulation, supervision, finance, operations, structure, IFR

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List of Acronyms

AE	Advanced Economies
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
CIS	Commonwealth of Independent States
CPMI	Committee on Payment and Market Infrastructure
DFU	Deficit Funds Units
EMDE	Emerging Market and Developing Economies
EU	European Union
FATF	Financial Action Task Force
FSA	Financial Services Authority
FSB	Financial Stability Board
FSF	Financial Stability Forum
G7	Group of Seven
G10	Group of Ten
G20	Group of Twenty
G30	Group of Thirty
GAAP	Generally Accepted Accounting Principles
GAB	General Arrangements to Borrow
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GFC	Global Financial Crisis
IADI	International Association of Deposit Insurers
IAIS	International Association of Insurance Supervision
IASB	International Accounting Standards Board
ICSID	International Centre for Settlement of Investment Dispute
IDA	International Development Association
IFC	International Finance Corporation
IFR	International Financial Regulation
IIF	Institute of International Finance
IMF	International Monetary Fund

IOSCO	International Organisation of Securities Commissions
LAC	Latin America and the Caribbean
LDCs	Least Developed Countries
MIGA	Multilateral Investment Guarantee Agency
MENAP	Middle East, North Africa, Afghanistan and Pakistan
OECD	Organisation for Economic Cooperation and Development
OTC	Over-the-counter
SDG	Sustainable Development Goods
SFU	Surplus Funds Units
SIFMA	Securities Industries and Financial Markets Associations
SMEs	Small and Medium Enterprises
SSA	Sub-Saharan Africa
TRNs	Transnational Regulatory Networks
UK	United Kingdom
UN	United Nation
USA	United States of America
WTO	World Trade Organisation

CHAPTER ONE
INTRODUCTION

1.1. Introduction

Financial regulatory and supervisory organisations present a dynamic organisational structure that varies from region to region and continues to evolve over time. The complexity of these organisational structures points to the need to develop an effective framework of organisational structure for international financial regulation.

This first section presents a background to the study as a whole, outlining which areas of research will be studied in the course of this thesis. It will be followed by a section identifying the principal aims and objectives of the research, followed by the research questions. The penultimate section will then discuss the significance of the intended study and the rationale for conducting this research. The chapter ends by establishing an overview of the research.

1.2. Background to the Study

Financial regulatory and supervisory organisations are organisations that lay down certain guidelines, restrictions and requirements for financial institutions with the intention to provide stability, security and integrity to the financial system (Prabhakar, 2013). The operations of these organisations are managed either by independent entities or by the government in order to maintain market confidence in the financial system, promote financial stability and protect consumers by setting up appropriate protection measures (De Caria, 2011).

The rationality for having an organisation supervise and regulate the financial industry is supported by several factors. Firstly, the existence of financial regulators aids in preventing market failure that might arise due to the complexity of the financial system. Secondly, these organisations monitor the nature and process of financial products and contracts to protect and safeguard the interests of consumers. The presence of supervisory and regulatory bodies also promotes consumer confidence in the products offered by the financial markets and, in so doing, provides consumers with a sense of security in adverse times.

The foundation of any organisation is the structure that holds it together. Consequently, the structure of any financial regulatory and supervisory organisation must be sound enough to withstand and respond to the challenges faced by such organisations. The organisational structure guides all stakeholders by laying out the official relationships that govern the reporting and workflow of the organisation. Such a structure provides a clear and defined authority, and determines the relationships between the different elements. It also facilitates stronger administration, including a better understanding of the objectives, while at the same time laying down both channels and patterns of communication. An organisational structure should support the coordination of activities within the organisation and the implementation of policies to facilitate the organisation's efforts to realise the its goals. A good structure also results in increased co-operation and positivity between employees, providing them with a safe environment to work in and thus resulting in increased workplace productivity (Berger and Udell, 2002).

To understand the operations of financial regulatory and supervisory organisations, it is important to account for the major stakeholders involved in and impacting their functioning such as governments, financial industries and other great powers. For the majority of jurisdictions, national governments are the managers of the regulatory and supervisory agencies of their financial market. They traditionally hire technocrats who are experts in financial regulation to manage the operations. Government and politicians influence national financial policies and can exert their power to achieve personal propaganda (Parkerand Masters 2010; Singer 2007). The financial industry is the second player in international financial regulation. The financial sector combines different groups such as the public, financial markets and politicians, with each group aiming to maximise their benefits. Financial markets hold great power as they influence the policymakers by lobbying or even supporting the politicians financially during their campaigns (Mueller 2003). Financial markets also wield great power by holding large amounts of assets in a few groups of financial institutions which results in a monopolistic atmosphere (Berger et al. 2010).

Financial markets exert further influence over policymakers at the international level due to the formation of groups of large players (Olson, 1965). In addition, the financial markets also capture regulators due to the complexity of regulation which requires constant contact with the market (Verdier, 2012). The public is the second stakeholder in the financial industry driving the development of financial products and it is also the reason for the demand for these products. The public creates supply and demand and, in doing so, can influence the financial industry by altering their needs. Furthermore, in the time of crises, the public can force governments and politicians to alter financial regulations.

By ‘great powers’, we refer to the most advanced jurisdictions carrying the ability to influence smaller and less developed jurisdictions. Power at the international level can be observed in the case of the United States of America, where foreign companies wishing to enter its market are forced to follow its accounting standards, which can be costly and time-consuming, in order to be listed in its market (Tarullo 2008). Then, power at the national level can be observed where national legislators use their power to appoint top-level officials in positions that will follow their directions at the international level (Drezner, 2008). To keep a check on the influence and power wielded by these powerful groups towards the financial industry, it is important to have strong financial regulator and supervisory organisations.

The structure and operations of a financial regulatory and supervisory organisation are also determined by the cultural aspects of a region, which also impacts upon the staff employed by the organisation. Cultural aspects strongly influence the structure of a financial regulatory and supervisory organisations, such as norms, biases and values of a region. Behavioural influences also have a deep impact on the operations of an organisation. Hence, operations are impacted by both the culture of the organisation as well as the individual culture of its employees (Martinez-Canas and Ruiz-Palomino, 2014) and the productivity of staff.

The significance of culture in a financial, regulatory and supervisory organisation emerges from the fact that the imposition of a set of values and assumptions creates a frame of reference for interpretations, perceptions and actions of the members of the organisation (Schein, 2004). In this way, it influences all the processes that take place in the organisation and even its performance. Moreover, the organisational culture of managers itself influences the dominant leadership style. Other influential factors include: organisational learning and knowledge management; company strategy and the preferred style of directing management; the employee reward system and commitment; and other types of connections between individuals and the organisation.

1.3. Research Aims, Objectives and Research Questions

There are three primary aims of this study. The first aim is to build upon the existing understanding of theories of financial regulation and the organisational structure of financial regulation and supervision. The second aim is to gain an understanding of the factors influencing the operation of financial regulatory authority. The third aim is to extend existing understanding of international financial regulation to determine how to harmonise international standards and enhance cross-border cooperation

The key objectives of this study are as follow:

i. To analyse empirically how the organisational structure of financial regulatory and supervisory authority should be structured and to investigate the underlying factors driving the structural change of the organisational structure of regulatory and supervisory financial authorities;

ii. To investigate and analyse critically the factors influencing the effectiveness of the organisational structure of regulatory and supervisory financial authorities;

iii. To investigate how to harmonise international standards and enhance cross-border cooperation for the international financial regulatory authority.

The three objectives will be obtained by conducting an empirical analysis based on semi-structured interviews conducted with senior financial regulators and supervisors from developed countries, developing countries and international financial organisation. In doing so, a comprehensive literature review will be presented of the theories of financial regulation and supervision and the different organisational structures of financial regulatory authorities. This comprehensive literature review will also cover international financial regulation and provide an understanding of why international financial regulatory cooperation is crucial.

To achieve the research aims and objectives, this study is divided into three parts. The first part examines the issues of the regulatory structure in two sections. The first section covers the interview participants' point of view on how the regulatory and supervisory authority should be structured. The second section includes the participants' explanation of what drives the structural change from their perspective.
The second part of the study embraces what regulators and supervisors believe are the factors that should be considered for an effective regulatory and supervisory operations. The third part covers the factors determining how best to deliver international financial regulation in consideration of the harmonisation of international standards and enhanced cross-border cooperation.

Based on the research aims and objectives, five main research questions have been developed in this research:

1a. How to design the organisational structure of the financial regulatory and supervisory authority?
1b. Why does the organisational structure of the financial regulatory and supervisory authority change from time to time?
2. How to promote operational efficiency of financial regulatory and supervisory authority?
3a. Why implementing international financial regulation standards is difficult to achieve?
3b. How to promote cross-border cooperation for international financial regulation?

1.4. Rationale and Significance of the Study

Financial regulatory and supervisory organisations are vital organisations that guide the financial industry and provide security to the general public by keeping financial institutions in line. External factors, such as market trends, politics, calamities, wars, culture and information technology, have an impact on the structure and operations of financial regulatory and supervisory organisations that lead to changes in the organisation. Despite there being notable changes in the structure and operations of financial regulatory and supervisory organisations over the decade, the academic literature on the subject remains limited.

The studies analysed in the literature review provide the reasons for adopting an organisational structure, while the factors that bring about changes and influence the development of various financial organisations over the decades. However, the current literature does not provide a composite solution for an international financial regulatory body that encompasses all the challenges faced by the financial regulatory and supervisory organisations. Moreover, the literature also lacks recognition of what limits the regulators and supervisors in delivering their functions and does not serve to enhance our understanding of their points of view regarding the cultural and human aspect of their organisations. In contrast, this research extends the existing understanding of how best to deliver international financial regulation which the literature lack in terms of qualitative data.

The rationale behind conducting the study is to develop a framework to analyse the impact of various factors which have an impact on the structure and operations of the financial regulatory and supervisory organisation, as well as providing recommendations to harmonise cross-border operations. In the due process of achieving the aim of this research, the plan is to add information to the literature in the form of empirical analysis. This study adds said information by conducting semi-structured interviews where questions have been asked to senior financial regulators and supervisors belonging to both developed and developing countries and international financial regulatory organisations.

This research is significant as it takes into consideration the thoughts of senior officials in the industry whose knowledge and experiences are of great value. The research also provides an insight into factors that limit the regulators from delivering their supervisory function and enhances our understanding of the cultural and human aspects of their organisations.

The thesis is divided into three main components; organisational structure, the operation of financial supervision and the international regulation and each component is building upon the previous one. To have a cooperative and harmonised international financial regulation this is based on the way of how the national supervision is run and the organisational structure is the house of the operation. The thesis confirms that the central bank should involve in the regulatory and supervisory functions and that for several reasons; first, central bank is a source of liquidity and that give them extra power. Second, central bank is better equipped as a source of information and better at financial stability insights which give them an advantage as a supervisor. Third, the central bank showed better management during financial crisis and it helped in reducing the cost of coordination. Finally, the central bank is powerful in recruiting experienced professional.

The thesis also suggests that the more consolidate the structure the better, hence, prudential and conduct of business regulation work best when they are connected for better understanding, communication and cooperation. They argue that the organisational structure of the financial regulatory authority change for five main reasons; firstly, unclear objective of the structure lead to overlapping of responsibility and competition. Secondly, the financial sectors cause the change sometime because every sector comes with its uniqueness in knowledge, culture, incentive and method. Thirdly, having many organisational structure increase the cost of regulation and information become challenging to share. Fourthly, sometimes poor communication and cooperation due to some cultural, competition and confidentiality issues lead the structure to change. Lastly, external factors such as financial crisis, political change and international trend can be the cause of structural change.

In regard to the operation of financial regulatory authority, the thesis finds that in respect to the practicality of running financial regulation, the regulator requires less external interference from such as the politicians, governments and the general public as such groups interfere to maximise their own benefit. The supervisor also demands more internal enhancement and that includes reducing competition, enhance management quality, limit market influence and to be hyperaware of market technology. Regarding the cultural and human aspect the thesis encourages regulatory organisation to be aware of the culture that drive the individual and the organisation so to enhance human interaction and communication and to give a close eye to employee's behaviour. The staff of the financial regulatory and supervisory organisations suggested to be mix with diversity background and knowledge as well as to understand the differences in the market in terms of different industry experience, and finally to consider a high salary option to attract experts and to offer rewards.

International financial regulation is the third part of this thesis and that covers two components; first, the factors affecting international financial regulation to move forward and second, the factors limiting international financial regulation to act collectively. The thesis suggests that to promote international financial regulation, the regulators should be aware of different culture traditions, different political and governmental interests, different legal traditions, and different level of maturity of national financial market. In terms of the factors limiting the national financial regulatory authority to act collectively at an international level, there are several factors found to be the cause such as different drive and desire in national interest, the complexity and overlapping in the international standards, and the level of accountability and trust.

1.5. Structural Summary of the Thesis

To achieve the research's intended aim and objectives, this thesis is divided into seven chapters. These chapters are as follows:

Chapter 1 - Introduction: This chapter provides the background of the research topic along with the aims, objectives and research questions designed to address the identified research problem. The chapter also provides the significance and rationale behind the intended research.

Chapter 2 - Literature Review: This chapter has three parts. The **first part** of the literature review covers existing theories of financial services regulations and supervision. The review critically evaluates the various types of organisational structures used in financial supervisory and regulatory bodies, and the role of the central banks within these structures. The **second part** of the literature review critically evaluates the role of human culture in financial regulatory organisations. The **third part** of the literature review critically evaluates the existing framework of international regulatory and supervisory bodies for the global financial sector, including their drawbacks.

Chapter 3 - Research Methodology: This chapter elaborates upon the methods adopted by the researcher for data collection and data analysis. It discusses different research philosophies, elaborating on the one chosen with justification for the chosen approach. In addition, the research design is introduced and the chosen qualitative research method design is discussed with justification for why the current design was selected. The chapter then provides details and justification of how the semi-structured interview questions are designed, followed by the ethical consideration and sample selection together with a brief discussion of how the pilot study was conducted. The protocol for conducting the semi-structured interview is then specified. The chapter proceeds to data analysis where the analytical approach chosen and process are clarified, justified and reviewed. The final section presents a report validating the trustworthiness of the research process, including the credibility, validity and reliability of the research to conclude the chapter.

Chapter 4 - Data Analysis and Results: This chapter is the first in a series of three chapters covering results and data analysis. This chapter consists of two parts - data analysis and results – along with a discussion and interpretations of the results. The data analysis section utilises thematic analysis to explain the analysis process of the semi-structured interviews conducted by the researcher, including details of the issues discussed, the basic themes, then organising and global themes. The second part puts together a discussion of the findings based on the results of the data analysis. Tables and figures are also incorporated to support analysis of the data. Once the data has been analysed, the second part of this chapter takes the findings from the analysed data to present the information in more detail. Here, tables and figures displayed for the purpose of providing reliable and comprehensives inferences from the data analysed. The chapter also includes two global themes. **The first global theme covers the area of the organisational structure of the financial regulator** and this includes 13 basic themes and five organising themes. **The second global theme addresses the factors that may motivate regulators to change their organisational structure**, which includes sixteen basic themes along with five organising themes. Subsequently, the findings are discussed and the chapter concluded.

Chapter 5 - Data Analysis and Results: This chapter is the second chapter of a series of three chapters on the results and data analysis. It also consists of two parts: the data analysis and results; and discussions and interpretation of the results. However, the focus of this chapter is on the factors influencing the delivery of supervisory functions. The data analysis part utilises thematic analysis to explain the process of the semi-structured interviews conducted by the researcher, including details of the issues discussed, basic themes, then organising and global themes. Once the data has been analysed, the second part of this chapter takes the findings from the analysed data. This information is presented in more detail with tables and figures displayed for the purpose of providing reliable and comprehensives inferences from the analysed data. This chapter also includes two global themes, **the first of which covers the factors that can limit the regulators to deliver their supervisory function**. This includes twenty-seven basic themes and ten organising themes divided into 'inside' and 'outside' influences. **The second global theme covers the cultural and human aspects of the regulatory organisations**, which includes eighteen basic themes and eight organising themes. The findings are subsequently discussed before the chapter is concluded.

Chapter 6 - Data Analysis and Results: This is the final chapter in a series of three chapters on data analysis and results. This chapter also consists of two parts: the data analysis and results; and discussions and interpretation of the results. The focus of this chapter is to explore how best to deliver international financial regulation. The data analysis part utilises thematic analysis to explain the analytical process of the researcher regarding the semi-structured interviews, including details of the issues discussed, basic themes, then organising and global themes. Once the data has been analysed, the second part of this chapter takes the findings from the analysed data. This information is presented in more detail with tables and figures displayed for the purpose of providing reliable and comprehensives inferences from the analysed data. However, unlike the two previous chapters, this chapter utilises only **one global theme: 'How best to deliver international financial regulation'**. This theme includes ten basic themes and two organising themes. Subsequently, the findings are discussed and the chapter is concluded.

Chapter 7 - Conclusion: This chapter provides a comprehensive summary of all the findings. It also discusses how the study has been successful in attaining its objectives as stated in Chapter One of the thesis. Furthermore, the chapter presents implications of the study while also highlighting the limitations encountered within the research. The chapter concludes the research by providing recommendations for future research.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

The focus of this chapter is a review of the literature on the organisational structure of the financial regulatory authorities and the international framework of financial regulation. The chapter starts with an overview of the importance of the financial sector. Thereafter, theories of financial services regulation and supervision are critically discussed. It then proceeds with a critical review and discussion of the different organisational structures used within financial regulatory bodies.

The chapter moves on to a survey of the importance of the organisational structure within financial regulatory authorities and a critical evaluation of what drives structural changes. Consequently, the chapter discusses the impact of human behavioural aspects on regulatory bodies and the impact of culture. Later, the chapter provides an overview of the development of the International Financial Regulation (IFR). After that, the different type of international players is discussed, and the objectives of international financial regulation reviewed.

The chapter concludes by presenting a framework developed by identifying gaps in the literature and the approach thereby required to achieve the aims and objectives of the research. This framework is the basis on which the interview questions were developed and is hence a very crucial aspect of this research.

2.2. Theories of Financial Services Regulation and Supervision

Globalisation has progressed in the movement of trade, money, people and goods between countries with increasing ease. Consequently, this development has led to a rise in the complexities associated with regulating financial services aimed at ensuring that both providers and consumers are fairly treated, and that the market functions well for everyone, which has resulted in the role of government regulation increasing slowly. To keep up with this ever-changing international financial climate, new regulatory bodies are being set up regularly. Neither the legal nor economic literature has agreed on a fixed definition for the term 'regulation'. However, according to Hertzog (1999), regulation can be defined as a set of legal instruments enforced by the state that requires individuals and organisation in a certain sector to be compliant with prescribed behaviours and actions. In addition, disobeying such requirements will typically result in a form of punishment or sanctions (Hertog, 1999). An additional definition of regulation, provided by Mitnick (1980, P. 5), states that regulation is "the intentional restriction of a subject's choice of activity by an entity not directly party to or involved in the activity"[1].

Llewellyn (1999) sets out seven points in answer to the question of what the economic rationale of financial services regulation attempts to address. First, he argues that market failure is most likely to occur due to externalities associated with systemic issues. Second, the purpose for which regulation exists is to fix the issues of potential market failure and incongruences such as problems with various agencies or with the supply of information. Third, financial products and contracts are more likely to be in a long-term rather than a short-term form. This, however, will require ongoing monitoring of the system to ensure that consumers are treated appropriately to reduce the likelihood of issues related to principal-agent problems occurring. Fourth, given that consumers are fundamental players in financial systems, to maintain a high number of consumers to keep the financial market active, consumers must be made to feel confident in entering and participating in the market. This consumer confidence issue is also known as the "lemons issue", as introduced by Akerlof (1970) when he argued that the market will break down completely if consumers decided to leave the market due to very low levels of confidence.

Fifth, the so-called "Grid Lock problem" may potentially arise when financial contracts and products are long term ones, and consumers are concerned that financial institutions will act in their own interest rather than in the consumers' interest. In long-

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[1] For more explanation of the term regulation, see (James 2000; Hancher and Moran 1989; Noll 1989; Foster 1992; Ogus 1994; Mitnick 1980). It is argued that the school of regulation and its theory been developed in France by (Aglietta, 1976) and (Boyer, 1990) in Turner et al. (2016) respectively.

term contracts, a financial institution will have more information regarding the value of a product while consumers may not be able to appreciate the value at the time of purchase. This potentially leads to two issues: one known as "adverse selection", where consumers may be unable to distinguish well-behaved firms who conduct business appropriately in the market from the bad ones, and consequently be driven out of business. The other problem is known as "moral hazard", where even a well-behaved firm may be driven to conduct inappropriate activities because other competitors are doing so. Sixth, moral hazard may also occur because of government actions, including some safety net arrangements. State banks acting as the lender of last resort may raise some concerns, for instance, banks may feel encouraged to take more risks since they are secured by the government. This may result in consumers being less careful when deciding on a choice of bank since their money is protected. Seventh, the last fact behind the economic rationale of financial regulation is the demand from consumers. Having regulation in place is found to be logical for consumers for several reasons, including improved consumer confidence, lowering transaction costs and investigating the safety of financial institutions.

Given its centrality to the formulation of theories on the modern economy and its interaction with the state, as well as the far-reaching consequences for the lives of citizens/consumers, it is unsurprising that a plethora of theories explaining its development and conduct have been espoused. Two fundamental theories are often utilised as a basis in the development of regulatory bodies: The Public Interest Theory of Regulations (Shaviro, 1990), and the Capture Theory of Regulations, (Stigler, 1971; Posner, 1974).

2.2.1. Public Interest Theory of Regulation

Public Interest Theory is one of the fundamental theories that addresses the need for a form of regulation to serve the general welfare of the public (Shaviro, 1990). The concept of the origins of public interest regulation can be found in Hantke-Domas (2003) wherein he summarises the construction of such a concept over two decades from the 1930s -1950s. However, a concept of public interest is not central to understanding the government movement through its regulatory agencies[2]. Those who support this theory argue that the interest of the public should be served first and is the primary goal of regulation (Stigler, 1971; Posner, 1974). In practice, serving the public interest means that all available public sources are perfectly allocated (Arrow, 1985) and the mechanism of doing so will be best carried out through government regulation (Bator, 1958).

The underlying assumptions of this theory have been discussed by Bator (1958). First, it is argued that markets will probably fail due to the issues of both externalities, and the potential monopolisation of the market by the state. Second, it is assumed that government regulation is more capable of correcting market failures than the markets themselves. Regulators may minimise natural monopolies through price controls (Meade, 1984). On a macro level, and within different types of markets, what is known as excessive competition can easily arise due to long term overcapacity to reach the new equilibrium (Hertog, 1999). Furthermore, hidden information, or what is known as the asymmetric distribution of information, can be an issue associated with an imbalance in markets (Hirshleifer and Riley, 1979). These shortcomings will be experienced directly by consumers (Nelson, 1970). The risk of moral hazard increases when there is also asymmetric distribution of information in place. For example, in the event of contract enforcement, the party with more information can use the advantages of having more information than the other to their benefit. Regulators can then minimise this concern and potential moral hazard by enforcing a certain level of commercial information to be disclosed (Leland, 1979).

However, Lewis (1949) stated that this theory favoured post-war public economics along with left-leaning politicians, including socialists. It has been argued that such a theory resulted in an unbalanced market operation and, thus, public interest theory has been criticised from several perspectives. It has also been argued that the issue of market failure can be resolved by the market itself and there is no subsequent need for government regulation (Cowen, 1988). One example of the market demonstrating its capacity to self-adjust was seen in the use of guarantees on products and advertising so as to demonstrate quality (Nelson, 1974). Public interest theorists counter-argue

[2] For more discussion on the history of the existing of such concept, please see Mitnick (1980).

that the cost of government regulation is very low compared with the benefit of the regulation itself (Posner, 1974). However, this counter-argument appears to overlook the significant cost of transactions and information costs associated with market failure (Ng, 1990). Having empirically tested the efficacy of regulation, it was found that its ability to restrain monopolies may not exist (Jordan, 1972). However, Barr (1998) argues that regulation is one of the mechanisms that promotes efficacy. In addition, this theoretical framework for regulation may impact negatively upon competition in the market and increase costs for producers, which ultimately affects the price of goods for customers (Posner, 1971).

Joskow and Noll (1981) argue that the fundamental assumptions supporting this theory – a kind of maximisation of social and economic efficiency - are fraught and not clearly obvious, which raises questions about its public social appeal and efficiency. For instance, it is not clearly explained why the objective of procedural fairness is associated with the expense of economic efficiency. In terms of social efficiency, it is difficult to distinguish between equity and efficiency. At its core, one argument against public interest theory is that it is difficult to apply the theoretical requirements into legislative action to achieve the economic welfare claimed for it (Posner, 1974).

Similarly, Aranson (1990) states that the economic theory of welfare is the other side of the same coin when it comes to the application of the public interest theory of regulation. For example, the economic theory of welfare suggests that the characterisation of the market should take account of several factors, such as: (1) the market should have enough sellers and buyers to avoid having the market controlled; (2) there should be no existence of any form of an alliance of either sellers or buyers with each other; (3) information should be available for both sellers and buyers during the process of interactions; (4) there should be no barriers to either buyers or sellers to enter and exit the market; and (5) a market should be free of monopolies. The economic theory of welfare further suggests that the efficiency of such a market is the assurance that all available sources are in full use.

Notwithstanding, Hantke-Domas (2003) states: “After reviewing the law, politics, and academic writing, one can conclude that no author has claimed intellectual ascendancy over the so-called Public Interest Theory, nor have they mentioned any author or supporter of it" (p. 166). Hantke-Domas claims that Public Interest Theory is just an extension of the theory of economic welfare. He further argues that based on the depth of his review of the history of the concept of the Public Interest Theory it can be concluded that it is not a theory. According to him, it is instead a collection of arguments that support the idea of why regulation exists from a philosophical point of view. This leaves the door open for the researchers to collect evidence that may support why the Public Interest Theory can stand as a theory in itself.

2.2.2. Interest Group / Capture Theory of Regulation

The public interest theory of regulation has been challenged over time empirically and theoretically by many scholars[3]. This has led to a new understanding of regulation known as private interest theory of regulation or, more simply, as the capture theory of regulation. Capture theory, mainly developed from political science, purports to be a foremost argument insofar as market failure is not the main purpose of the existence of regulation (Posner (1974). In the early 1970s, Stigler (1971) argued that regulation is captured by several parties that involved directly and indirectly in the regulated market such as companies, consumers, unions, and others. The main assumption of the private interest theory is that, over time, regulation will naturally serve the interest of the participants of the industry being regulated. Regulators in this analysis will be considered as an 'agency' serving the regulated companies as well as serving consumers. However, given that the agency will rely on information that has been provided by regulated companies, agencies will be vigilant and guarded to avoid conflicts of interest that may occur (Owen and Braeutigam, 1978). As a result of this hypothesis, several questions have been generated to support understanding of this theory.

Firstly, there is a lack of distinction and clarity between private interest theory and public interest theory since both theories have the same assumption that regulation exists to serve the interest of the public. Moreover, neither answers the question of

[3] For empirical studies see, for example: Primeaux Jr. et al. (1984); Ros (1999); Feijen and Perotti (2006). For evidence from the financial market, please see: Kroszner and Strahan (1999); Feijen and Perotti (2006); and Benmelech and Moskowitz (2010). For examples from the electricity market, please refer to: Smyth and Soderberg (2010); Dnes et al. (1998); and Dnes and Seaton (1999).

why a branch can potentially take over a regulatory agency and renders consumers powerless to prevent such a takeover. These questions, therefore, result in private interest theory being regarded more as a hypothesis rather than a theory (Hertog, 1999).

The dominant strand of economic theories for regulation is grouped under the umbrella term of the Chicago Theory of Regulation. It is an extension of private interest theory, having been developed mainly based on ideas from scholars based at the University of Chicago[4]. George Stigler (1971) was perhaps the first to comment on regulation from an economic perspective in his famous paper aptly named, “The Theory of Economic Regulation”. His scholarship benefitted from an appreciation of work done by both Downs (1957) and Olson (1965), who had themselves recognised that political influences and decisions are captured by interest groups more than by individuals.

As much as Capture Theory is well established and explained by Stigler, several preceding papers had discussed earlier concerns, including Bernstein (1955) in his paper ‘Regulating Business by Independent Commission’. In the identical context, Posner replied to Stigler in the same 1971 issue of The Bell Journal of Economics in his paper called ‘Theories of Economic Regulation. Posner (1974) argued that majority groups representing consumers and minority groups for workers within the industry have benefited greatly from regulation. He accepts that every industry has its peculiarities, but concedes that consumer advantages are generally far higher than costs (if not free of charge at the point of delivery, as illustrated by school and fire services).

Peltzman (1976) took the discussion of the economic theory of regulation forward by arguing that there is always more than a single factor capturing regulation in the industry. In a 1976 monograph entitled ‘Toward a More General Theory of Regulation’, Peltzman examined the necessity of regulation as a form of mediation between both the supply and demand sides in order to achieve a political equilibrium. The main argument is that politicians are required to strike a balance between consumers and producers to gain political support. This political support may take

[4] Namely: George Stigler (1971); Sam Peltzman (1976); and Gary Becker (1983).

different forms; for example, from the consumers' side, politicians aim to produce legislation that will engender eventual votes for them in an upcoming election. Yet from the side of producers, a politician aims to relax regulatory functions to elicit as much support as they can from business interest groups. This equilibrium will result in a regulatory marginal cost and gain in what motivates regulators to protect consumers more or to support producers more. The marginal gain, on the one hand, is to what extent both sides will support the regulatory framework in the future. The marginal cost, on the other hand, takes the form of implicit taxation due to increasing the protection for the consumers. The implicit tax must be at a high level to ensure that consumers will vote again for the regulators.

An extension has been successively outlined by Becker (1983, 1985a, 1985b) in his discussions of Stigler and Peltzman. Becker positions his argument on the understanding that competition between pressure groups influences political action. He considers three factors: firstly, there is the influence of the group that prefers subsidy and expresses this via political pressure; secondly, the other group's influence is tax resistance; and finally, the size of these two groups which will ultimately impacts the breadth of their influence. In short, Becker's concern is that once regulation aims at protecting consumers through taxation and subsidies, targeted groups will be formed to apply higher pressure on politicians' actions. This occurs because protection implemented by regulators leads to deadweight loss. In this context, deadweight loss takes the form of a declining consumer surplus, though different costs may not have been captured.

Nevertheless, despite its pre-eminence, the Chicago theory of regulation has been criticised for its limitations. For instance, Noll (1989) emphasises the weaknesses of the Chicago theory as repeating the claims of other theories, if in different ways. The theory is known to claims that the cause of regulation is redistribution, yet redistribution has always been associated with regulation. The cause of regulation cannot be identified by distinguishing which group benefits from regulation and which loses out as a result of it. The theory fails to identify the most politically successful and effective group, as well as fails to explain how such interest groups influence the legislative process.

Moreover, not every aspect of regulation can be understood from the Chicago theory. The Virginia School theory, however, provides different thoughts from the Chicago School[5]. The Virginia School studied the rent associated with bribes targeting politicians. The School argued that it is significantly cheaper for a firm to rent the politicians through their lobbyists acting in their favour by implementing regulation that benefits them. Examples of this includes applying new regulations to tighten the market and streamline the firms that enter the market. For an existing firm, the bribe/benefit provided to the politicians is greater than the cost of having new competitors in the market[6]. The capture theory of regulation has been reviewed theoretically and empirically by the following researchers (Dal Bo, 2006; Etzioni, 2009; Carpenter and Moss, 2014; Turner et al., 2016). Information asymmetry exists between the regulated industry and the legislative authority due to the power of regulated firms. Similarly, information asymmetry exists between the regulated industry and consumers, as consumers have less information to conduct business and make better deals (Turner et al., 2016). It is argued by Etzioni (2009, 2012) that the regulated industry captures the regulator by their legislators; for instance, through campaign donations.

2.2.3. Comparison between Public Interest Theory and Capture Theory

The previous two sections (Sections 2.10.1 and 2.10.2) discussed in detail the advantages and disadvantages of both public interest theory and capture theory and how both these theories are applied. The public interest theory puts the interest of the public first and states that regulation and supervision of financial institutions should be carried out in a manner that is in line with the interest of the public. On the contrary, capture theory was developed on the basis that regulation and supervision policies of financial institutions are affected by the stakeholders of financial institutions and therefore the theory aims to capture the requirements of all these stakeholders. Both

[5] See for example, Tullock (1967 and 1993); (Buchanan et al., 1980) and (Tollison, 19820. For more general discussion of economic rationale for regulation, see Reagan (1987).
[6] Bribery and corruption in the business world are clearly explained in Jacoby et al. (1977) and Klitgaard (1988).

these theories are similar in that they both include the fact that the interest of the public should be secured. However, they differ insofar as capture theory states that regulatory policies are not influenced only by public opinion but also by the views of other stakeholders which must be considered (politicians and financial markets).

2.3. The Financial System and the Role of Central Banks

Every country has a financial system that it adopts based on its history and financial markets of its neighbours. The financial system of a country shapes the structure and operations of the financial regulatory and supervisory organisation that governs it. Broadly speaking, the financial system of any country is divided into two different structures: bank-based and market-based[7]. These financial systems have a direct influence on the organisational structure of the financial regulatory authority.

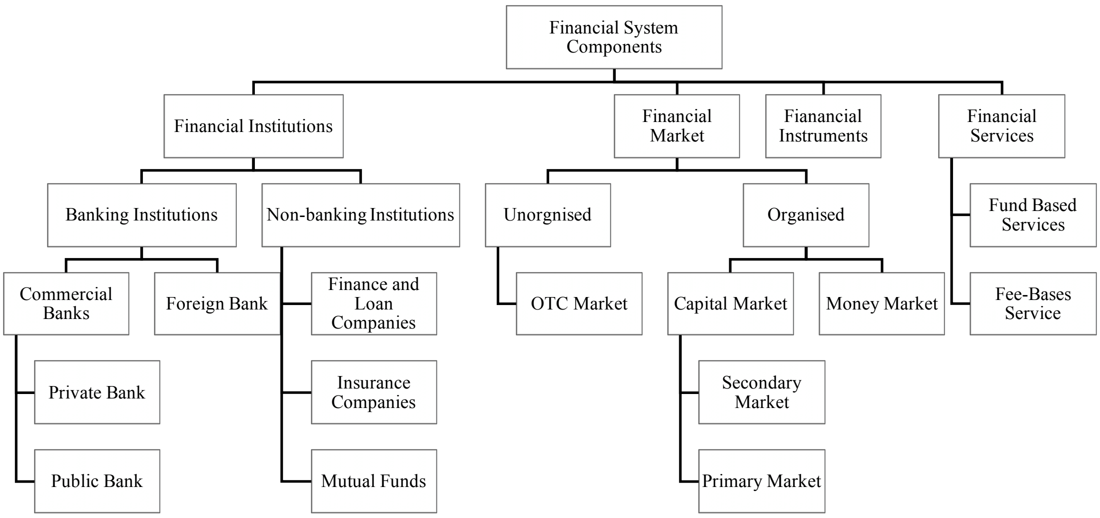
The financial system is the driving force of financial markets and institutions that unify both the lenders and the borrowers, including banks, funds, insurance companies and other financial companies. In other words, the main objective of the financial system is to facilitate the flow of funds between two parties - namely, surplus funds units (SFUs) and deficit funds units (DFUs) - by creating and innovating instruments and products that convince both the lender and the borrower. Two main channels facilitate such exchange. The first is the financial markets (stocks exchange, Over the Counter (OTC) trading and others), and the second is through financial intermediaries such as banks and other similar financial institutions.

The financial markets and institutions are classified into four groups: 1. debt and equity markets; 2. primary and secondary markets; 3. organised and Over the Counter markets; and 4. money and capital markets. The financial intermediaries are the main channels for such markets to function and operate within. Their chief role is to act as an intermediary between SFU and DFU, and so to inject liquidity to the market. The

[7]'In bank-based systems, banks play a leading role in mobilising savings, allocating capital, overseeing the investment decisions of corporate managers and providing risk management vehicles. In market-based systems securities, markets share centre stage with banks in getting society's savings to firms, exerting corporate control and easing risk management' As stated by Demirguc-Kunt and Levine (1999).

financial intermediaries are categorised into two different groups: deposit-taking and non-deposit-taking institutions. The non-deposit-taking institutions are the financial institutions that do not take deposits into their accounts but do generate funds from other types of sources, such as insurance companies, finance companies, pension funds, investment banks and mutual funds[8]. The deposit-taking institutions are those who take excess funds from surplus funds to unite and facilitate such funds to deficit-fund units in the form of loans and securities, such as commercial banks, credit unions and savings institutions. Figure 2.1 presents a map of a financial system, including financial markets, financial institutions/intermediaries and financial assets/instruments (ISRA, 2012).

Figure 2.1. Financial System Components



Source: Own compilation

Historically, the central banks were launched to support its government to raise money for war, as in the case of the Bank of England and la banque de France. Central banks like these raised monies for their governments through investments by the private sector on government debt. During those times, the central banks acted as an advisor and operator for the government debt management office and were initially recognised as commercial banks. However, in this era, central banks manage the government's

[8]While insurance companies and pension funds are known as saving institutions, financial institutions, mutual funds and investment banks are known as investment intermediaries.

monetary system, run payment systems, place interest rates and act as a lender of last resort (Goodhart, 2007).

The banking system can be classified as free banking system and regulated banking system. In one hand, the free banking system there is little or no role of a central bank. However, on the other hand, on the regulated banking system the central bank plays crucial role. A country's central bank is well qualified to play a key role in monitoring and regulating financial stability from its surveillance capacity and the policy tools at its disposal. This reflects its routine work of monitoring the macroeconomic developments and financial system conditions and its responsibility for overseeing payments and settlement systems (Lamberte 2010). The central bank plays a crucial role in providing a country's economy with price stability (low and stable inflation), conduct monetary frameworks, and manage economic fluctuations during times of crises and no crises.

The global financial crises have been a testimony to the importance of the Central Bank as a monetary and fiscal authority providing coordination at both global and domestic levels. Central banks can formulate monetary policies by adjusting the flow of money in the market (Minsky 1986). They can do this if they have control over buying and selling government bonds to commercial banks, allowing them to increase or decrease currency circulation in the market. This allows the bank to steer short term interest rates, thereby influencing long term rates and overall economic activity (Kawai and Morgan 2012). This control over the monetary policies allowed central banks to cut interest rates to nearly zero during the Global Financial Crisis. The advanced economies such as The United States, Japan, The United Kingdom and the Euro Zone were exposed to an increase in the deflation of their economies, pushing central banks to undertake unconventional monetary policies (IMF 2021).

The occurrence of GFC has led the central banks to promote financial stability and upgrade financial stability functions, including macro-prudential policy frameworks. Furthermore, the importance of the Central bank as a supervisory and regulatory body in an economy is highlighted by the fact that a central bank acts as debt mangers for the government hence effectively preserving the financial stability of an economy. Caruana (2014) argues that it is the responsibility of the Central Bank to ensure that the economy is protected from financial vulnerabilities caused by the structure of government debt and the government's cash management is consistent with central banks liquidity management policies. Nevertheless, the author states that central banks have a higher supervisory role as they are the official institution closest to the financial markets and need to work in harmony with other financial supervisory and regulatory bodies, ensuring the independence and power of all authoritative institutions.

It is common for the central bank to act as the body that would take responsibility for prudential regulation and would be the lender of last resort to a failing institution in the sector known as 'lifeboat' action[9]. The question is when this lifeboat action should be taken. Should a central bank be involved when the risk will not represent an institutional failure metastasising to a more entrenched and widespread economic threat (Benston and Kaufman, 1988)? In truth, central banks should only be involved if there is a clear threat to the whole economy and the failure of such an institution may result in the systemic failure of others which will be highly costly and publicly impacting. It is important to note that central banks usually save failing financial institutions by using a taxpayer bailout. This is, of course, a very sensitive situation for the public and evidence should be presented before making such a policy choice (Gowland, 1990).

Irrespective of the structure that supervision of a regulatory authority follows, the central banks are of great importance as they have a direct relationship between different financial institutions and are the source of information. Coordination and communication are two aspects that are highly emphasised by the supervising authority for a central bank, and especially during times of crises management. Jurisdictions in countries such as Hong Kong, France, Spain, the United States, Singapore, Brazil and the Netherlands retain a prudential supervisory function for the central bank, whereas jurisdictions such as Mexico, Switzerland, Australia, China, Canada, The United Kingdom, Japan and Qatar do not. The importance of a central bank is highlighted by its ability to share information and decision-making process

[9] For a historical background on the concept of 'lender of last resort', see Bordo (1993) and Humphrey and Keleher (1984). For a more recent developmental approach, see Freixas et al. (2004). Further discussion can be found in Buiter and Rahbari (2012); Rochet and Xavier (2004); Arteta et al. (2016); and Goodhart (1999). For the case of Europe see Goodhart and Eric (2000). Praet (2016) provide overview of the ECB and its role as LOLR during crises. Capie (1998) and Keleher (1999) answering the question of the possibility for and international form of LOLR.

regardless of the structure (Section 2.4) adopted by the financial regulatory and supervision agencies.

2.4. Importance of Financial Regulation and Supervision

The importance of financial regulation and the organisational design in this respect derives from the importance of the financial sector itself. Jenkins and Sutton (2007) have established several reasons to explain how the financial sector is truly unique.

- Firstly, the financial sector can build and promote large corporations that invest in SMEs, entrepreneurs and other financial firms, which ultimately promote the entire economy tremendously.
- Secondly, the natural dynamic of financial services is to expand and grow constantly due to the special designs of its products required by consumers.
- Thirdly, the financial sector is a sector that can expand internationally because of the nature of its products and services.

Financial services dominate the GDP of most developed countries which also plays an important role in developing countries. It is readily noticeable that financial national and international organisations are spread around the world and have become an essential conduit of globalisation. Hence, it comes with little surprise that this necessitates a large amount of regulation. This is exemplified by the United States and Britain where the sheer amount of regulation of the financial sector has resulted in [them] becoming one of the most regulated industries (Benston, 1998; Wood 2003).

The ultimate rationale[10] behind the financial regulation and supervision is that the financial market's actions generate externalities that would not be easily identified by a private agent. Externalities impose social costs greater than the private cost to the financial institution. However, this social cost has often been overlooked by institutions, especially banks. Such behaviours result in financial institutions taking

[10] The rational of regulation meant to be the logic of why we should have regulation at the first place Benston (1999) and Simpson (1996) and Goodhart (1988). However, there is also objectives of regulation which can be found in Llewellyn (1994) and Davies (1998).

more risk and spending money even though the price of social cost has not been paid by the institution (Falkenaet al., 2001).

The financial systems have demonstrated that when there is less regulation, behaviours become negative and less professional. A report introduced by the World Bank has shown 112 systemic banking crises amongst 93 countries in approximately 25 years between the late 1970s and early 2000s. Today, this number is only increasing due to the globalised financial market (Eichengreen and Bordo, 2002). Therefore, financial regulation and supervision are more important than ever, and exist to mitigate the rising issues of systemic risks and consumer needs which, in other words, is known as prudential regulation and the protection of customers who know the conduct of business regulation (Falkenaet al., 2001)[11].

2.5. The Organisational Structure of Financial Regulatory and Supervisory Organisations

The organisational structure of a financial service regulation and supervision authority is an important aspect of the organisation as it defines the method in which the organisation will operate. There are four major structures adopted by financial regulatory and supervisory organisations: the twin peaks structure, the institutional/sectorial structure, the functional structure, and the single/integrated structure. The differences in the organisational structure of financial regulators and supervisors[12] come essentially from the complexity of the financial sector, as stated in Section 2.2.

[11]A counterargument to the success of free banking system is provided by Klein (1974); Hayek (1978, 1990); Selgin, (1988); White (1984); Dowd (1996) and Benston and Kaufman (1996). Dowd (1992) who all provide an international overview experience of free banking system. Donnelly (1987) and Noll and Owen (1983) deliver general discussion on the area of deregulation from an economic perspective.

[12]To differentiate between the concepts of regulation and supervision Wymeersch (2007) posits that the term ‘regulation’ fundamentally refers to the process of rulemaking. However, the term ‘supervision’ refers to the concept of implementing and enforcing these rules. Wymeersch argues that in regard to the line between regulation and supervision in practice is not as clear as it should be. Thus, it is of importance that those who make the rules are well informed of the possibility of applying these rules. Mwenda (2006) argues that the entity makes regulation would also be the same entity responsible for supervising the compliance of such rules. To conclude, both sides should work symbiotically to increase the level of the efficiency of implementing these regulations to see a thoroughgoing effect on the performance of the financial sector.

One argument why banking may be considered special for requiring unique regulation is that banks are the highest financial institution in the financial sector, holding deposits and requiring high levels of capital to be monitored, which may require more attention from regulators and supervisors (Booth, 2003). Moreover, banks can provide insurance services as well as capital services, which means banks are no longer just deposit holders and lenders but are now entering different markets. This is known as a financial conglomerate[13] which ultimately raises the issue of systemic risk (Nurullah and Dinenis, 2000).

The Economist Intelligence Unit survey of 2006 revealed that most banks have reported to more than four regulator bodies. Furthermore, global banks are eligible to be examined using around 350 regulatory tests a year. This will certainly raise the cost of regulation and compliance. It is crucial to mention what Edward George, the Governor of the Bank of England, stated in 1996 that "there are many ways of skinning this particular cat and, in any event, no structure can be set in stone – the markets continue to evolve and so too must the regulatory structure." (Masciandaro2005; see also Llewellyn, 1999; Healey, 2001; Dale and Wolfe, 2003).

2.5.1. The Twin Peaks Structure of Financial Services Regulation and Supervision

The twin peaks structure involves two main types of structure used in regulating financial services: prudential and business of conduct regulation. The prudential regulation usually runs within the central bank. Before critically discussing this structure, it will be of benefit to present the main differences between prudential and conduct of business regulations.

The main concerns for prudential regulations relate to the capital requirements of financial institutions, such as solvency, financial risks and the overall financial health

[13]The term "financial conglomerate" is used refer to "any group of companies under common control whose exclusive or predominant activities consist of providing significant services in at least two different financial sectors (banking, securities, insurance). Please see (The Supervision of Financial Conglomerates, BIS Report, 1995).

of each financial institution. In short, prudential regulations protect both individual clients from potential default of financial institutions, as well as promote confidence across the sector (Cranston, 1997). Moreover, broader prudential regulation focuses mainly on the failure of the financial institutions that may go beyond private cost to become a public disaster. As such, attention needs to be given to the soundness and safety of financial institutions from systemic risk, where the failure of one institution may lead to the failure of others (Goodhart et al., 1998)[14]. This kind of risk is mostly associated with deposit-taking institutions particularly banks, as any failure of providing liquidity, especially during a crisis, will result in costlier socio-economic consequences (Page and Ferguson, 1992). It may be argued that financial institutions such as insurance companies and pension schemes are less risky than banks due to long-term products. However, since banks, most of the times, can merge with such institutions, this elevates the risk associated with failure (Artis et al., 1992).

The predominant role of conduct of business regulations is to ensure that appropriate behaviour and practices are in place from financial institutions towards its customers (Goodhart et al., 1998)[15]. The importance of conduct regulation comes from growing principal-agent conflicts of interest. Hence, financial institutions are required to disclose information to their clients so they can make the right decision. In addition, honesty and integrity should be central to the culture of financial firms, which may even involve the way products are marketed and advertised (Chopra, 1999). The financial services clients are usually divided into two different groups: wholesale and retail. Conduct regulation has this classification due to three primary reasons. Firstly, it is the nature of the investor; secondly, it is the nature of the retail market; and thirdly it is the nature of the products (Gowland, 1990).

From the perspective of conducting business, government regulation should exist in the financial sector because these regulations will minimise the negative impact on the shareholders (either retail or wholesale clients) of having limited information available, given that governments impose certain requirements of disclosure (Mishkin,

[14] Systemic risk is a fundamental element for financial regulation especially the too big financial institutions, see Brunnermeier et al. (2009).

[15] More details of the regulatory goals regarding conduct of business of regulators can be obtained in Benston (2000) and Rider et al. (1989).

2004). Four reasons are presented by Llewellyn (1999) to highlight the importance of having conduct of business regulations in place. The first is that a consumer may be provided with inappropriate advice due to an agency conflict. The second reason is the probability that a financial institution may become bankrupt before maturation of the contract. The third possible reason is that a contract can contravene a consumer's expectations. And the final reason is that information may be fraudulently misrepresented.

Going back to the twin peaks structure, the G30 Report of 2003[16] identified the twin peaks structure as an objective-led structure. In other words, there are two different bodies: one overseeing prudential regulations and supervision, while the other is the conduct of business regulations and supervision. Taylor (1995) argues that the twin peaks structure is more suitable to fulfil public expectations, financial institution's needs and the objectives of regulators and supervisors. This structure has become particularly popular with regulators and supervisors and it appears that such design is more efficient since there are no conflicts between prudential and conducts of business regulation and supervision, which was the case of the integrated structure (Botha and Makina, 2011). Figure 2.2 presents how such a structure appears.

Kremers and Schoenmaker (2010) have argued in support of the twin peaks structure as an appropriate structure for financial regulators and supervisors. One of their key points is that the twin peaks structure is in favour of regulators and supervisors as it helps to monitor both micro and macro-prudential[17] concerns, which will ultimately help to access the right information at the right time. Moreover, the central bank under the twin peaks structure will be in power, which is a crucial point in itself, specifically

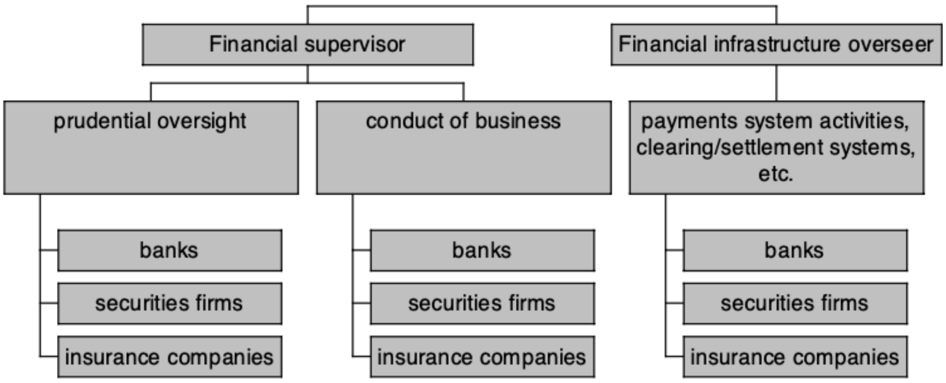
[16]The Group of Thirty G30 is an international body of leading financiers and academics which aims to deepen understanding of economic and financial issues and to examine consequences of decisions made in the public and private sectors related to these issues. It includes: the heads of major private banks and central banks, as well as members from academia and international institutions. Current members of the group include current and former heads of the central banks of Argentina, Brazil, Great Britain, Canada, China, France, Germany, India, Israel, Italy, Japan,
Mexico, Poland, Singapore, Spain, and Switzerland, as well as two chairmen of the Federal Reserve Bank of New York, two presidents of the European Central Bank, a chairman of the Basel Committee on Banking Supervision, two chairmen of the Bank for International Settlements, two chief economists of the International Monetary Fund, a chief economist of the World Bank, and the former President of Mexico.

[17] On one hand, the main focus of micro-prudential regulation is the stability of individual financial institutions. On the other hand, the main focus of macro-prudential regulation is the stability of the financial system as a whole.

during times of crises (Lui, 2012). Indeed, equal positions for both prudential and conduct of business regulation and supervision means that the objective of regulation and supervision is closer to being achieved successfully.

A country that has effectively adopted the twin peak approach for financial regulatory bodies is Australia[9]. Australia adopted the Twin Peak approach in 1997 when a review was conducted of its financial regulatory services, separating prudential regulatory oversight from the conduct of business regulations. A deposit-taking institution that includes building societies, banks, insurance companies, superannuation funds and credit union is regulated by the Australian Prudential Regulatory Authority (APRA). It is independent of the central bank and, being a prudential regulator, the APRA's primary focus lies in the safety and soundness of the various organisations it supervises. The authority responsible for consumer protection and market integrity across financial systems in Australia is the Australian Securities and Investment Commission (ASIC). The ASIC is the authority responsible for regulating financial service organisations, companies and the financial markets of the country. Prior to 1997 the financial regulatory structure in the UK was fragmented based on sectors and self-regulatory bodies. However, the Labour Government in 1997 worked in replacing the existing structures with a new legislative framework namely the Financial Services and Market Act 2000 and introduce the Financial Services Authority (FSA) a single regulatory body that regulate and supervise the whole financial system Daripa et al. (2013). In 2013 the new structure of the financial regulatory authority in the UK took place by creating the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA) all under the Bank of England regime. (PRA) responsible for financial safety and soundness of the whole system. (FCA) responsible for the behaviour and conduct of business issues. The Bank of England who act as an umbrella for the whole regulatory bodies mainly responsible for financial stability, monetary policy and payment settlement.

Figure 2.2. Twin Peaks Structure of Financial Regulation and Supervision. Source: Supervision of Financial Services in the OECD Area



Source: Lumpkin (2002)

2.5.2. The Institutional/Sectorial Structure of the Financial Services Regulation and Supervision

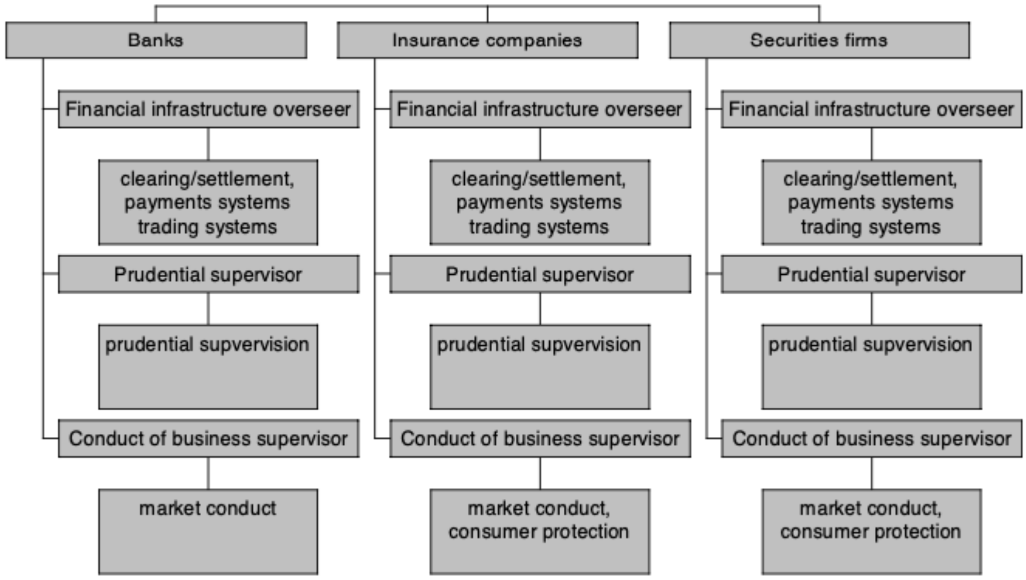
In a financial market the financial regulators and supervisors have different authorities, meaning one authority regulates and supervises banks, another regulates and supervises insurance companies, and still another one regulates and supervises securities businesses. Hence, the financial sector is considered to be as an institutional or sectorial structure of financial regulation and supervision. One example of a country successfully practising institutional structure, also known as sectorial structure, is the People's Republic of China.

The People's Bank of China established in 1948 but gave mandate by the State Council to act as Central Bank from 1983. Additionally, there are three financial regulators in China, namely China Banking Regulatory Commission (CBRC) created in 2003 to regulate and supervise banks, China Insurance Regulatory Commission (CIRC) created in 1998 to regulate and supervise insurance companies, and China Securities Regulatory Commission (CSRC) created in 1992 to regulate and supervise securities companies. The China Banking Regulatory Commission (CBRC) was created in 2003 as an agency of the People's Republic of China (PRC) authorised by the State Council to regulate the banking, insurance, and securities sectors respectively. However, in 2018 the Financial Stability and Development Committee (FSDC) was created as a super regulator. Another regulatory move by Chinese government was to create the China Banking and Insurance Regulatory Commission (CBIRC) in 2018 by merging the existing CBRC and CIRC.

In the institutional approach, central banks take the lead in dealing with systemic risks and prudential regulations. Conduct of business regulations is most likely to be formed as self-regulation, in a way that a council or committee will take the responsibility. This is usually assigned as a mixture of regulators and market participants, Botha and Makina (2011). Such a structure is suitable in the sense that the financial regulators and supervisors will have a clear understanding of each sector individually. Figure 2.3 provides an overview of how supervision by sector can be implemented. However, since the financial sector is now known for its financial conglomerates - in other words, banks providing insurance products and capital services - this type of structure now raises some issues. For instance, a bank that provides insurance products and capital services will be regulated by three different authorities; this is likely to result in having a gap of information between different authorities. Another issue would be the way that regulators and supervisors calculate the risks and capital requirements, and this is likely to be highly costly and ineffective (Wymeersch, 2007).

Although the three-pillar structure still exists in some European countries and around the world, it is considered to be difficult for a large conglomerate financial market to adopt such a structure, due to the differences in the nature of each financial product which often requires a different type of regulatory and supervisory assessment (Wymeersch 2007). One can argue that having multiple regulatory and supervisory authorities in the financial sector will raise the competition amongst the agencies, which will be of benefit to both the financial institutions and the consumers (Goodhart, 2003). However, the question consequently arising here is where regulators and supervisors are meant to be considered as competitors; otherwise how can they minimise the incoherence amongst themselves (Kremers et al., 2003).

Figure 2.3. Institutional/Sectorial Structure of Financial Regulation and Supervision. Source: Supervision of Financial Services in the OECD Area



Source: Lumpkin (2002)

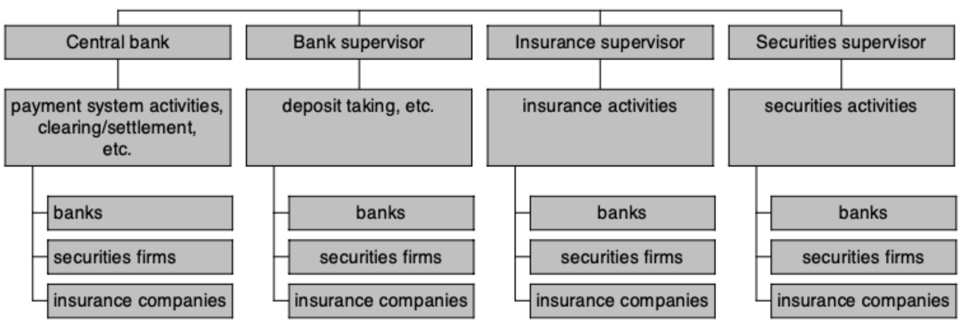
2.5.3. The Functional Structure of the Financial Services Regulation and Supervision

The functional structure of financial regulation and supervision is closely related to twin peak structures. The main difference between them is that there are more regulatory and supervisory agencies based on the most important functional goals and objectives. Figure 2.4 presents the approach for implementing a functional structure. For instance, an insurance regulator and supervisor will regulate and supervise any financial institution that carries out insurance businesses. Similarly, the conduct of business regulatory and supervisory will regulate and supervise any financial institution that provides services to customers (Dale and Wolfe, 2003).

This structure is implemented in the United States, Italy, France and other countries. In 2003, the financial services oversight system was reformed in France with its sole purpose being to improve the efficiency of the regulatory bodies in the country. The overhaul resulted in substantially simplifying the financial regulatory framework. The banking commission has the responsibility of prudential supervision for both banks and investment firms. The committee of Credit and Investment Firms investigates the authorisation of credit institution and investment firms. Both the committees are chaired by The Governor of the Bank of France and are based within the Central Bank. Under the functional structure, financial institutions are regulated and supervised by a high number of authorities as every authority will have concerns about how regulation can be best implemented regardless of the legal status of the institution. Such a structure is more efficient in the sense that regulators and supervisors will have a more accurate observation of the financial institutions in the market, especially in a crowded market with many players, as is the case of the United States. Without the functional structure, it will be difficult to identify small financial firms with prudential shortcomings, as they will be lost amongst the excessive number of other firms (Wymeersch, 2007).

The functional structure, on the other hand, requires a high level of cooperation and smooth transaction of information amongst the regulators and supervisors participating in the financial market (Botha and Makina, 2011). It also imposes the issue of having too many regulations that can be a burden for financial institutions (Dale and Wolfe, 2003). In addition, the cost of regulation and supervision will be high which will result negatively on the financial market (George, 1996; Wood, 2003). Goodhart et al. (1998) argue that the functional structure's main issue is that the overall solvency and risk of a financial institution is difficult to gauge due to the blurred responsibility and accountability of one agency's function over another. Therefore, the prudence of this regulation position should be questioned.

Figure 2.4. Functional Structure of Financial Regulation and Supervision: Source: Supervision of Financial Services in the OECD Area



Source: Lumpkin (2002)

2.5.4. The Single/Integrated Structure of the Financial Services Regulation and Supervision

The single/integrated regulatory and supervisory structure has been adopted since the late 1980s, mainly by Nordic economies such as Norway, Iceland, Denmark, and Sweden (Botha and Makina, 2011). Figure 2.5 provides an overview of an integrated structure. The United Kingdom is one major economy that has a single organisation responsible for financial regulations and supervision. Taylor and Fleming (1999) argue that the impetus for replacing the previous structures with the single authority structure in the UK was market-driven, and the main aim was to have more effective regulation and supervision. Notwithstanding, it is crucial to notice that the introduction of such structures in many countries has limited the powers of the Central Bank, since all power and responsibility of supervising the banking systems has been taken over by the single authority body, as in the instance of the UK (Masciandaro and Quintyn, 2009).

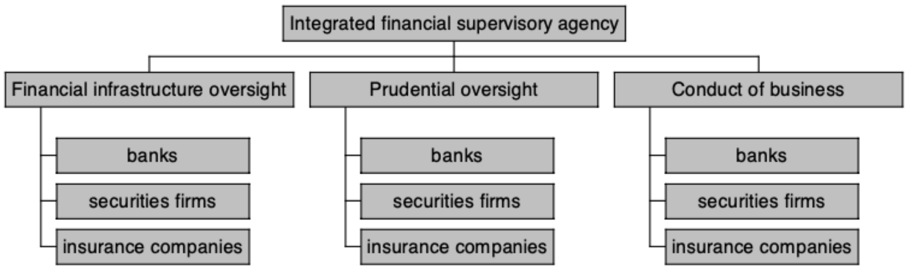
The integrated approach has also been adopted by Germans for supervisory oversight in their country. Before the introduction of the integrated approach, Germany had an Institutional approach where regulators of each state supervised the stock exchanges. Integration of different financial services provided by different financial sectors increased the complexity of supervision which led to the creation of a single supervisory body, the Federal Financial Supervisory Authority (BaFin).
The central bank in Germany is responsible for certain supervisory functions, and it coordinates these supervisory functions with BaFin. The supervisory authority is responsible for all three traditional financial services: banking, insurance and securities. It is also responsible for the safety not only of institutions, but also of insured parties. BaFin enforces standards of professional conduct and seeks to prevent any unauthorised activity. To avoid any confusion between roles and responsibilities, an MOU has been drafted between BaFin and the Central Bank of Germany. Under the MOU, the central bank is allocated most of the operational tasks in banking supervision. It also plays a role in crisis management and advises the federal government on economic policy issues of major significance.

Briault, (1999), Goodhart et al. (1998) and Taylor (1995) agree that the main driving force towards an integrated structure are the changes in the financial market structure and the resulting changes in management techniques on the part of the financial institutions. For example, if a bank is providing insurance and capital products, its management techniques will adjust according to the changes in the types of services they provide. Hence, regulators and supervisors should follow such changes to achieve high levels of effective regulation and supervision. Taylor and Fleming (1999) have introduced a different logic of the single regulatory and supervisory structure in recognition that globalisation and internationalisation of the financial market have impacted hugely on domestic and international financial regulatory and supervisory bodies.

Splitting the structure of financial regulation and supervision, as opposed to having a single tier regulatory body, can lead to complexities and costly regulations (Hindle, 2009). By the same token, Nurullah and Nakajima (2005) have suggested that it is preferable to have a single regulatory and supervisory structure if the financial market is allowed to behave like a financial conglomerate because such a structure will support regulators to be able to access information more easily and track the risk more efficiently. This is also supported by Briault (1999), who trusts that financial regulation and supervision objectives will be achieved more actively, due to different factors associated with the single structure. One such factor is that such structure will benefit both economies of scale and scope. In addition, it is a less costly structure and will lead to a more efficient allocation of the available resources. Furthermore, such a structure will minimise agency conflicts and encourage the transparency of the financial systems and promote accountability.

Nevertheless, the single structure has been criticised due to the need for a high level of expertise required to run a body that rivals only the financial markets themselves in term of complexity (Vermorken and Vermorken, 2011), especially if the market is too big to be regulated by a single authority. There is certainly evidence to support this: not only did the FSA not foresee the crisis of 2008, but it also led to its disbanding after only 14 years of existence.

Figure 2.5. Integrated Structure of Financial Regulation and Supervision. Source: Supervision of Financial Services in the OECD Area



Source: Lumpkin (2002)

2.6. Need of Organisational Structure in Financial Regulatory and Supervisory Organisation

Following the discussion of different types of organisational structure for financial regulatory authorities, this section will focus on how financial supervision started, how the organisational structure gained importance and why this became significant. The history of supervision within the financial sector comes from the supervision of banks through the existence of the central banking system[18].

From the financial supervision perspective, Sweden was the first country to introduce banking supervision in 1846, which was then followed by the US in 1864 (Scheben 2007). The core reasons behind the creation of the financial supervisory system vary from era to era and from country to country. For instance, Moeschel (1991) (as cited in Scheben (2007) argues that the first attempt to exercise supervision of banks was because banks were the issuer of the banknote, which was later moved under the control of the Central Banks. Sweden, for example, launched financial supervision for the sake of deposit protection (Scheben 2007). The famous international banking crisis of 1931 brought the attention of most countries (e.g. Germany, Italy, and Belgium) to the importance of financial supervision activities. This crisis received different names in different regions (e.g. credit crisis, payment crisis, trust crisis, etc.) based on how

[18]Please see Goodhart (1969) for an overview of the history of US banking, and Goodhart (1972) for the history of the banking sector in the UK.

the crisis was affecting the region's financial system and how it was perceived, mainly by relative parties, (Cheng, 1989).

The debate on the best organisational structure for financial services regulation authorities was not on the top of the agenda for either academic or policymakers until early 2000, when many jurisdictions reformed their regulatory structure (Australia, Japan, United Kingdom, the Netherlands and Germany). New reconsiderations of the organisational structure of financial regulatory authorities emerged in the aftermath of the Global Financial Crisis of 2008 as a way for policymakers to show some actions in response to the cause of the GFC. For example, the USA enacted the Dodd-Frank Act, and the UK abolished the Financial Services Act (Taylor, 2015).

A well-structured organisation is not necessarily an efficient organisation, however. Abrams and Taylor (2000) propose five components providing a structure to an organisation and results in an effective regulatory authority:

I. Clarity of aims and objectives
II. Independence and accountability
III. Adequate resources
IV. Effective enforcement powers
V. Comprehensiveness of regulation

The comprehensiveness of the organisational structure of a financial regulatory authority is a crucial tool in delivering an effective set of regulation as seen in the UK and other jurisdictions in the last three decades. The fragmented regulatory structure is where it is distinctive in regulation and supervision between sectors; that is, banking, insurance and securities. Furthermore, a consolidated structure assists in directing resources to the urgent and most needed part of the institution rather than replicating projects for a different institution, which would be considered an additional cost. Fewer organisational structures enhance the coordination activities and minimise overlapping and conflicting between institutions. However, organisational structure is neither the most important factor nor the most irrelevant aspect of delivering effective regulation and supervision (Tylor, 2015).

Regarding the regulatory organisational structure, Turner et al. (2016) find that a simple regulatory structure leads to easy answerability, whereas for a complex structure it becomes difficult to pin-point the answerable authority. This finding is based on an examination of the structure of pension regulation of both Ireland and the USA, where Turner et al. argue that a complex structure means that the decision-making procedure is distributed much as liabilities are.

It is argued that the design of the organisational structure of the financial regulatory authority should be a more consolidated structure, as this is the most suitable approach for supervising the financial sector. The events of the Global Financial Crisis further back up this approach. Moreover, according to Taylor (2008), prudential and conduct of business regulation should not be mixed, while the central bank's involvement is crucial for macro-prudential surveillance and crisis management.

As in any industry, there are always majority and minority groups. The influence of each group is based on how easily it can be organised, and how well such a group will achieve homogeneous preferences. Based on these characteristics, smaller groups will frankly benefit more than larger groups in terms of how substantial influence can be achieved (Olson, 1965). For instance, in the financial system, the small groups will be the banks, whereas the bigger groups will be the consumers of the financial services. Logically, it is far easier for banks to be organised as there are only a handful of them operating in the UK, for example, whereas consumers will be highly numerous - in their millions. In short, preventing market failure is no longer the primary interest and goal of regulation, but it is rather delivering the regulation in the favour of industry participants in exchange for political support (Stigler, 1971).

2.7. Factors Driving Changes in the Structure of a Financial Regulatory Organisation

The change of the organisational structure of a financial regulatory authority occurs because of three principal events: after the financial crisis, after political change, and after market change. Every financial crisis is evidence of regulatory and supervisory failure, even though the cause behind every crisis may be different (Cihak et al., 2012, Holland, 2010, Dam, 2010). While some scholars have argued that the root cause of the previous financial crises in 2007 was mainly due to the lower capital requirements and poor risks analysis by financial institutions (Goodhart, 2008a; Manini et al., 2012; Balseven, 2016; Goodhart, 2010; Drew, 2010; Goodhart, 2008), other scholars argue that the financial crises of 2007 were driven mainly by structural factors such as disregard for macro-prudential regulation and supervision, and the dramatic increase of financial market innovation (Hoshi, 2011; Davies, 2010; Sohr, 2015; Longworth, 2014; Tropeano, 2011; Miele and Sales, 2011; Lothian, 2012).

Furthermore, there is a trend in the literature to blame political influence and the exercise of power blame with regard to the financial crises, and hence to blame those in authority for not having taken the right decisions at the right times and for not promoting the necessary structural change, but rather repeating familiar mistakes even if under different auspices (Quaglia, 2013; Levine, 2012, Langevoort, 2010). As a response to the financial crisis Garcia-Herrero (2007) argues that many jurisdictions, including the UK, the US and Germany, reconsidered the organisational structure of their financial regulatory authorities. Regarding the development of the financial market and how it influences the change of the organisational structure of the financial regulatory authorities, Hoshi (2011) and Garcia-Herrero (2007) argue that the main challenge for the financial regulators and supervisors is the complexity and size of the financial institutions, which require a more advanced resolution mechanism. In addition to that, they contend that when they design their structure, regulators and supervisors need to clearly distinguish factors such as the soundness, safety, and stability of individual financial institutions and the soundness and stability of the overall financial system.

Helleiner & Pagliari (2011) and Drew (2010) assert that because financial markets are now globalised, international financial regulation would benefit from discussing and analysing their weaknesses more than their strengths, given that the crisis demonstrated that the structure of national financial regulation should be developed alongside an increasingly globalised market. Balseven (2016) contends that the Basel standards complicate the structure of how financial institutions should be supervised more than the existing complexity does, and therefore questions the effectiveness of the structure of both financial institutions as well as financial regulators and supervisors. Capie (2007) provided an extensive historical view of the UK and the US financial regulation services from the 18^{th} to the 20^{th} centuries. He demonstrates that there are various stages of developments of the regulatory structure, including the existence of different offices, committees, authorities and central banks. Such developments are mainly affected by the nature of the market and political influences. International experience shows that they are highly influenced by the British and American system and endeavour to either replicate or adopt features from them.

Financial regulators and supervisors also face challenges that relate to specific and complex political entities, such as the European Union or the United States. In the (EU) for example, the financial crisis has revealed some of the limits of regulators' and supervisors' efficacy, mainly at a macro-prudential level. Within such complex legal structures, it is difficult to institute changes due to the high amount of countries involved as this requires large political cooperation (Quaglia, 2013). Burn (2016) outlines more broadly how political unions encompass problem areas by listing "lack of focus on objectives, failure to balance objectives, lack of relevant market knowledge, lack of relevant background knowledge, and insufficient awareness of principles underpinning the rule of law". In the case of the USA, the challenge arises from the differentiation between the legal and regulatory systems of each federal state which, for instance, complicates notions such as regulatory and compliance costs (Goodhart, 2010).

At a national level, the literature shows clear evidence that the process of financial regulation is driven by the motivation of the political influence rather than the public interest, especially when it comes to structuring the financial regulatory authority (Levine, 2012; Barth et al., 2013;). More specifically, Ferran (2011) has extensively examined the break-up of the Financial Service Authority in the (UK), the former single financial regulator, and concluded that politics was highly influential in the break-up. Masciandaro and Quintyn (2008)[19] conclude from their findings that the policymakers were found to take the position of a 'grabbing hand view' in the context

[19]Masciandaro and Quintyn (2008) looked at the grabbing hand (Shleifer and Vishny, 1998) and helping hand (Pigou, 1938 and Barth et al., 2004) theories of what drives policymakers' decisions when designing the structure of the supervisory system, and investigated the market preference in the Italian financial market.

of redesigning the structure of the supervisory bodies. The grabbing hand view tends to explain the policymakers behaviour benefitting the organised interests group in the system.

2.8. Effect of Human Culture on Operations of Financial Regulatory and Supervisory Organisations

The financial sector plays an important role in the daily lives of individuals and organisation alike, raising a key question of how the sector can be improved to prevent the exposed parties from crises and uncertainties (Davis and Kim, 2015; Krippner 2005). The operations of the financial regulatory and supervisory bodies are deeply impacted by the culture of employees and the region wherein they operate. The following section discusses the cultural factors that influence the operations of a financial regulatory and supervisory organisation.

2.8.1. Organisational Culture and Source of Culture in a Financial Regulatory and Supervisory Body

An organisational or corporate culture which is essentially defined as "the way we do things around here" (Deal and Kennedy 1982) is a crucial part of any organisation's environment and has a strong effect on the organisation's employees and the behaviour they display (Schein, 1992). Schneider et al. (2013) define organisational culture as the norms that are experienced and described by the members of an organisation as existing in their workplace. Simoneaux and Stroud (2014) state that the culture at an organisation is defined by how the members of the organisation interact with each other and various stakeholders.

The phrase "organisational culture" had gained popularity with managers and management theorists since the phrase was coined in the publication "In Search of Excellence" (Peters and Watermen 1982). The branch of social anthropology forms the theoretical roots of the term "culture" and is used to holistically define the qualities and beliefs of a group of humans that is passed down to the next generation. Authors such as Taylor (1971) describe the culture about ethnography as a complex concept that includes morals, art, beliefs, customs, law, knowledge, and other habits acquired by a human being as a member of society. Whereas Brown (1992) states that the concept of organisational culture provides a theoretical people-centred perspective of management change offering a more "intangible" insight towards the nature of the organisation and management behaviour. This is in contrast to the traditional view of management towards the organisation that entails formal structure, procedures, rules and rational arguments. The author identifies that within the organisational culture, the problem lies with the usage of new tools and techniques by the younger generation, leading to a change in perspective of people management, realisation of strategic objectives, and management change.

Organisational culture can also be defined as a set of beliefs, values and behaviours that differentiates organisations from one another (Ortega-Parra and Sastre-Castillo, 2013). Another definition of organisational culture is proposed by King (2012) as a value system that drives people silently and subconsciously to make a decision or a choice. Yirdaw (2014) observes culture as the glue that combines the non-human resources of an organisation with its human resources to establish an environment of teamwork and high performance. Bernhardt et al. (2006) and Luttmer and Singhal (2011) stated that organisational culture has an impact on the economic phenomena of an organisation. They believed that organisational culture influences the recruitment process for an organisation and results in assimilation of employees that are culturally similar. An organisation that lacks cultural diversity becomes rigid and is unable to operate effectively in a dynamic environment. On the other hand, Guiso et al. (2009) argue that it is important that employees are culturally aligned with the beliefs and culture of the organisation in order to create a harmonized work environment and reduce conflict among peers.

The overarching question is what type of culture is right for an organisation? It may seem that a work culture good for the regulatory authority might not necessarily be beneficial for financial institutions, and vice versa. The question regarding what is a ‘right’ culture encompasses more than the consumer view alone. It is not wrong to state that no single type of work culture is the perfect culture. Indeed, Levin and Gottleib (2009) outline indicators that are often seen in organisations said to display a healthy and positive culture. Attributes such as supportiveness, integrity, determination to focus on quality and adaptability of human resource are crucial factors for maintaining a healthy and positive culture. Bearing this in mind, the authors note that the definition of the right culture may differ for various industries. For example, communication and reporting are a crucial part of their culture of the aviation industry, in the same way as identifying risks is in the financial service sector.

The culture of an organisation may be a result of beliefs gathered from different sources, but it is mainly developed from the core ideologies and beliefs of its founders (Martinez-Canas and Ruiz-Palomino, 2014). Uddin, Luva and Hossian (2013) observe that the source of an organisation's culture can also include the experiences gained from various members of the organisation alongside the ideologies brought in by the employees at the organisation. Founders have a greater influence on the culture as they have an opportunity at an early stage of an organisation's development to provide direction and strategy to its members. Hence, they have a greater impact on how the organisation operates and is perceived (Andish et al. 2013) from the beginning. The impact of culture is recognisable once the business strategy is implemented and the operations have begun. Toma and Marinescu (2013) state that the assumptions of culture and behaviour that the founders of an organisation aim to implement are developed from their personal beliefs and their own cultural backgrounds. In multicultural organisations where the founding members come from different background, the organisation's culture is an amalgamation of individual cultures of the founding members (O'Reilly et. al., 2014).

Traditionally it is believed that senior leaders play a more pivotal role in defining the culture of an organisation since they could 'set the tone from the top.' The same is argued by several authors that the senior management of a firm is accountable for the work culture present in an organisation and should be held responsible for any shortcomings. But they argue that they are not the only factor influencing the organisation's culture as human resources, irrespective of their position in an organisation have an influence on the culture, no matter how small it may be. Change in leadership has a moderating role in corporate culture (Fiordelisi and Ricci 2014) and corporate culture also has an impact on change in leadership of an organisation. Leadership change leads to completion and creation-oriented cultures however the negative impact is the instability that may arise in the transition. Human behavior in regards to impact caused by leadership change deeply impacts the operations of financial regulatory and supervisory body. It has been found by Warner et al. (1988) that negative culture of an organisation leads to change in leadership and its necessary for an organisation to employ leadership that match their organisational culture.

They also assert that for a financial regulatory body working across international borders, culture is further influenced by the work ethics and culture of the host country in addition to the country from which the organisation belongs (Bailey, 2015; Cialdini 2016; Westrum, 2004). Authenticity, consistency, principled pragmatism, and self-awareness are certain qualities that an effective leader should possess. The organisation leaders need to display this desired behaviour instead of talking about it in order to empower people in their organisations to enable them to act as culture carriers and influence other people. Technological modernization is an important force towards culture change and it leads to partly similar developments in different societies. Influence of culture on new technologies tends to affect all countries without necessarily changing their relative position or ranking; if their cultures change, they change together. Hofstede (2011) identifies that organisational culture is impacted by technological advancements in the society. The organisational cultures at financial regulatory and supervisory organisations have witnessed change in their national culture due to adaptation of technology. This is particularly true for china where decades cultural isolation was changed within a few years due to rapid global exposure and technological integration.

2.8.2. Factors Affecting the Decision Making Process in a Financial Regulatory and Supervisory Organisation

In the financial regulatory and supervisory sector, economic and financial reasoning is based on individual or group decision-making power. Any decision is mostly made at a subconscious level, irrespective of the level of awareness the person or a group of people might have about the topic. The decision-making process is considered to be taken by the unconscious mind as it is difficult to trace back the steps taken during the process. Furthermore, the human mind provides a continuous sense of false security of being in control, providing reassurance that decision made is not self-serving and the outcome will not be a bad one. The decisions are developed based on one's cultural background, norms, biases and prejudices which give rise to the question of how a financial regulatory body can develop a rationale set of rules for a diverse population. The effect that humans have on an organisation is defined by the norms, biases and behaviour of people around them. This section explores how the functioning of a financial regulatory organisation is affected by the human resources it deploys.

2.8.2.1. Influence of Norms on the Operations of the Financial Regulatory and Supervisory Organisation

Norms are a sort of regulations that influences an individual's decision-making power. These norms can be either social norms or market norms or legal norms. The choice of norms to which an individual adheres at the time of a decision-making process is not a conscious choice (Raz, 1983). Social norms are less tangible and are based on the realms of ethics, morals, values and ideology of the community. Market norms are defined by the economics of the marketplace, the demand and supply of goods and services offered by the economy. Legal norms are defined by the laws written and are considered important in order to have a positive impact on the culture of a region. The human capital employed at any financial regulatory and supervising authority is then affected by the norms dictated in the region and impact upon the decision-making process (Hauser 2006).

Social norms are those defined by the norms that govern the behaviour of a society and the individuals that make up that society. They are developed through the various social interactions that take place through the individual and can be felt by them. These norms exist without the need to write them down in a form of an agreement (Fruehwald, 2010) and for adherence. WDR (2015) refers to such norms as "Thinking Socially: behaviour influenced by social expectations, social recognition, patterns of cooperation, care of in-group members, and social norms. Social norms are not similar worldwide."

Market norms focus on facilitating transactions to maximise the utility of an individual and provide relative satisfaction to the individual. The strongest subject of market norms is the concept of Homo Economicus that has provided a model for economic thinking over past decades (Sen, 1977). While functioning under market norms, regulatory authorities may tend to promote domestic industry rather than the foreign industry for their security, and in so doing they may be able to produce great values in terms of economic gains. While doing so themselves, regulatory bodies also frequently promote more about the society than they intend.

Agency theory plays a pivotal role in economic reasoning as per market norms. Jenson and Meckling (1976) define market norms by emphasising that the interest of shareholders can sometimes be different from the interest of managers within the firm, and this could potentially be disadvantageous to the shareholders. For this reason, having performance structures in place would align appropriate incentives to allow the actions taken by the managers of financial institution to be in line with the interests of the shareholders.

Legal norms are state-imposed, or market and social norms. For example, it is a social norm that it is wrong to cheat a person, but authorities have embodied social norms like these and made it legally punishable to cheat someone, especially in business arrangements. Over time the primary function of legal norms helps to encourage and prevent certain types of behaviour. The function of the legal norm is also to deal with interactions between market and social norms, which could include both weakening or strengthening of these norms. Legal norms are generally accompanied by sanctions that may be either administrative or criminal. These sanctions are defined by Raz (1983) as “Prudential reasons”. Hence from a point of view of maximising utility, it is in the best interest of financial firms to abide by legal norms.

In early 2007, the UK Financial Services Authority (FSA), pleaded for more norm-based regulations by stressing that norms help to develop outcome-focused regulations (De Vries, 2013). The Dutch Banking oath is a good example of the application of norms, as per Lagarde (2015). The oath is developed on the concept of integrity which defines culture within the work environment. Presented to employees, it will guide them with a framework of social, market and legal norms.

2.8.2.2. Influence of Human Behaviour on the Operations of the Financial Regulatory and Supervisory Organisation

The behaviour of every individual affects the working environment of an organisation. Every individual displays three types of behavioural aspects: internalisation, identification and conformity. The main difference between these behavioural aspects is the level of "intransiences" i.e. how much one feels that a norm is correct through their own reasoning and not because of an external reason (Ariely, 2010).

Internalisation is defined as a person's behaviour in abiding by a norm irrespective of the level of the imposition of the same norm. Identification is a conscious choice made by an individual which reflects a wilful following of certain behaviour chosen by that individual. Identification was described by Kelman (1958) as a behavioural aspect of an individual when he/she accepts influence as a reason to establish or maintain a satisfying relationship with another person or a group. Conformity relates to a behavioural aspect when we accept a norm without any prejudice either willingly or to adjust to a group. Herding and peer pressure is a form of conformity, while identification and conformity both have the same results i.e. they determine how the certain behaviour of an individual or a group influences their surroundings. Shavell (2010) calls this the "compliance externality" - people feeling pressured to act according to certain social norms for fear of social sanctions.

The Hofstede model of national cultures (Hofstede 2009) present with five dimensional national cultures: Power distribution, Individualism, Masculinity, uncertainty avoidance and long-term orientation. The model warns against confusion with value difference at the individual level. Within the dimensional model cultures can of course change their position on a dimension. The authors states that Culture change basic enough to invalidate the country dimension index rankings, or even the relevance of the dimensional model, will need either a much longer period - say, 50 to 100 years - or extremely dramatic outside events.

Parsons and Shils (1951 p77) were renowned sociologists that suggested that most of the actions undertaken by a human is determined by five pattern variables and choices between pairs of alternatives. The authors claimed that these choices that are available to human being are present at the individual level, social level (organization or group) and at the cultural level. These variables and alternatives are as follows:

1. Affectivity (need for gratification) Vs. affective neutrality (restraint of impulses)
2. Self-orientation Vs. Collective-orientation
3. Universalism (applying general standards) Vs. particularism (considering particular events)
4. Ascription (judging people for who they are) Vs. Achievement (judging people for what they do)
5. Specificity (limiting others within specific boundaries) Vs. diffuseness (no prior limitations or judgments in regards to the nature of relations)

From the regulatory and policy development point of view, questions arise as to how to incorporate behavioral aspects in financial supervising bodies. WDR (2015) provides comprehensive outline incorporation of behavioral aspects at an international level and states that "paying attention to how humans think can improve the design and implementation of development policies and interventions that target human choice and actions (behavior)." To put it differently, development policy is due for its redesign based on careful consideration of human factors. Within the dimensional model, cultures are free to change their position on a dimension resulting in a dynamic culture dependent upon the human behavior (Hofstede, 2006) resulting in regulatory authorities to adapt and frame cultural polices that are dynamic.

In 2013, the European Commission contracted a report to study how a better understanding of people's behaviour benefits the process of supervision and regulations. The study found that it is relevant to understand the behavioural aspects of a human being to develop a comprehensive set of regulations for supervisory bodies. Feldman (2017) points out that norms regarding the corruption and conflicts of interest can be drafted in a manner that lowers the barriers of misconduct. To elaborate the theory, he states that the so-called four-eyed principle believed to be an appropriate check and balance might be less effective in considering how people working in groups are more likely to engage in relative wrongdoings in comparison to how they would have behaved individually.

2.8.2.3. Effect of Biases on the Operations of the Financial Regulatory and Supervisory Organisation

A bias towards a situation runs deep and is impacted by neurological influences. The way the human brain develops over the years affects the choices that a person makes and limits the extent of influence that his/her surroundings may have. Swaab (2010) a renowned neurosurgeon crudely states that, “We accept or reject things, not because we have thought deeply about them, but because we have no choice. Ethics is an outgrowth of our ancient social instincts, designed to do what does not harm the group.” Biases exist in many forms and those that are salient towards the financial sector are listed below:

- **Representative Bias:** is created by comparing elements that resemble each other. Though this type of probability is useful, Feldman (2017) argues that it can be a disaster, as several additional factors that affect the judgement of a probability cannot be influenced by similarities.
- **Confirmation Bias:** is based on receiving confirmation of one’s own existing beliefs. It creates an irrational tendency to confirm hypotheses or preconceptions by either searching or interpreting information. In the financial sector, confirmation bias is a positive attitude as finance is a delicate matter and can affect everyone involved in it to a great extent (Miller, Vandome and McBrewster, 2009).
- **Anchoring:** it is about a person’s over-dependence on the initial information offered. Tversky and Kahneman (1974) have investigated anchoring with a set of experiments. They found that the application of anchoring is mostly felt in marketplaces where bargaining is used as an anchor for initial price offering. This creates a sense of false achievement in the buyer where they feel that they have purchased a product (insurance) at a reasonable price, while the seller is also satisfied as he had already overpriced the product (insurance)
- **Availability Bias:** is based on the immediate thought that comes to mind when a situation is presented for a decision-making process (Esgate and Groome,

2005). The availability heuristic limits the accuracy of predictions by focusing on events that the individual has experienced him/herself in the past.

The complexity of the financial sector creates a strong reliance and over-dependency of the general public on "professionals" and "experts". This creates further complications for supervisory and regulatory bodies to monitor the biases of these "professionals" and "experts" on whom the general public relies (Tversky and Kahneman 1974). In their papers, Masciandaro and Favaretto (2014; 2016) cited the impact of the global financial crises and argue that there is a need to reduce the dependence on experts since the information provided by them can be tainted and affected by their personal biases.

2.8.3. Behavioural Supervision and Regulation in Financial Regulatory Organisation

As a requirement of behavioural supervision, the supervisors, who are mainly the founders, top executives and senior management staff of an organisation, would benefit from giving credence to the importance of incorporating behavioural elements within financial supervision. It is imperative for regulatory bodies subsequently to hire staff members who possess genuine knowledge and expertise in the related fields to enhance the effectiveness of behavioural supervision (Favaretto and Masciandaro, 2016).

De Nederlandsche Bank (DNB), the central bank of the Netherlands, is a great example of a supervisory body implementing behavioural supervision. The DNB published a policy paper in 2009 entitled "The Seven Elements of an Ethical Culture". The publication describes a set of recommended behaviours to be followed in addition to elements of corporate governance. The elements that are regarded as key cultural factors by the DNB are highlighted in the following, before Figure 2.6 below, along with their positioning.

Figure 26. Cultural Elements of DNB.

Source: De Nederlandsche Bank (2013)

DNB has employed an expert team of psychologists and sociologists who provides day to day consultation for behavioural supervision. They are tasked to regularly conduct behavioural surveys within the organisation, participate as observers in board meetings, and also conduct behavioural interviews with top executives. Early recognition of any behavioural risk is the most crucial aspect of this focused approach to managing risks. Assessment and analysis of behaviour should help identify early warning signs leading to a greater awareness for those supervising. This also highlights the relevance of behaviour and culture.

The behavioural expertise center at DNB conducts thematic examinations for several supervising organisations (banks, pension funds, insurance companies) covering one specific behavioural theme. The examinations are conducted with the corporation of DNB's regular supervisors. The center is responsible for choosing the behavioural theme and the situation for the examination is also in charge of reaching a conclusion and consequently, issuing suggestions and recommendations based on the conclusion. However, the expertise center does not have the authority to act upon its recommendation. Instead, the discretion to act in accordance with these regulations resides with the supervisory team (De Nederlandsche Bank, 2013).

This example highlights the importance and usefulness of early recognition of behavioural risks as a factor of the risk management approach. Early warning of prudential risks can be identified by examination and assessment of behaviour leading to a different prioritisation (Shefrin, 2011). For example, a top management that is overly dominant might lead to poor decisions. Hence, focusing on behaviour leads to potentially locating the root cause of the issue in a company's governance, which is a cornerstone of prudential risk management. Behavioural aspects are highly relevant in the remuneration policies that exist in the various financial institutions. Kwak (2013) states that putting a curb or cap on monetary rewards needs to consider the fact that it is more difficult for humans to resist non-monetary rewards. Furthermore, he claims that regulators need equally to worry about behavioural aspects of human resources while considering both monetary and non-monetary rewards.

Supervisors and regulators need people to feel their support through the intrinsic motivations displayed by them. Veltrop and De Haan (2014) highlight that public institutions must ensure that individuals focus on solving collective problems. In addition to having support to solve collective problems, they should also be protected from untrustworthy partners and free-riders. This allows crowding out of intrinsic motivators, especially when the employees feel that their self-esteem and determination are being adversely affected (Frey and Jegen 2002).

The integration of human behavioural policies and regulation is relatively easy in corporate governance. The current financial supervision and regulation activities link behavioural elements of corporate governance with organisations and incentives (Feldman, 2017). G30 (2012) concludes that culture and value are the cornerstones for the governance of financial institutions as they are the force that drives people's behaviours throughout the organisations, highlighting the effectiveness of their governance. Corporate governance regulation more often relates to the qualitative aspects, including non-financial risk management; independence requirement; internal supervision; suitability and proper management structuring; standards for remuneration policies; and internal audits.

The supervisors and managers need to note the effects that the work environment has on individuals. The norms that apply to an individual are determined by the role he/she is assigned within the institution. As an example, a person who has the role of ethics officer will be more inclined towards social norms than a trader. In contrast, companies that are profit-driven tend to act in a manner that would not permit an individual employee to agree with the social norm perspective due to the strong separation between responsibilities and roles of its employees (Sparrow, 2009). The distance between employees of a company and the individuals who are affected by their decisions might also lead to a decrease in the prevalence of social norms in favour of market and/or legal norms (Braithwaite and Braithwaite, 1995).

Finally, regulators and supervisors also need to harness self-awareness of their own behavioural biases. Since knowledge of human behaviour is applied in the drafting of policies and rules, it is helpful for regulators themselves to reflect on their own biases. Awareness of their own biases and pitfalls enables supervisors to reflect upon and create new valuable policies (European Commission, 2013). Ho and Mauro (2015) point out that quantitative forecasting needs to be corrected for any optimism bias in policymakers, such as those at the IMF and the World Bank, because economists systematically make optimistic forecasts, giving more weight to recent growth performance than is justifiable from historical experiences.

2.9. International Financial Regulation

This section explores the perspective behind international financial regulation to understand what is required to make an International Financial Regulatory Framework more effective. The section starts with an overview of the structure and development of international financial regulation and moves towards a critical evaluation of different interest groups in the international financial regulation arena, and their influence. Following that presentation, a discussion regarding the objectives of international financial regulation will be introduced.

2.9.1. Overview of the Structure and Development of International Financial Regulation (IFR)

The development of the International Financial Regulation (IFR) was mainly driven by the dramatic expansion of the financial market in the 1950s through the new foreign market exchange. The collapse of Bankhaus Herstatt in Germany and Franklin National Bank in the USA, and several financial crises - the debt crisis in 1980 of developing countries, the collapse of the global stock market in 1987, and the Asian financial crisis in 1997-98 - were painful events that stimulated national governments to cooperate at an international level through the financial regulatory forum (Verdier, 2013; Weber and Arner, 2007).

In order to understand how the IFR evolved to its current state, it is crucial to go back to the Post-World War II settlement in which the international economic order was created where the Allies outlined in the Atlantic Charter their wishes to "bring about the fullest collaboration between all nations in the economic field with the object of securing, for all, improved labour standards, economic advancement and social security" (Verdier 2013, p. 1409). The keystone of the post-war concerning the development of the Bretton Woods system was based on three interconnected international institutions; namely, the International Monetary Fund, the World Bank, and the International Trade Organisation[20].

The IMF Articles of Agreement were created to facilitate the move to a monetary system from the gold standard with an exchange rate in which all currencies were pegged to the US dollar (Lowenfeld, 2008). The World Bank was established to fund the reconstruction of cities after the war, and has since grown into a source of funding for development across the globe. The International Trade Organisation focuses on regulating the international trade between nations that was lately reformed as the World Trade Organisation (WTO) and General Agreement on Tariffs and Trade (GATT) (Weber and Arner, 2007).

[20]Visit (https://www.worldbank.org) for more information on how the World Bank extended its assistance through the International Finance Corporation IFC, Multilateral Investment Guarantee Agency (MIGA), International Development Association (IDA), International Centre for Settlement of Investment Dispute (ICSID).

Financial crises have always made the international financial regulators rethink their structure and operations to assure a better cooperative mechanism. For instance, the G20 was launched because of the Asian financial crisis to enhance cooperation between regulators and for Transnational Regulatory Networks (TRNs) at an international level (Nelson 2010 and Giovanoli 2009). In addition, the Financial Stability Forum was developed to be the Financial Stability Board with broader missions and memberships to be included (Giovanoli, 2009). BIS and IOSCO have expanded their membership and provide a more detailed action plan on issues such as rating agencies, capital adequacy, cross-border resolution and hedge funds (Helleiner and Pagliari 2010). Even though the G20 was not a legal body like TRNs, their decisions are made by consensus. After financial crises, they tend to expand, rationalise, and empower existing systems (Giovanoli, 2009). During crises, national regulators have been found to be less cooperative because they follow their national governments during these times, where national interest become more important than international cooperation (Shepsle, 1991; North, 1993)

The institutional landscape of the current international financial regulation is fragmented with national and international financial regulatory and supervisory agencies, as shown in Figure 2.7. The Group of 20 (G20)[21] contains twenty lead economies, including the European Union in an informal grouping, and is based on annual summits of finance ministers and central bank governors (finance minister and central bank officials meet regularly). The main aim for such grouping is to agree on an agenda for global international financial regulation. The Financial Stability Board (FSB) is a more technical organisation established by the G20, while its primary objective is to coordinate the agenda produced by the G20 with the international standard-settings that have representatives from them and other countries. However, it does not have any regulatory or supervisory power. The standard-settings bodies include international financial institutions, which are the following:

[21]The G20 (or Group of Twenty) is an international forum for the governments and central bank governors from 19 countries and the European Union (EU). The aim is to discuss policy pertaining to the promotion of international financial stability. It includes the following countries: Argentina, Australia, Brazil, Canada, China, Germany, France, India, Indonesia, Italy, Japan, Mexico, the Russian Federation, Saudi Arabia, South Africa, South Korea, Turkey, the UK and the USA.

i. The Basel Committee on Banking Supervision (BCBS) is based at the Bank for International Settlements (BIS) that produce standards and best practices for the banking sector.

ii. The Committee on Payment and Market Infrastructure (CPMI) sets standards for payment, clearing and securities settlement system.

iii. The Financial Action Task Force (FATF) produces standards for money laundering and terrorism financing.

iv. The International Association of Deposit Insurers (IADI) sets standards for deposit insurance institutions.

v. The International Association of Insurance Supervision (IAIS) is the international standard-setter for the insurance sector.

vi. The International Accounting Standards Board (IASB) develops international accounting standards.

vii. International Organisation of Securities Commissions (IOSCO) sets regulatory standards for securities.

viii. International insurance and pensions - the IAIS Principles;

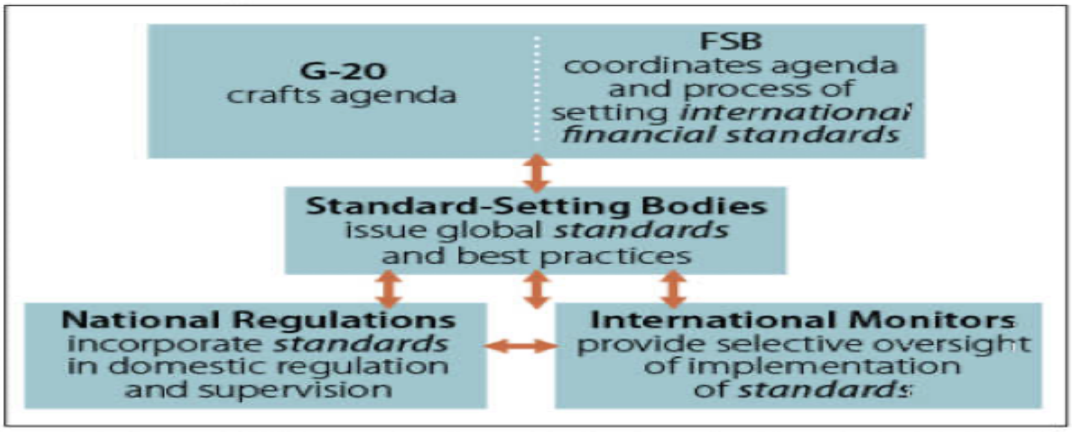
ix. The Global Financial Stability Board (FSB) for global financial stability and global systemic risk;

x. International Monetary Fund (IMF) for global monetary cooperation and financial stability;

xi. For investment in the UN Global Compact Principles, and the UN's 17 SDG goals.

xii. GATS of the WTO – for creating a credible and reliable system of international trade rules, ensuring fair and equitable treatment of all participants and dispute regulation.

Figure 2.7. International Financial Architecture.



Source: MPRA (2019)

2.9.2. Different Interest Groups of International Financial Regulation

The regulations created by International financial organisations need to consider the various groups of regulators affected by the steps taken by international agencies. This section discusses these various organisations and the impact of their regulators. A national regulator is an agency run by technocrats and experts in financial regulation in order to supervise the financial market. Since the development of the financial sector in the 1970s, the financial regulator evolved from small departments in the Ministry of Finance to an advanced agency that looks after each sector of the financial system including banking, security, and insurance. Such an administrative agency is subject to the decisions of a legislature rather than the public election. The legislature has immense power over the regulatory agency. It can change its policy through legislation, appoint and dismiss officials, control the budget and even has the power to change or abolish the structure of the system (the FSA in the UK and the Office of Thrift Supervision in the USA) (Parker and Masters, 2010; Verdier, 2013).

The relationship between the regulators (the agent) and the legislatures is referred to as a principle-agent problem. The principal-agent problem is an issue that occurs in financial regulation more than in other sectors because of a knowledge gap that exists between the regulators and legislature, which puts the latter player in a position to react to issues and crises rather than being able to be proactive (Verdier 2013). It is generally understood that national regulators will always be intervened by the national legislature which positions them in a precarious situation where they are unable to commit to the international regulatory bodies wholeheartedly. In addition to this, the national regulator is heavily influenced by both the public and interest groups within the domestic market (Singer 2007 and Kapstein 1994).

The financial sector combines groups with different agendas but the same interests; for instance, the public, politicians and regulators are combined to form a sector while each of their aims is to maximise their own benefits. As a group, the financial industry plays a vital role as it can influence the policymaker through different channels such as lobbying, fundraising and education (Mueller, 2003). The financial industry is increasingly and dramatically developing and usually contains a small group of financial institutions that hold vast assets. Such is the case in most advanced economies including the USA, the EU and Japan (Berger et al., 2010; Rosenblum, 2012; Goddard et al. 2010).

Since the financial institutions are few in comparison with other interest groups, they are in a better position to find ways of influencing policymakers. They do this by participating in international institutions to provide comments and feedback such as the BIS, or industry organisations such as the Securities Industries and Financial Markets Associations (SIFMA), the Clearing House and the Institute of International Finance (IIF) (Olson 1965) and (Barr and Miller, 2006). It is important to mention that there is direct contact between financial institution and financial supervisors due to the complexity of implementing the regulation which requires constant and long-term connection as well as the changing of job between them. These are ways in which financial institutions try to influence supervisors to strike a bargain (Verdier, 2012). Verdier (2013) states that the financial industry can influence the national and international financial regulators for the sake of lowering the compliance cost and increasing the options for accessing foreign markets.

It is believed that the large and developed financial markets have more influence than small and less developed markets. Emerging Market and Developing Economies (EMDE) and Advanced Economies (AE)[22] is a classification made by the IMF to distinguish between the two main different economies in the world. Emerging Market and Developing Economies (EMDE) can be divided into six groups:

- Commonwealth of Independent States (CIS)
- Emerging and developing Asia
- Emerging and developing Europe
- Latin America and the Caribbean (LAC)
- Middle East, North Africa, Afghanistan and Pakistan (MENAP);
- Sub-Saharan Africa (SSA)

[22]Please refer to (appendix J) for a list of 153 Emerging Market and Developing Economies (EMDE) and (appendix K) for a list of 39 Advanced Economies (AE) as classified by the IMF in its World Economic Outlook (WEO), April 2019 report. Classification based on financial criteria such as net creditor economies, net debtor economies, heavily indebted poor countries (HIPCs), and low-income developing countries (LIDCs) can also be found in the report.

Advanced Economies (AE) are, on the other hand grouped, together as the major advanced economies, also known as the Group of Seven (G7). AE also include members of the EU and other countries. International financial regulations and organisations are structured in such a manner to encompass the financial attributes of all these economies in achieving a uniformed platform for an international financial corporation.

It can be argued that the influence that the USA or EU has on the international financial regulation in the form of initiating or introducing a new standard or enforcing their standard is far greater than that of any country in Africa. Nations with great power have the ability to influence the IFR and obtain better control of what they believe is important and convenient for them (in, 2008). Sometimes the government of these nations simply intervenes directly during the process of development of a financial standard; for instance, German Chancellor Schroder openly announced that the Germans would not support Basel II if the loans to Small and Medium Enterprises (SMEs) were reconsidered, as this was in favour of the backbone of German industry (Verdier 2009).

A non-biased and strong international institution is not preferred by powerful states as it limits their power of interference. However, powerful states sometimes prefer stronger standards, doubting the robustness of regulations in developing countries, particularly after the Asian financial crisis in which they involved the World Bank and the IMF to monitor developing states to ensure compliance with international standards (Braithwaite and Drahos, 2000, Benvenisti and Downs 2007; Goodhart 2011).

2.9.3. Objectives of International Financial Regulation Cooperation

International financial regulation cooperation was created to achieve certain objectives to ensure the global comprehensiveness of various regulatory authorities that come under it. These objectives are described and discussed as follows.

2.9.3.1. Ensuring International Coordination of Enforcement and Supervision

Since financial markets have become more globalised and complex, maintaining coordination between financial supervisors has become challenging but necessary, as experienced during the collapse of the Bank of Credit and Commerce International (Herring and Litan, 1995). Therefore, cooperation between national regulators is preferred by most players in the international field. Most times, such cooperation can be achieved by having mutual agreements with support and information.

Cooperation agreements are in favour of national regulators because they enhance their authority and provide a more effective way of enforcement and supervision. However, sometimes such agreements are not welcomed by the national legislature because they might provide financial regulatory agencies with greater authority to communicate at an international level (Verdier 2013). In some cases, cooperation agreements can be enforced by the great powers; for instance, the development and revision of the Basel Concordat were driven mainly by the US and Europe (Wood, 2005).

2.9.3.2. Enhance the Liberalisation of International Finance

Another objective of having cooperative international financial regulation is to enhance liberalisation of international finance, as contended by Verdier (2013). When requirements for intentional finance businesses are inconsistent, this implies cost and delay on cross-border trade activities, especially for large financial institutions where easy and efficient access to other markets is significantly beneficial. One example of such a burden is when foreign financial institutions wish to issue securities in the USA. It is costly to conform their financial statements to the USA's which are Generally Accepted Accounting Principles' (GAAP) standards. Furthermore, by complying with some international requirements, financial institutions can break their national law which will lead to greater costs and delay (Scott, 2010).

Even though having an international institution such as the General Agreement on Trade in Services (GATS) is helpful to the extent of liberalising international finance, the national regulator can still be a barrier. Consequently, harmonisation in financial regulation is crucial to achieving effective cross-border finance (Alexander, 2008).

2.9.3.3. Acquire Common Prudential Requirements

Having a common prudential requirement for financial institutions across the globe is one of the most challenging objectives to achieve. States will ultimately lose their competitive advantages by applying high prudential standards. Over time then, countries tend to decrease their prudential requirements to make their market more competitive and motivate investors to enter their markets.

National politicians and market players usually have a different view about their markets than that preferred by the international community. Financial firms always carry the incentive of increased return alongside risk-taking. Both investor's revenue and domestic politics attest to the fact that their national financial market is interesting for investors to join. These factors are usually associated with more relaxed prudential requirements known to be a cost for the financial firms, which may be against the international will given that it increases the probability of financial crisis (Singer, 2007; Anderson, 2005).

The aim is to have the international prudential requirements at least as 'codes of conduct' or what is known as 'best practices to be complied by the regulators', even though history shows that politicians would deal with a crisis as a one-time event and return with a more competitive strategy that underestimates the importance of common prudential requirements (Braithwaite and Drahos, 2000; Porter 2005).

2.9.3.4. Drive States to Improve their Financial Regulation

Countries need to improve their financial regulation practice by following international standards to enhance cooperation on an international level. However, there are two reasons for the national regulator not to follow international standards. First, some undeveloped markets are accused of not having enough standards of regulation, given the weaknesses of the market. Often, regulators are well meaning and work towards improving their standards, though slowly, by following international regulatory bodies or even in some cases by following practices from an advanced country or by hiring regulatory experts for assistance. Second, some undeveloped countries, as well as Least Developed Countries (LDCs), underestimate the importance of high international standards as a way of avoiding the costs associated with it. Besides, some countries have benefitted from having such weak international standards to encourage and lure businesses to their markets (Drezner, 2008; Walter, 2008).

2.9.3.5. Make Credible Commitments to Overcome Time-Inconsistency Problems

Finally, the last objective is that of time inconsistency, where cooperation at the international level for financial regulation is required. This issue must be addressed to mitigate problems such as monetary policy and interest rates decisions, as well as for compliance with prudential standards (Baxter et al., 2004). One additional example of the time-inconsistency problem is the insolvency and permission of the banking sector in each jurisdiction for international branches (Herring, 2007).

National regulators are key factors in binding a financial system with a political system of a country. Therefore, sometimes decision do not follow international preferences but rather are in keeping with the national interest. Hence, to work through such issues and enhance cooperation at an international level international governments can establish reliable commitments to each other (Shepsle, 1991; North, 1993).

2.10. Limitations to the application of International Standards

The application of international standards poses certain limitations. The presence of multiple regulatory and supervisory organisations create duplicity and makes the application of international standards a cumbersome process. The global financial crises revealed that international financial regulation is particularly weak in two aspects. First, prudential standards were insufficient and caused moral issues. Systematically, important financial institutions[23] have usually stood behind financial crises, as their failure can potentially cause failure to other financial institutions given that they are systemically connected. Such issues are referred to as systemic risks and such risks are related to prudential regulation. Because financial institutions are interconnected within a system of important financial relationships, they are typically too big and too connected for government to allow these institutions to fail. Consequently, government support and responses to difficulties often encourage such institutions to take excessive risks in the future, and this is where the problem of moral hazard occurs (Acharya, 2009; Schwarcz, 2008; Ueda and Weder, 2012; Hughes and Mester, 1993; Oliveira et al., 2011; Verdier, 2013). As a result of post-financial crises, international financial regulations have imposed what is called Systemically Significant Financial Institutions (SSSIs) as a way of minimising the impact of such institutions and accompanying hazardous issues on the financial global markets (G20 Seoul Summit, 2010).

In applying international standards, a country's national legislature can be a barrier before international regulators. Moreover, as governments change from time to time - owing to local elections etc. - these changes influence the direction of the regulators, as every government comes with its own agenda and interests (Verdier, 2013; Singer, 2007; Kapstein, 1994) even from the same country. Furthermore, the financial sector brings together people from different groups, including politicians, the public and financial institutions. Each group has its own set of interests, which they endeavour to expand and maximise, potentially leading to lop-sided and negative consequences for this attempt at international standards (Mueller, 2003; Berger et al., 2010; Rosenblum, 2012; Goddard et al., 2010). In other words, the states with greater power, the Advance Economies (AE), influence the development and implementation of international standards to be in line with their national interest (Tarullo, 2008; Drezner, 2008). In some cases, Emerging Markets and Developing Economies (EMDEs) are in a weaker position to comply with international standards either because their financial market is underdeveloped or it is simply too costly for them to follow (Lions, 2013; Drezner,

[23]A systemically important financial institution (SIFI) or systemically important bank (SIB) is a bank, insurance company, or other financial institution whose failure might trigger a financial crisis. They are colloquially referred to as "too big to fail"

2008; Walter, 2008).

The overlapping of jurisdictions leads to an increase in competition between various financial regulatory and supervisory organisations, which also leads to an increase in the complexity of applying international standards (Berger et al., 2010). Balseven (2016) comments that the Basel standards complicate the structure of how financial institutions should be supervised more than existing complexity. Herring and Litan (1995) state that a lack of cooperation between various financial organisations further limits the application of international standards. Cooperation agreements can help promote standards amongst national regulators. However, sometimes governments are not in favour of such a method because it empowers national regulators to act internationally, even though such agreements can be forced by Advanced Economies (AE) (Verdier 2013; Wood 2005). National regulators can be a burden for international cooperation; for instance, when an advanced economy introduces extra requirements for others to enter its market, this becomes costly for other countries to comply with (Scott 2010). Having a competitive advantage leads national governments and regulators to cooperate less by relaxing their prudential requirements and making their financial market more attractive for investors (Singer, 2007; Anderson, 2005; Braithwaite and Drahos, 2000; Porter, 2005).

2.11. Conceptual Framework and Research Focus

The extensive research undertaken in the form of the literature review in chapter two has helped to identify the gaps that are present in the literature in terms of the structure, functioning and behavioural aspects that affect national and international regulatory and supervisory body. In terms of identifying the gaps presented in the literature review, a framework has thus been developed to identify key areas that need to be addressed in order to achieve the aims and objectives of the research, as identified in Section 1.3.

The development of the framework was based on three key aspects identified within a financial regulatory and supervisory body. These aspects are: 1) The structure of the organisation; 2) The behavioural and cultural impact of human beings working in the organisation; and 3) The internationalisation of the services. The first factor around which the framework was developed was the financial regulatory and supervisory bodies structure, as defined in Section 2.5. This is fundamentally developed from the background of the country in which the organisation is based. Every country adopts one of the four structures depending upon the political, economic, social and cultural aspects of the country. The framework is then conceptualised to address how these factors have an effect on the development of the adopted structure and what factors lead to changes in them.

The second factor around which the framework was developed was the cultural and behavioural aspects of human beings in the organisation. Humans are a resource whose effect on any organisation is very profound. Section 2.8 discussed the various aspects of human culture and behaviour in a financial organisation. Their biases, norms and behaviours influence the working structure and policies that frame a regulatory and supervisory body. The cultural aspect is then integrated into the framework to find a solution to establish a global culture around supervisory and regulatory bodies to harmonise their functions and structure.

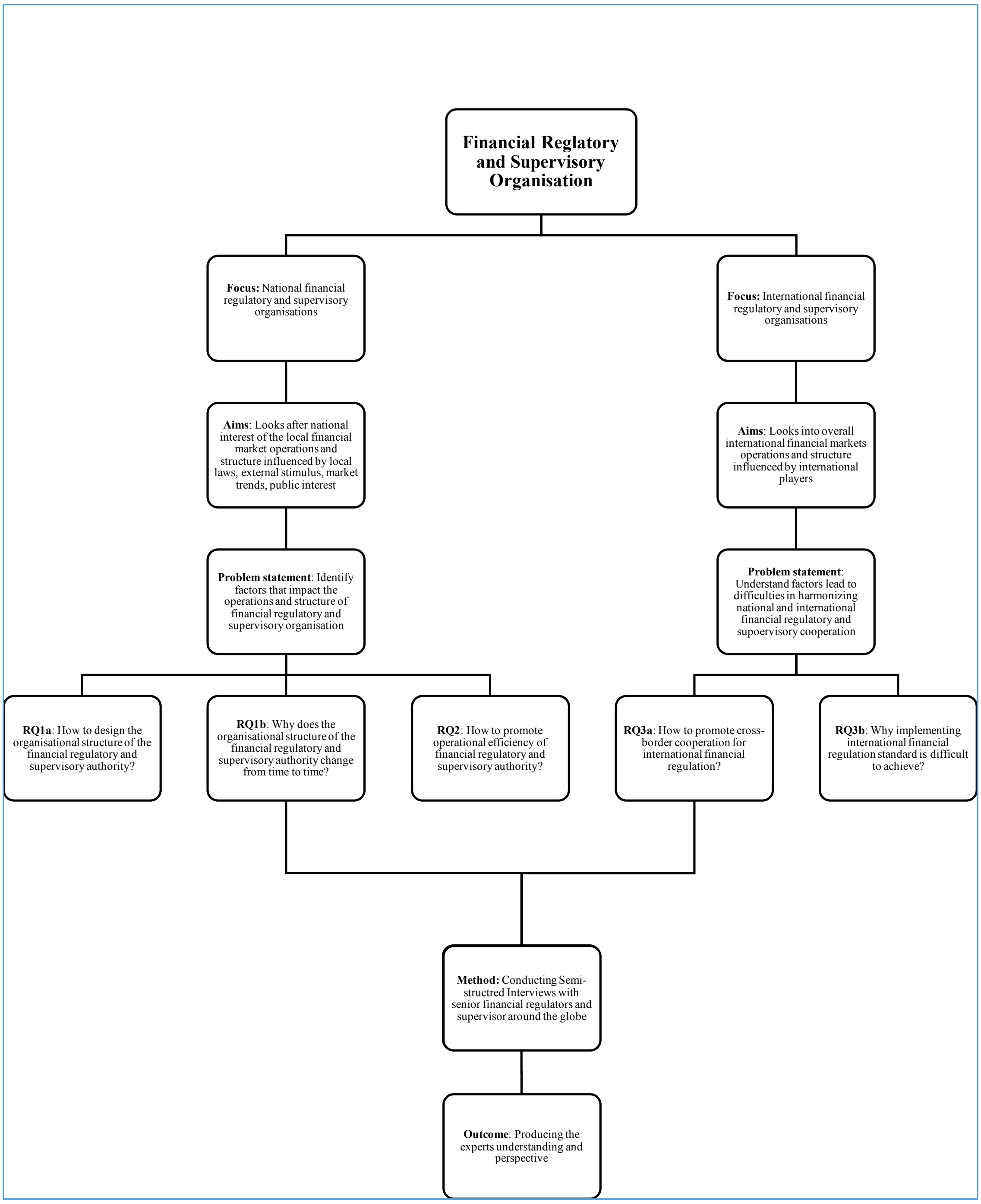
The third factor is the internationalisation of the service (supervisory and regulatory) provided by financial regulatory bodies. With the growth in cross border trade and intertwined of global economies, the role of a regulatory and supervisory body is no longer local and has to affect global trade. These factors have been described extensively in Sections 2.9 and 2.10. To address these factors, the framework has developed questions aimed at gaining insights into how the functioning of these various organisations may be harmonised, keeping in mind the difference between developed and developing economies.

This framework has been designed in a manner to address five crucial questions: 1a) How to design the financial regulatory organisation structure: Central Bank, Prudential and Conduct of Business? 1b) What are the factors that drive structural change? 2) What are the factors that influence the operation of financial supervision, and how does human behaviour and culture influence financial supervisory and regulatory bodies? 3a) How can international standards be best harmonised? 3b) How can we enhance cross border cooperation? These questions were developed by conducting an extensive literature review which studied various aspects, such as the different structures that can be adopted by countries for the formulation of financial organisational structures. These included the twin peak structure, and the institutional/sectorial, functional and single/integrated types; then the types of international regulatory bodies and how they differ in developed and emerging economies. These questions developed from the conceptual framework have provided the base for developing the semi-structured interview questions used in this study. The interview questions focused on understanding the structure, and the influence of behaviour and regulatory bodies in the working environment of a financial institution. These frameworks provide a window that enables understanding of the effect of each parameter on the structure and operation of a financial institution. They also provide a base for developing a harmonised international structure and operational theme that can be adopted by financial regulators and supervisors globally to address questions in different parts of the world and lead to the creation of an effective international regulatory body.

This research will enhance the understanding of current practices on how regulatory structures should be designed and how the reasoning behind organisational structural changes and factors affects the operation of financial supervision. This is done by interviewing senior financial regulators and supervisors across the globe. The empirical analysis will also add to the theoretical discussion as such data are hardly applied in the field of financial regulation literature[24]. Furthermore, this research aims to enhance the understanding of what motivates national financial regulatory authorities to cooperate at an international level and to apply international standards to create a common framework from a regulator and supervisors point of view. This study framework has conceptualised support in the development of the interview questions by providing a clear idea of how the research needs to be conducted and where the research focus should lie. Figure 2.8 hence presents the conceptual framework of the study.

[24]The Group of Thirty (G30) report 'The Structure of Financial Supervision: Approaches and Challenges in a Global Marketplace' has interviewed central bank governors and supervisors in regard to their institutional structure, while the author has not come across any other publication that applied this method. The report can be found here (https://group30.org/images/uploads/publications/G30_StructureFinancialSupervision2008.pdf)

Figure 2.8 Conceptual Framework



Source: Own compilation

2.12. Conclusion

The chapter has discussed at length the various areas that affect the structure and operation of the financial regulation and supervision body. A brief introduction has been provided to the global financial system and the role that a central bank plays as a regulatory and supervising body. Four widely applied organisational structures for financial supervision and regulatory bodies have been identified. These are the twin peaks structure, the institutional/sectorial structure, the functional structure, and the single/integrated structure. Each of these structures is complex and is adopted by a country depending upon its suitability. These varied structures recognisable across the globe raise the complexity of the international financial markets, making the process of international financial trade a tedious process. The importance of organisational structures was highlighted after the aftermath of the Global Financial Crisis of 2008 (GFC) where policymakers were required to show some actions as a response to the cause of the GFC.

This chapter is followed by an analysis of the impact of human behaviour and culture on financial regulatory and supervisory bodies. The study found that human culture and behaviour do have an impact on the decision-making process of people working with and as part of these bodies. Norms, behaviour influences and biases shape the opinions of employees, while a strong organisational structure is required to reduce any negative impacts that might arise from human culture and behavioural aspects. The chapter further discussed various international financial regulations, their structures and developments, the different interest groups involved and their objectives. The hope is that these explanations will provide knowledge of the reason for their inception, how these bodies have grown over the years and affected the international financial sector. This study also examines the differences in emerging markets, developing economies and advanced economies to cast further light on the importance of structure in financial organisations and how these have affected the implementation of international standards making the global financial market a complex structure. The chapter then concludes by presenting a framework that was developed by identifying the gaps in the literature in accordance with the aim and objectives of the research. The framework developed is the basis on which the interview questions were developed for the completion of this study.

CHAPTER THREE

METHODOLOGY

3.1. Introduction

This chapter discusses the outline and rationale behind the research method adopted to achieve the study's aims and objectives. The chapter begins by explaining what research methodology is and provides a justification for the philosophy of research method adopted. A justification of the research approach then follows, and a discussion of the rationale for choosing the qualitative research method. The chapter moves on to the development of the semi-structured interview questions including the design of the interview questions; ethical considerations; the sample selection; the pilot study; and the administration of the semi-structured interview questions. It then sheds light on the analytical tool applied for the semi-structured interviews. The latter part of the chapter discusses the trustworthiness of the research process, including the credibility, validity, reliability, and transferability of the research. Finally, the conclusion is presented.

3.2. Research Philosophy and Justification

A research philosophy is associated with the way that the researcher represents his position on reality (ontology) and knowledge (epistemology), and how he or she move forward in developing their choice of research method and strategy (Crotty, 1998; Guba and Lincoln, 1994; Saunders et al., 2012). Hence, it is crucial that the researcher takes a particular position with regard to their philosophical assumptions to make the right decisions about their research questions, and how they plan to answer and analyse them, while at the same time being aware of other philosophical positions and whether such a position will or will not work with the research in hand (Easterby-Smith et al., 2002, Creswell, 2013, Holden and Lynch, 2004). Saunders et al. (2016) argue that there are two philosophies of ontology - namely, subjectivism and objectivism - both of which provide insights into how knowledge is being created and understood.

Epistemology is defined as how a human being makes sense of the world, what is considered to be knowledge and how he/she comes to such an assumption and acceptance in academic research (Crotty, 1998, Gilbert; 1993; Saunders et al., 2009). There are two philosophies for epistemology: positivism and interpretivism (Johnson and Duberley, 2004). They represent what is called the research paradigm, which covers the perception of how the real world interacts (Polit and Hungler, 1994). Positivists argue that trustworthy knowledge can only be gained through quantifiable observations, entailing that the researcher is independent of the study (Saunders et al., 2012). It is associated with the quantitative method as its aim is to test the hypothesis (Bryman, 2012; Saunders et al., 2009). In contrast, interpretivists argue that for the researcher to understand the social reality and to gain sufficient knowledge, this should be obtained through social constructs. In other words, through the reflection of human experience whereby the researcher becomes part of the whole experience (Ormston et al., 2014; Bryman and Bell, 2011). Saunders et al. (2016) suggest that such philosophy is associated with in-depth research that identifies reality through interpreted meaning by the application of the qualitative research method.

Lincoln (1995), Crotty (1998) and Krauss (2005) claim that the research design of a study relies on the philosophical assumptions around it. In addition to such a claim, the understanding of the researcher of such philosophical assumptions is crucial for clarifying the researcher's beliefs, placing him or her in a position to formulate the right questions as well as the right methods to answer them. As discussed earlier, this research holds the constructionist position whereby the concept of change of regulatory structure and operation of supervision consists of multiple realities that will be best obtained through the construct of the individuals who participated in this research. These individuals include senior financial regulators and supervisors who have themselves experienced the research phenomena. Given that this research studies and questions changes in the regulatory structure and operations of financial supervision, the individual regulator participants are aptly placed to provide insights on the research questions, as they are themselves engaging and experiencing such work (Guba and Lincoln, 1994, Denzin and Lincoln, 1998). Therefore, this research is based on the interpretivist epistemology and philosophical assumption defined as the philosophy that gains knowledge based on people's understanding and through reflection of their experiences in the social world (Boland, 1979; Saunders et al., 2016).

3.3. Research Approach and Justification

The research approach determines the procedures and the scheme of the research in hand. It includes a detailed method of data collection and analysis. It has been agreed that philosophical assumptions form the research approach (Creswell, 2014 and Saunders et al., 2009). The main approaches for social science research are deductive and inductive approaches. The deductive approach is based on theory testing through a set of hypothesis and the result can only approve or reject the tested theory (Saunders et al., 2012, Saunders et al., 2016). The deductive approach is associated with the quantitative research method where the researcher is independent of the social phenomenon under examination (Saunders et al., 2016). The inductive approach is unlike the deductive approach in the sense that it aims to understand the causes and effects of the relationship for an examined phenomenon, where it leads either to formulating a theory or producing a conceptual framework (Bernard, 2011). The inductive approach is associated with the qualitative research method in which the researcher aims to form meanings from the data collected in order to identify patterns and themes from the participants' experiences (Saunders et al., 2016). Therefore, the number of participants needs to be adequate, even though it is a small number in comparison to the number of participants involved a deductive approach (Dudovskiy, 2018).

Burrell and Morgan (1979) and Rubin and Rubin (2011) suggest that the most appropriate approach for research based on a constructionist philosophy is an inductive approach through the qualitative research method. Hence, this research will be approached inductively through the qualitative method; namely, a semi-structured interview. It is crucial to be aware that such an approach requires certain criteria, such as soundness, credibility and trustworthiness (Chen, Shek and Bu, 2011). It has been argued by Blackburn (2006) and Kitching et al. (2015) that it is best to approach the topic of regulation through a qualitative approach for the researcher to obtain a rich and profound understanding.

3.4. Rationale for Choosing Qualitative Analysis

As a method, qualitative analysis presents both advantages and disadvantages. This is crucial to acknowledge in order to create a clear picture of the method in general, before discussing a specific analytic approach. By looking at advantages and disadvantages, the researcher will obtain a deeper understanding of why such a method is unique. Conger (1998) believes that the qualitative method is very suitable for rich study areas, enabling data to be illustrated in radical new ways. Aamodt (1982) stresses that the qualitative approach is reflexive in a way that the researcher is actively part of the collected research which can reflect positively on the result due to the high interaction required in such research. Likewise, Flik (2009) states several beneficial features of the qualitative method. One is the appropriateness of methods and theories, the second is the perspective of the participants and their diversity, and thirdly the flexibility of the variety of approaches and methods. Furthermore, data collection and analysis can exist simultaneously and iteratively as the researcher may come to cross some turning point during the procedure which, as Bhattacherjee (2012) writes, will help to modify his research.

On the other hand, qualitative research also entails some distinct disadvantages. Geertz (1973) believes that since the nature of qualitative research is to contain in-depth information which will increase the risk of becoming far too embroiled in descriptive terms. The data analysis can thus become overwhelming and be inhibited by the greater quantity of data generated, as mentioned by Lofland and Lofland (1995). Another significant challenge, as Bryman (1987) crucially addresses, is that qualitative research most often relies on the potentially unsystematic view of the researcher on what is important. In addition, the relationship with the sample examined may affect the results. More generally, there are innate limitations to how objectively the researcher can examine non-quantifiable features. Bryman and Burgess (1994) agree that the clarity of the analysis is not universally replicable and it is hence not obvious how the conclusion will be consistently generated.

The researcher can design interviews to be in t a structured or unstructured form. Unstructured interviews will be based on open-ended questions, where the researcher asks the question in general and the participant presents the view in an open way. The interviewer can ask further questions for clarification to gain rich data, but this type of interview is time-consuming and it is difficult to make sense of the data during analysis. Structured interviews can be applied if the research aims are clear and the researcher has a clear set of closed questions to be answered by participants. Semi-structured interviews benefit from the strengths of both the structured and unstructured interviews styles (Preece et al., 2002). Here, the researcher has chosen semi-structured rather than structured or unstructured interviews in accordance with the nature of the research problems and the type of questions. Here the experts interviews - financial regulators and supervisors - are central to the study and it is most appropriate to provide space to answer questions while at the same time sticking to the research questions.

Blackburn (2006) and Kitching et al. (2015) trust that when the researcher decides to discuss the matter of regulation, qualitative research is the best method to help researchers to gain a rich and profound understanding. This is one of the factors that convinced the researcher here to conduct this research using a qualitative study. However, quantitative research has been already conducted and published addressing financial regulation (see for example Currie, 2006; Manini et al., 2012; Franks et al., 1998). Indeed, it is very crucial to mention that most of the quantitative research in financial regulation discusses matters from a technical perspective. However, when the researcher tries, for example, to understand questions such as the research questions of why the structure of the financial regulators and supervisors changed and what drove such change, then a qualitative approach works better (questions of how does such thing happen? Or what drives such thing to occur? And why?). Interviewing senior regulators and supervisors from the national regulator and international organisations is the best approach to apply (Pope and Mays, 1995). Yet again, the research questions can be partly answered through different methods of a qualitative approach. For instance, Nurullah and Nakajima (2005) have examined the structure of the financial regulators and supervisors of ten countries and applied a comparative analysis of these models.

One additional example is Wymeersch (2007), who went through the financial regulation of European states and the structure of their supervision authorities, as well their historical perspective and external influence. He applied a comparative analysis of each existing structure, assessing their advantages and disadvantages, and providing details of the financial regulatory and supervisory situation in each country. Lui (2012) has also discussed the structure of financial regulation and supervision in the UK by comparing it to the Australian structure. Besides, she has analysed recent papers and reports that focused on the matter. Ferran (2011) adapted another approach for his research as he investigated the break-up of the Financial Services Authority (FSA), the UK's previous financial regulation and supervision body. He conducted his research by examining the political influence on the change in structure and studied the FSA's track record. He also surveyed the FSA's experience from four different perspectives: its style of supervision; the enforcement model; the level of efficiency and economy; and finally, the consumer protection experience. Similarly, Llewellyn (2003) introduced the UK's financial regulation and supervision structure experience in the form of a discussion paper, providing historical background and an overview of structural changes over the years. Therefore, this research is unique as it approaches the individual regulator who has experienced the questions under research. In addition, the qualitative approach has been chosen because it fits with the chosen philosophical assumption also discussed earlier.

3.5. Development of Semi-structured Interview Questions

3.5.1. Designing the Interview Questions

The researcher will be interviewing senior financial regulators and supervisors from developing and developed countries and international organisation to explore and introduce thoughts and recommendations based on the research questions. Here, the research follows the recommendations of McNamara (2009). These recommendations suggest that the wording should be selected carefully for open-ended questions to allow the interviewee to responds openly. Secondly, the questions should sound natural and avoid any wording that might influence the interviewee's answer. Thirdly, the questions will be asked one at a time, and the wording culture of the interviewee will be carefully considered. The main purpose of having open-ended questions is to provide opportunities for flexibility and the ability to provide a full answer. This is the opposite to a close-ended type of question where the participants have limited space to express their views (Briggs, 1986). Weinberg (1996) focuses on the order of the questions, suggesting that questions that may be considered more threatening by the interviewee, who should go to the bottom of the list to make the participants more confident with the milder questions at the top.

3.5.2. Ethical considerations

Ethics have been identified as the standard of behaviour to which the researcher would always refer in protecting research participants (Saunders, Lewis and Thornhill, 2012). It is agreed that such ethical consideration should take place be through a formal ethical committee. However, Orb et al. (2001) insist that the researcher should always be accountable for protecting the participants.

In this research, the ethical application was sent out to the Faculty Research Ethical Committee and approval was received (Appendix A). Participants were given an information letter that clarified the purpose of their participation and the process of data collection. As suggested by Richards and Schwartz (2002), consent forms were signed (Appendix B) before the interviews took place. The participation was completely voluntary, and participants' right was observed informing and reminding them that they are free to withdraw at any time at no cost.

There is general agreement that confidentiality and anonymity are vital for all research (Kvale and Brinkmann, 2009; Bryman, 2012; Bazeley, 2013). In keeping with this commitment, the research ensured confidentiality by allowing only the researcher and the supervisory team to have access to the data. Moreover, the data collected was stored securely in a laptop with extra security codes to the research files. In addition, anonymity was assured by giving a code to each participant's name and country so that the individual cannot be identified.

3.5.3. Sample Selection

The population of the study includes national and international regulatory agencies. Even though this may sound like a huge study, the researcher predicts that the response rate will be very low from the regulatory agencies. As Flick argues (1998), gaining access to participants with expert knowledge is a very important step in recruiting participants, but can be a very challenging process (Morse et al., 2002). Therefore, research should be flexible in approaching this task (Emmel et al., 2007). Cohen and Arieli (2011) contend that the qualitative sample size is usually small in comparison to the quantitative approach. In terms of the selection process of the participant, the research applied the purposive sampling strategy as recommended by

(Gall et al., 2007). A purposive sampling strategy is typically applied if the researcher requires rich information regarding their research questions and requires the sample to be relevant to the research area. Within the purposive sampling strategy, the researcher applied two different techniques. One is a total population sampling technique where the researcher contacted the world's national and international financial regulatory agencies. The undesirable results of applying this approach led the researcher to apply the snowball sampling technique (Bryman, 2011).

The first method where the total population sampling technique was applied in negotiating and gaining access to participants was carried out by contacting the world's national and international financial regulatory agencies (Appendix E). The list of national regulatory agencies was obtained from the Bank of International Settlement website. The contact with the national regulator was made either through their website contact form or their email addresses. An invitation letter was then sent to them as a request inviting them to participate by nominating one of their senior regulators (Appendix D). The total number of invitation letters sent to national and international regulatory agencies exceeded 200 letters. The response rate was as low as 27 replies which included negative feedback and one apology for not being in a position to participate. Eleven agencies that showed initial interest never came back with a final decision regarding their participation. In the end, only five agencies eventually participated. This process took about 6-8 weeks from start to finish.

The second method where the snowball sampling technique was applied in negotiating and gaining access to participants was done by contacting the individual senior financial regulator through the website called LinkedIn, a social media platform where professionals can be contacted based on common connections they may have. This approach is hence known as the snowballing technique (Heckathorn, 1997; Noy, 2008). LinkedIn is an online platform that is considered the world's largest professional network with nearly 660 million users in more than 200 countries and territories worldwide. On the website, every user has a private account, and the user aims to build a global professional network. If the user activates the premium service, then it is free to contact any individual registered on the platform. Based on contacts that the researcher previously had together and enrolling them in the premium services, the researcher started make direct and individual contact with the world's senior financial regulators by searching for them through the website's search engine, using keywords such as 'financial services regulator, central banker, financial regulator, insurance regulator, the capital market regulator, prudential supervisor, business of conduct supervisor'. Only senior financial regulators were contacted by sending an invitation letter directly to them (Appendix D). The researcher invited 784 individual senior financial regulators, 169 people showed an initial interest, 68 of them signed the consent form but only 44 eventually participated.

The final sample contained 44 senior financial regulators from around the world. In terms of their background, 30 of them have prudential experience and 14 experience with the business of conduct. Concerning their educational degree, 15 of these professionals hold a PhD, 21 of them have a master's degree and eight of them have a BSc. In terms of their field of study, six have a degree in politics, and another six have a degree in management; four have a math degree, ten a degree in economics, eleven a degree in finance, and eight a law degree. Regarding the industries within which they have been gaining their experience, 31 of the participants come from the banking industry, whereas 7 of them come from the insurance industry and 6 come from the security industry. Of the 44 LinkedIn participants, 30 are currently in-position at the time of the interview and 14 of them are retired. With regard to geographical region, 21 of the participants come from a developed economy, 16 come from a developing economy and seven from an international agency (See Appendix G for demographic information).

3.6. Pilot Study

A pilot study is used in social science research for two different reasons. The first reason was to test small samples to implement a major study. The second reason is to allow the researcher to conduct a pre-test for the chosen method for the intended study (Baker, 1994; Polit et al. 2001; Kim, 2010). There are several advantages to conducting pilot studies in either qualitative or quantitative research. Firstly, a pilot study is a convenient way of predicting the possibility of failure of a project. Secondly, the method of the study should be ensured to be the right one and not complicated. Thirdly, it is also an opportunity for the researcher to show how important and valid the research is, especially for funding or supervising purposes (Teijlingen and

Hundley, 2001). Fourthly, by applying a pilot study the researcher will benefit from having a clear understanding of practical issues that might be faced while conducting the actual research, as noted by Teijlingen et al. (2001). As De Vaus (2002: 54) puts it 'Do not take the risk. Pilot test first'.

Holloway (1997) argues that if the researcher is conducting qualitative research, then there is no need for a separate pilot study. However, Frankland and Bloor (1999) argue that qualitative research should opt for a pilot study, as such preliminary studies will provide researchers with a clear overview of the scope of the study which will then assist them in focusing on the most appropriate and specific ways of collecting and analysing the data. Research that entails conducting interviews requires the researcher to demonstrate certain skills. Hence Holloway (1997) believes that if the researchers lack confidence with the interview technique, then a pilot study is crucial. Reporting a pilot study is crucial as it is a practice and learning opportunity for the researchers to prepare their study better and avoid similar issues in the future. Consequently, pilot studies could save time and money; therefore, detailing the procedures and the findings of a pilot study are necessary (Mason and Zuercher, 1995) and helpful.

For this research, the researcher conducted a pilot study by sending the designed semi-structured topic guide to one of the senior regulators and supervisors, as well as to an external academic expert in the subject of financial regulation and supervision, in order to test the study before conducting the interviews. In addition, since the researcher already conducted a similar study during his previous Master's degree (see Aljarallah, 2013), at which time the researcher conducted semi-structured interviews with senior financial regulators and supervisors, the researcher had already received some feedback from the process and had already experienced difficulties and benefits from this type of study.

The researcher ran three interviews with separate senior financial regulators for the sake of determining the level of clarity of the interview questions for participants and to gauge how the questions would limit or encourage the participants to talk freely about their experience. The participants were recruited by applying expert sampling within a purposive sampling strategy as suggested by Robson, (2011) and Clarke and Braun (2013). This approach helped the researcher to gain access to expert knowledge and is especially important in the early stage of the research where the research questions are under examination and validation. After the pilot study interviews, one interviewee suggests to add extra prompts to questions 12 and 13 (Please see appendix F) and that been added because it would give more explanations and clarifications to the participants and the other two interviewees did not suggest any changes to the interview questions. The interviews were conducted face to face and took place in a period of over two weeks with each interview lasting between 40-60 minutes. The results of the pilot study suggest that the topic guide is clear for the participants where that they felt confident to talk continuously about the questions asked.

3.7. Administering Semi-structured Interview Questions

The semi-structured interview is one of the primary methods for collecting qualitative data through a set of questions between the researcher and the participant. The questions are usually planned and designed before the interview is conducted, although in some cases the researcher can ask further questions for clarification. Genise (2002) argues that several strengths make the interview approach preferable. First, the interview approach benefits from creating a direct connection with the participant which leads to more specific concentration and then constructive results. Second, since there are options to ask further questions and clarifications, then there is also the opportunity to obtain details regarding certain issues and problems that the researcher is considering. Third, it does not require the researcher to have a huge number of participants as few participants can provide large quantities of data. Semi-structured interviews benefit from the strengths of both the structured and unstructured interview styles.

For the intended research, open-ended questions were asked to guide the participants into focusing on specific issues and topics. The interviewer and interviewees can then reflect on each other during the interview process (Preece et al., 2002). By conducting a semi-structured interview, the researcher expects to be aware of certain techniques. For instance, the initial appearance of the researcher has been discussed by scholars in the field. While McCracken (1988) argues that the researcher should look less knowledgeable than the interviewees for the sake of giving them confidence, Leech (2002) argues in turn that senior and knowledgeable interviewees would most likely prefer the interviewer to have a certain amount of knowledge as well, but not to behave as more knowledgeable than they are. Thus, the interviewer should behave in a way that encourages the interviewees to engage more in the research and provide more information.

Therefore, since the researcher was interviewing senior professional for this research, the researcher followed Leech (2002) recommendations mentioned earlier. During the semi-structured interview, if the researcher misunderstands something from the interviewee, it is suggested that the interviewer not ask for the meaning, but rather ask for use of the misunderstood point (Spradley, 1979). This method is found to be more conducive to building a rapport with participants. In addition to that, Weinberg (1996) recommends that the researcher should keep the more sensitive questions to a later stage of the interview and ask less threatening questions at the beginning of the interview, as such an approach will help to build confidence in the interviewees' side to answer more threatening questions openly.

Moreover, Leech (2002) mentions that even the words chosen for the questions should be carefully selected and not lead to any confusion. Prompts are crucial during semi-structured interviews. They are considered to be the moment where the interviewer can ask a further planned question to clarify a certain point for coding purposes (Leech, 2002 and McCracken, 1988). In this research, the researcher selected the words carefully and arranged the questions in a way that encouraged the participants to answer the questions freely (see the topic guide). The participants were first asked to talk about their work experiences and educational backgrounds, after which they spoke about the regulatory structures that they work with, proceeded by more focused questions.

Data collection and management are crucial stages of qualitative research; hence, the researcher should obtain a plan of how to collect and manage the data from the starting point of the research until their presentation (Dey, 1993; Lofland and Lofland, 1995). Having a plan for collecting and managing the data will become extremely important if the research is meant to be for a group of researchers, as it is difficult to ensure consistency (Richards, 2005). The researcher in this piece of research had a clear way of collecting and managing the data.

Preferences were given to face to face interviews with the participants. However, as stated earlier, the participants were located across the globe. Therefore, only nine interviews were conducted face to face where the researcher travelled to five countries to conduct five different interviews. Then four interviews were based in London, seven interviews were conducted via Skype video call and 28 interviews were conducted over the phone. Most interviews lasted between 40-60 minutes, although a couple of the interviews lasted for over an hour and one interview lasted for only 20 minutes. All the interviews were recorded and then transcribed for analysis purposes. The collection of the data took about five months due to the nature of the international sample and find appropriate time slots with each participant, given their packed timetables.

In terms of the time horizon of conducting the interview, there are two types of research: cross-sectional and longitudinal. On the one hand, cross-sectional research aims to capture the participant's views concerning a particular event occurring at some time. On the other hand, longitudinal research is where the researcher visits the participant twice for the same event to capture their experience over time (Bryman, 2012; Saunders et al., 2016). This research followed the suggestion of Bryman (2012), where he argues that if the researcher applies a semi-structured interview then the cross-sectional time horizon is appropriate for data collection. Due to the nature of the research questions for the current study, only one time for one event was appropriate.

3.8. Analytical Tools for the Semi-structured Interview Questions

Miles and Huberman (1994) state that the first step of data analysis begins with the transcription of the data. Here, the researcher transcribed each entire interview verbatim by himself as promised to the participants. However, this process was challenging considering the amount of data that is required to be transcribed. The whole transcription process took over two months. When transcribing data by oneself an increase in familiarity with the data and a better understanding of the details is achieved as the researcher analyses speaking manner such as tone of voice, laugh and emphasis, which are considered as an advantage for the researcher (Bailey, 2008). The position of the researcher during the data analysis involves two aspects.

First, the researcher can be considered as an insider because the researcher had previously worked for the Saudi Arabian Monetary Agency which is the Saudi Central Bank, as well as the banking and insurance regulator even though this was at an early stage of his career and for a short time. However, in addition to that, the researcher conducted his master degree dissertation in financial regulation and used the same method of data collection and analysis.

Based on these pertinent experiences, the researcher can reflect on his own experience and can relate to the data in many ways. Internalising and reflecting on the data is a crucial process that the researcher should develop while analysing qualitative data (Groenewald, 2004; Moustakas, 1994). Second, the researcher's position is also considered to be one of an outsider, as an independent researcher who should maintain a distance from the context all time. However, during data collection and analysis, the researcher did obtain memos and notes that appeared during the process which helped him to be in a position to gain an understanding of participants and data (Miles and Huberman, 1994; Miles et al., 2014). In starting the actual analysis process each qualitative researcher will be faced with either applying software or analysing the data manually. The two options are then discussed in the following section.

The most important question to be asked is what kind of qualitative software to use? There are many available programmes for researchers and they are all accepted by respected researchers in the field. In addition, respected journals publish qualitative papers that utilise software for their analysis, although computer programs are not yet accepted by some respected scholars in the field. Tesch (1990) points out that the software used for qualitative analysis should be connected to the research interest, while the research interest itself should rely on: i) the characteristics of language; ii) the discovery of regularities; iii) the comprehension of the meaning of text/action; and iv) reflection. On the other hand, Miles and Huberman (1994) trust that the choice of a software program should be based on the researcher's skills, where beginner or novice researchers should stick with word-processing certain kinds of programmes, while more advanced researchers can go further with more sophisticated software. In addition, they argue that this depends on the individual researcher's analysis plan and whether it is limited or otherwise detailed in terms of analysis. In other words, Weitzman (1999) stated that if the researcher decides to use computer software for analysis, the first question to be asked is not 'Is this the best package?', but rather what is the best package with which both I am familiar and that suits the data. For this research, the researcher attended an NVivo Training Workshop on computer Assisted Qualitative Data Analysis (CAQDAS) at the University of Surrey to develop the skills and knowledge required to use the software.

After the workshop and discussions with the trainer, supervision team and other qualitative researcher experts, it was decided that Nvivo would be the most appropriate software for the type of data this research acquired. The Nvivo software was applied for data management and coding, while Microsoft Word was used for forming themes. The various analysis approach and process are discussed in the next section. The qualitative researcher is open to choose an analytical approach that suites the type of data, research philosophy and objective. The approaches available for qualitative researchers include grounded theory analysis, thematic analysis, discourse analysis and narrative analysis (Saunders et al., 2016). This researcher applied the thematic analysis approach as this approach is the most commonly used in many fields (Elo and Kyngas, 2008). In addition, the thematic framework approach relies more on themes generated from the data and theoretical flexibility (Ryan and Bernad, 2000 and Boyatzis, 1998), which suits this research as it relies on the knowledge and experience provided by the expert participants more than the theoretical assumptions (Cho and Lee, 2014). In the thematic analysis, the researcher aims to identify common themes that emerge from the data concerning the research questions (Daly, Kellehear and Gliksman, 1997 and Braun and Clarke, 2006). This research adopted (Braun and Clarke, 2006) six steps towards a thematic analysis approach which will be explained in detail in the following section.

3.8.1. Data Familiarisation

The first step in data analysis is the familiarisation of the researcher with the data in hand to strengthen his/her understanding of the data to prepare the final results and analysis (Rice and Ezzy, 1999, Clarke, 2006; Aronson, 1995; Pope and Mays, 1995). The familiarisation process started when the researcher conducted the interviews and took notes alongside them to add understanding to the information. He then transcribed the complete set of 44 interviews by himself, listening again to the interviews while looking at the transcript to assure the accuracy of the data. After the whole transcription process, the researcher read and re-read each transcripts line by line. During this stage, he launched memos while noting thoughts and ideas for a discussion of the potential relationships emerging during the familiarisation step, as suggested by Strauss and Corbin (1990).

3.8.2. Generating Initial Codes

The second step for data analysis is to generate the codes from the transcripts. This step comes after the researcher is familiar with the data, at which point the researcher would have some thoughts about which data may be noteworthy. In coding, the researcher aims to note both the overt and covert data and to distinguish between codes to represent them. Through coding, the researching specifies “the most basic segment, or element, of the raw data or information that can be assessed in a meaningful way regarding the phenomenon” (Boyatzis, 1998: p. 63).
The coding process can be approached via two routes. One route is known as inductive coding also known as data-driven coding. The other route is called deductive coding and is based on theoretical thematic analysis (Bradley et al., 2007).

In this study, the Nvivo software was the first step applied in this research to analyse the data. First, a structure was set up in the software in two parts; in regard to the data files each participant was assigned to a folder in order to distinguish their transcript. Furthermore, a memos were launched for the research questions and those memos can be helpful when the researcher run the analysis in the software. After this step, importing the data to the software was applied. Second, after having the data in the software in the right format, then running the coding in the software was done in two ways. One way to run the coding in Nvivo is known as ‘high and fast’ or (text searching coding) and this test was applied to give a whole picture of the imported data and it offers insight of what the participants aim to say and after that the researcher applied the second coding technique known as ‘low and slow’ or (manual coding) where the researcher goes through the whole data to code each transcript individually within the software. The initial codes generated from the Nvivo software were 81 codes and after revising the codes more than once some codes were merged and some were removed and the researcher ended up with 29 codes (Bradley, Curry and Devers, 2007).

The constant comparison method was used across the questions to identify similarity and differences of codes until no more categories were found and finally formed (Pope and Mays, 1995; Bowen, 2008). To make a coherent relationship between the founded categories, Corbin and Strauss' (2008) questioning criteria were applied. The questions were: "What are the characteristics of the codes? Under what conditions are these codes used? How are the codes similar to or different from the preceding code?" Appendix I provides the codes and basic themes which show how the researcher was able to search for themes across the coded data which will be discussed in the next section.

3.8.3. Searching for Themes

At this stage, a transition was from the Nvivo software to the Microsoft Word where each codes and its relevant transcript was allocated to a separate Word file. Codes then were grouped to their relevant research questions. The researcher then went through each Word file more than once for the purpose of getting familiar with the data and after that started of making comments on the transcripts based on the issues discussed in each specific codes as a base to get to basic, organising and global themes. (Braun and Clarke, 2006). Moreover, it is important at this point to focus only on reporting the issues that have a direct relationship to the research questions and not to represent everything discussed during the interview. Braun and Clarke (2006) suggest that by the end of this phase, the researcher should come up with a thematic map or table to be in the right position to proceed to the next phase, which is reviewing themes. Appendix I shows how the researcher starts with identifying the issues discussed in every code to come up with themes that represent whatever has been discussed in that code. By the end of this phase, the themes and basic themes were identified. The next phase is reviewing the themes discussed in the following section.

3.8.4. Reviewing Potential Themes

This phase basically involves quality checking of the issues identified with regard to the coded data as well as the entire data set. Braun and Clarke (2006) suggest two steps for reviewing the basic themes. The first step is to check the identified theme against the collated extracts of data and to check out whether the theme is associated with the data and overall story or not, therefore, the researcher may discard or reorganise some codes or relocate them under another theme. At this step, researchers may ask themselves some questions: 1. Is this a theme? 2. What is the quality of this theme? 3. What are the boundaries of this theme? 4. Are there enough meaningful data to support this theme? 5. Are the data too diverse and wide-ranging? By answering these questions, the researcher should be in the position to come up with a more coherent and distinctive set of themes, and this is where the second step of reviewing themes comes into place. In this step, the researcher aims to guarantee that the identified themes are meaningful and representative of the whole data set and the research questions. The researcher starts this phase by revisiting all the code files and gathers the identified themes to the specific context in the data in which new raw is launched under the name of organising themes. At this stage, the necessary rearrangement and reorganising of codes and themes takes place, and leads the researcher into the global themes, which will be discussed in the following section.

3.8.5. Defining and Naming Themes

Braun and Clarke (2006) believe that the criteria for developing a good thematic analysis are to have themes that, 1. Do not try to do too much, as themes should ideally have a singular focus; 2. Are related but do not overlap; and 3. Directly address the research questions. They suggest that themes should build and connect to provide the overall story of the data. Furthermore, in naming the themes, they advise to be precise, clear and catchy. After starting with the Nvivo software to generate the codes and then moving to Microsoft Word to define the issues discussed in each code it is time now to define and name the basic themes in order to reach the organising and global themes. Following the previous process of coding and reviewing potential themes by looking at the issues discussed the researcher create a table that contain 5 different columns, the first column includes the codes and the second column contain the issues discussed in each code. The third column incorporate the basic themes and that were generated by re-looking at the transcript of each code and the discussed issues. The fourth column encompass the organising theme and as stated on the name of the theme its role is to organise the basic themes and group them to be more organised and consistent. The fifth and last column contain the global themes and these themes act as a head of the organising and basic themes. In short, the thematic analysis map contains a hierarchical system, at the top of the hierarchy there is the global themes and underneath that the organising themes come to position and that would be followed by basic themes.

3.8.6. Producing the Report

In producing the report, Braun and Clarke (2006) suggest that the report should provide a compelling story of the data set based on the analysis. They state that to create such a story it has "to be convincing and clear, yet complex and embedded in a scholarly field". In addition to that, they advise that the way themes are presented is also crucial in the sense that it should be logical and meaningful. It is not just a presentation of the themes but rather an argument that aim to answer the research questions.

3.9.Trustworthiness of the Research Process

The topic of trustworthiness of qualitative data faces great debate in the literature in terms of how to justify the credibility, transferability, dependability and confirmation of the study (Morse et al., 2002; Guba, 1981; Maxwell, 1992; Pope, van Royen and Baker, 2002; Anney, 2014; Shenton, 2004; Gay et al., 2009). The concerns of such issues increase with qualitative data more than with quantitative data because qualitative studies tend to generate a hypothesis that requires further examinations, while a quantitative study examines the existing hypotheses (Mays and Pope, 1995; Saunders, Lewis and Thornhill, 2012). This research applies Guba's (1981) and Denzin and Lincoln's (1998) strategy in how to ensure trustworthiness in qualitative research by including two criteria: credibility and transferability.

These criteria are simplified by following Anney's (2014) three questions: 1. How do we know or determine the applicability of the findings of the inquiry in other settings or with other respondents? 2. How can one know if the findings would be repeated consistently with the similar (same) participants in the same context? 3. How do we know if the findings come solely from participants and that the investigation was not influenced by the bias, motivations, or interests of the researchers? (p. 276).

For the purpose of ensuring the participants opinions were not biased the researcher applied Enelow and Swisher (1986) suggestions. The first suggestion was to avoid using emotionally loaded words that may lead the participants to be biased towards the question. Another suggestion applied in the research is using open-ended questions as such questions intend to bring more accurate and unbiased answered. Further to that, the interviewer was mindful of the time given to each question and ensuring that each question take more or less equal time to avoid giving signs to the respondents that some questions more significant than others which may lead them to be biased towards some questions.

3.9.1. Credibility, Validity and Reliability of the Research

In qualitative research, credibility refers to the ability of the researcher to demonstrate that the research findings are real, accurate and represent the participant's point of view (Guba, 1981; Gay et al., 2009; Krefting, 1990; Ritchie and Lewis, 2003; Shenton, 2004). Anney (2014) suggests that the researcher should ask themselves two questions to ensure credibility.

First, how can a researcher establish confidence in his/her findings? Second, how do we know if the finding presented are genuine? In this research, credibility was assured by the recruiting participants who are at a senior-level and a selection of regions and countries who can provide valuable information and diversification (Denzin, 1970). In addition, the transcripts were sent to the participants to ensure that what they said is what they mean, as recommended by Anney (2014). Furthermore, the researcher conducted some discussions with colleagues who have had extensive experience in applying qualitative research to ensure credibility, as suggested by Creswell (1998) and Merriam and Tisdell (2015).

3.9.2. Transferability

In qualitative research, transferability refers to the ability of the researcher in demonstrating that the findings can be generalised and replicated to a similar context (Merriam, 1998; Gay et al., 2009). Quantitative results can be generalised mainly due to a high number of participants, unlike qualitative results where subjectivity and sample number can be limited to a generalisation of the findings (Shenton, 2004). In this research, transferability was first ensured by providing details throughout this research data collection and analysis as suggested by Geerts (1973), Mays and Pope (1995) and Holloway (1997).

This description helped to identify how the research contributes in line with other empirical research and contexts (Pope, van Royen and Baker, 2002). The details provided in this research include the number of participants and their demographic information; the number and name of national and international financial regulatory bodies that participated; and the process of data analysis. Second, transferability was assured by building this research on theoretical framework and assumptions in which another researcher can have a clear understanding of where the research questions come from and how better to assess the generalisation of the findings (Kilpatrick, 1981). Third, only participants who were on senior level and have the relevant experience to contribute to the research question were involved, as recommended by Anney (2014).

3.10. Conclusion

This chapter has aimed to provide an extensive view of the design of this research. In the beginning, the research philosophy was discussed and the justification for undertaking this research philosophy under the assumption of epistemological interpretivism was explained. Secondly, this chapter has illustrated the different types of research approaches, justifying why the inductive approach was chosen for this research. The design of this research was provided, stating that this research is qualitative research and that collection of the data was through a semi-structured interview. The data sample was also provided and demographic information was given and explained. After that, the thematic analysis approach applied in this research for the data analysis process was explained in detail. Finally, the trustworthiness and ethical considerations of this research were demonstrated. The following table briefly summarises the research method chosen for this research.

Table 3. 1. Overview of the Research Method

Research assumption	Epistemology
Research philosophy	Interpretivism

Research approach	Inductive
Methodological choice	Qualitative research
Research Strategy	Qualitative interviews
Time horizon	Cross-sectional
Data Collection	Semi-structured interviews
Data Analysis	Thematic analysis

Source: own compilation

CHAPTER FOUR

DATA ANALYSIS AND RESULTS: ORGANISATION STRUCTURE AND DRIVERS FOR CHANGE

4.1. Introduction

This is the first of a series of three chapters on the data analysis and results. This chapter focuses on the organisational structure of the financial regulatory authority and what causes this structure to change. The chapter presents the analysis of the data collected by applying one-to-one semi-structured interview with senior financial regulators and supervisors from 31 countries, of which fifteen belong to developed countries and the remaining sixteen come from developing countries. In addition to this, thirteen international financial regulatory institutions (see Appendix G) were also included in the research.

The main objective of this section of the qualitative analysis is to understand the regulators and supervisor's preference concerning their organisational structure, and their perspectives about the position of the central bank, including why the central bank should involve itself in the regulatory and supervisory functions, and what makes the central bank unique. Whether the prudential and business of conduct should operate together or independently. In addition, the second part of the analysis focuses on understanding what motivates a regulator to bring in changes to their organisational structure from time to time.

This chapter encompasses two parts: data analysis and results, and a discussion and interpretation of the results. The data analysis part explains the analysis process of the semi-structured interviews through a thematic analysis approach. It includes details of the issues discussed, basic themes, and organising and global themes. The second part takes the findings originating from the data analysis and stages a discussion and interpretation of these results where the data is discussed in details and figures are created for the aim of providing reliable and comprehensives inferences from the data analysed.

4.2. Data Analysis and Results

The data analysis seeks to draw out meaningful and valuable data from the interview transcripts through the thematic networks analysis approach as per Attride-Stirling (2001). Appendix I clarifies the five steps of analysis including the codes, issues discussed and themes, including the basic theme, organising themes, and lastly global themes. The first step covers the process of coding where all the relative phrases and sentences regarding a particular code are grouped. The second step involves the issues discussed, which contains a summary of the topics discussed by participants in their corresponding code. The third step is where the basic themes are identified from the identified issues in the previous step. The fourth step contains the organising theme where relative themes are grouped. The fifth and the last theme includes the global themes which represent the main findings from the data.

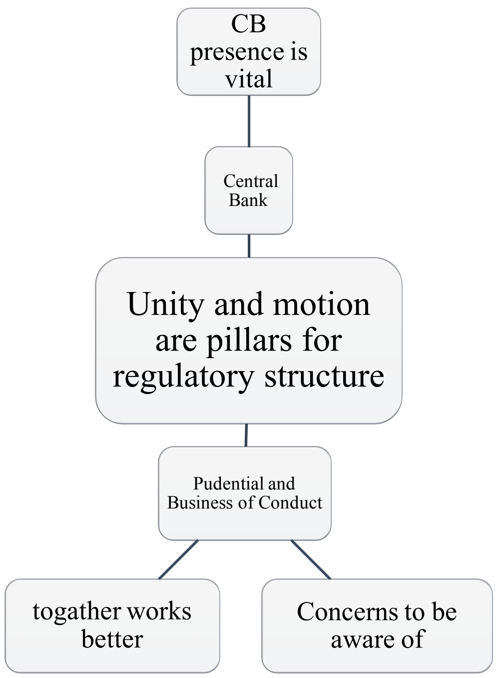
Two global themes are considered in this section. The first global theme covers the area of the organisational structure of the financial regulator, which includes thirteen basic themes and two organising themes. The second global theme covers what motivates the regulators to change their organisational structure, which includes sixteen basic themes and five organising themes (Appendix I Codes 1-9 and themes 1 to 29). For this section, two global themes have been discussed that focus on developing an understanding of the rationale behind the organisational structure of a financial regulatory agency. The themes discuss the role of central banks, the effect of prudential regulation and how the integration of various departments might affect the working environment.

4.2.1. Global Theme 1: Unity and motion are pillars for a regulatory structure

This global theme explores what is required for an efficient structure. The theme is developed to assess the basic requirements for developing a structure of a financial regulatory organisation. In the literature, four structures are discussed that countries have adopted based on their requirements. Each structure has its benefits and drawbacks but no single structure can be adopted everywhere. To analyse what forms the pillars of a structure, the global theme is divided into two parts, as follows:

- The Central Bank
    - i. Why the Central Bank should have a supervisory function?
    - ii. Why the Central Bank is unique?
    - iii. Should the Central Bank be willing to change?
- The prudential regulator and business of conduct - should they operate together or independently?

Figure 4. 1. Thematic network for unity and motion pillars for a regulatory structure



Source: own compilation

4.2.1.1. Organising Theme 1 to 3: Importance of Central Bank and its Role as a Supervisory Body

Table 4. 1. Organising Theme 1 to 3: Importance of Central Bank and its Role as a Supervisory Body

First Global Theme	Unity and motion are pillars for regulatory structure	
Organising Theme 1 to 3	Importance of Central Bank and its Role as a Supervisory Body	
Interview No.	Relative Code	Remarks
	Central Bank power	
DD1	Liquidity	'And of course the central bank has lender of last resort function in Canada, and I know in most other countries. And if we're on the hook to save financial institutions and you know, it's our money, of course we have to be involved'.
DD12.1		'and because they have deep pockets and as they have deep pockets because monetary policy creates lots of money they can finance quite a number of additional role that they`ve been given. And it is very easy for politicians to put the problem where the money is because they know that even if the central bank cannot do it, they will find the right people to do it and they can afford it'
DD12		'I would say that as a matter of principal -though this is not financial role- central banks are very equipped to carry forward prudential supervision regarding the banking sector'
IO5		'You see normally you don't need the central bank for supervisory scope when everything is okay but during crises the central bank should be involved simply because the need of liquidity'
DE3		'It's hard to say but taking into account the experiences we have, I think central bank needs to be a part of this issue, as I said before the central bank has holding liquidity sources. If any kind of problem may occur in the financial system, they need to interfere directly without losing any time'
DE16	Stability	'but having the central bank involved in supervision especially on the prudential side you could say it's important to the assessment of the financial stability, and I guess that informs them on issues related to potential role as a source of liquidity for the banks and some cases in other organizations I guess but mostly the banks'
DD10.1		if you dive deeper but I'm sure you are most knowledgeable there but if you dive deeper than prudential supervision that area I mean the first objective and the first priority should be the stability not of individual firms but of the system and from that at the second level of priority they should be looking at a stability of individual firms so that system stability is of course the natural habitat of a central bank so I think it should be pretty close together'
DD10.2		'the Central Bank has its advantages because of the links with the financial stability in the macro prudential function of the central bank so you have a better exchange of information and those financial supervisors that are you can say are separated from the central banks they are sometimes a little bit how to say are legally oriented formalistic and also being integrated with the Central Bank

		it gives you a kind of provides more information about financial markets and financial system which in my view allow you to be a better supervisor'
DD10	Crisis	'I think it is crucial to have alignment between the monetary authority and prudential authority since when especially during times of crisis you need to have a real time access for instance, data from the payment systems, the people who have to decide on emergency liquidity they have a good working relationship with the people who are doing prudential, so my personal opinion is that it is necessary to have a supervision within the central bank'
DD7	Cost of Coordination	'ohh well the benefit of the hindsight I mean if I take the UK as an example people there said this is the whole rational for moving the regulation to the Bank of England people said that there was weak communication between the central bank and the regulator, If you look at Ireland where the central bank was responsible for a lot of supervision yeah we saw that those communication issues was much better than the UK during the crisis yeah I think'
IO6		'I think there is benefit in having it, you know coordination is also the cost. For example, in Indonesia they split their regulatory institution in so many segment that coordinating is very costly'.
DD13	Independence	'the central bank is more independent by law than is the regulator the our regulator is part of the fiscal budget we have an independent budget so to speak we are there is an adviser report what is selected by Parliament it does not answer directly to any ministers and central bank independence was secured in a legislation introduced in Iceland in 2001 and it also seems that for that reason the independence and the strength of the central bank is more than at the FME and I think this is also the experience from other jurisdictions you know at least in Scandinavians that a Central Bank independence seem to be more a more secret issue than the supervisor'
DD15		'sometimes the minister will get on the phone or someone from the ministry staff will get on the phone and will say hey pull your head in or you know think about the decision you have made or whatever, and that will happen, central banks will ignore that central banks will not even respond that phone call, right they just take a different approach, and like it is something not even written down anywhere it is just a sort of how these cultures have emerged within these different regulators'
DD2.1	Improvement	'I think for central bank the world is changing very quickly with fintech cryptocurrency all those sorts of things. And suddenly they happen to look at the world that is very different, and I think for them that is a big cultural change as a central banker to be able to adapt and understand and at the same time insure standards in the market and that is their job'
DD6		'and there was a period in some major central banks where they thoughts it was all about mathematics and if it worked mathematically then there is no issue and so the outcome would always be what the math's would be and I don't think the market necessary work like that, you know there's a human element and people panic and people stop lending and so things happen, that change the circumstances of what is going on and how a market is operating, and that has nothing to do with mathematics that has to do with human behaviour'

Source: own compilation

Organising theme 1 to 3: *Importance of Central Bank and its Role as a Supervisory Body* as shown in table 4.1 these organising themes covers interview question regarding the point of view of the regulators in regard to the position of the Central Bank in the supervisory process. Participants shows that the importance of the involvement of CB comes from for different reasons. First, their power of holding liquidity, and such power seems to be reasonable to be involved because the need of providing liquidity has to be immediate and Central Bank will not provide liquidity if it's not aware of the financial situation. In addition to that, liquidity of CB keeps them in powerful position to recruit the required professional which will enhance the supervisory function. Second, some regulators believe that the Central Bank is in a better position to evaluate the financial market from both the micro and macroeconomics perspective and ultimately the overall situation of the stability of the financial system and therefore the Central Bank should be in position to involve in the supervisory function. Third, participants argue that the financial crisis have shown that the Central Bank is in a better position because of their ability to access data and as an information keeper, hence, make the right decision within the right time frame which is a crucial element during financial crisis. Fourth, an additional benefit for having CB involved that been discussed by the regulators is that the cost of coordination between separate structure tend to increase when the CB is out of business. If the CB has no responsibility in supervision, communication tend to be weak and this lead to slower decision making during crisis. Fifth, CB recognised to be independent in comparison to other regulatory bodies which give them sort of extra power and a place that a regulator would prefer to operate within. However, the CB is criticised by the regulators for a place that not willing to change as quickly as the market do. They argue that the financial market is moving quickly and therefore the CB should be at the same speed as the market even if not faster to have a better understanding on how to regulate efficiently. Furthermore, CB blamed to be focusing only on mathematical approach and ignoring the human element which makes central bank in a weak position to understand the financial market, in other words, CBs known to focus on risk based approach when they want to supervise the financial market and ignore the behavioural and human element.

4.2.1.2. Organising Theme 4 to 5: Is it Beneficial to Merge the Prudential Regulator and Business of Conduct Regulator

Table 4. 2. Organising theme 4 to 5: Should the prudential regulator and business of conduct be merged: Communication

First Global Theme	Unity and motion are pillars for regulatory structure	
Organising Theme 4 to 5	Together works better	
Interview No.	Relative Code	Remarks
	With Prudential and Business of Conduct joint	
DD10.2	Communication	'the advantages and the disadvantages when you have the twin peaks you should cooperate closely with the conduct authority because there are clear linkages and that is the case in Netherlands we work closely together with the authority of financial market and we even do some justifications together and there is also close contact at both level so we have good working relationships that is very important'
DD4.2 **DD6**		'I can see that going either way, but I think if I had to choose I'd rather have one agency responsible for both perhaps with different people within that organisation focused more on conduct of business and treating customers fairly and another part of the organisation focused more on the prudential side with coordination between the two'
		'I think it should be together because this is important for both sites if a bank is making an infringement in this area the banking supervisor has to take measures to the mention directors and if they all separated then they only be able to take some measures but they would have to cooperate with the supervisors of the other sectors I think and there's a lot of impact on this sectors as well so I would think it makes sense to have this together like we have it at the moment'
DE8		'In my view, the two separate subjects can be dealt with in the same entity as well through separate departments , divisions , groups and can also be managed properly through two different regulators supported by adequate coordination'
DD11IO5	Efficiency	'my personal view they should be together, even though they may benefit from separation you know. Q2.1: why do you think it is best to be together? 2: because there's two sides, one is the financial company who's going to sell products, and the other is the customer, so these two aspects shouldn't be separated. Because sometime they sell something which is measured in different way in the company's

		account so if you want to show up the risk to the investors, you could say everything about the product not just saying this is the product and how the company managed, so there's two aspects are really to be seen together'
DD12.1		'I think it should be put together, because there are things that you learn by following the prudential side that necessary for rules of conduct and vice versa , for instance, if you see as prudential supervisor that the entity of the supervision is changing their promoters of selling certain product and this is something real, we have witnessed situation where a certain entity has given up on a certain model and took on another, and you could see that on the prudential side but the rules of the conduct authority was completely unaware of it and we only saw the final result'
DD13		'I think it should be in the same body I think you would have a stronger much stronger institution and you would have a better understanding of the solvency and the liquidity risks combined because there is a very limited knowledge of for example complex lending products derivative products within our supervisory authority'
DD5		'Again as I said, I think also should be merged, because business conduct again, they are looking at kind of compliance issues but compliance function and some other aspects which they look at a part of corporate governance which has to be assessed as well from prudential side. Again it has been a question either you do it double in the business conduct supervision and prudential or you just miss part of the information in your prudential work'
	Concerns to be aware off	
DD3IO2	Unlike	'Yeah. I think I'm not against that actually. I think again this not the same profession. Yeah, it's a bit different. I would see ... I think it would make sense to split it actually'
DD4.1		'I really don't think that central bank should have anything to do with consumer facing supervision; that's to say the role of making sure that consumers are ripped off that, that people treated fairly, that banks and employees adhere to these duties and supervisors and so on and so forth, and the board of financial institutions and firms are applying rules properly. I don't think it should be the role of the federal reserve, it used to be the federal reserve had that role and they did it very badly because the stature of the people who performed that role in the central bank. As I said if you were doing the FOMC meetings that was a top position, and maybe if you are doing very high levels for supervisions that would be respected, but if you were dealing with people who are complaining about being ripped off by their banks because the fees were too high no one cares'
DE11	Focus	'my point is I think it should be separated to allow those body to then focus on their core businesses'

DE15		'I feel, personally let me mention that I mean if you look at the global scenario I mean especially in the emerging market there are no regulators for the conduct of business regulation right? And I think I will give example of India so India so far doesn't have any regulator which look into conduct of business you know for the banks I mean the securities market regulator looks at conduct of business by the securities firm but there is no one conduct of business regulator which would give a focus attention on this very important aspect. It is better if these two are separated because they require different kind of skills and secondly the focus can be sharper'
DE3		'If regulatory and supervisory authority deal with conduct and financial consumer issues at the same time it is very hard for them to focus on both side of the financial sector. We have experienced this issue before'

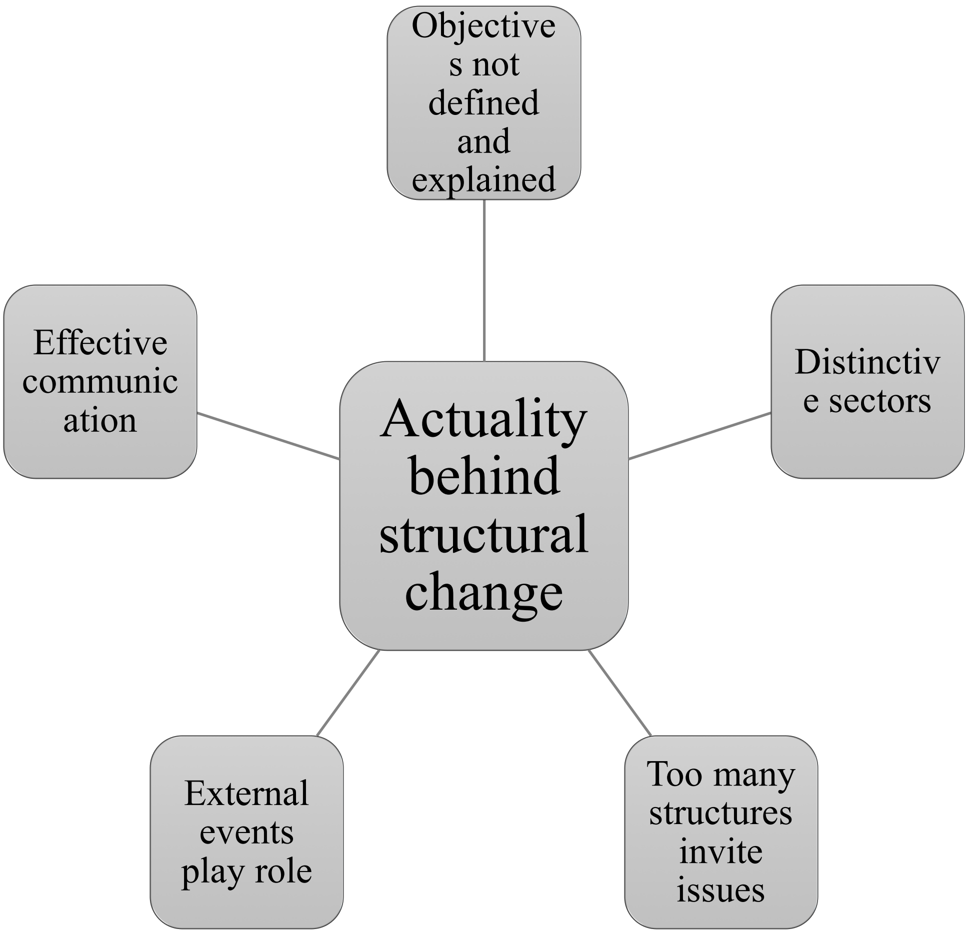
Source: own compilation

<u>Organising theme 4 to 5:</u> *Together works better* as shown in table 4.2 these organising themes talk about the prudential regulator and the business of conduct and whether they should operate together or independently. The prudential and business of conduct are the two pillars of any regulatory structure, while prudential look at the safety and soundness of the financial firms the conduct look at how consumers been treated and there has been always a question of whether should be joined or not when running regulatory and supervisory function. Most regulators prefer these two functions to be combined for two main reasons, one is to enhance communication within the overall regulatory structure and to enhance cooperation between them because regulators argue that the more structure the more difficult the communication to happen between regulators. Second, regulators state that due to the nature of financial products that contain both prudential and conduct aspect supervisor should be in position to evaluate the overall scenario of financial products and protect consumers. On the other side of the coin, some regulators hold some concerns when these two functions are together and therefore should operate independently. First concern is that these two functions are so different in terms of the knowledge required by the regulatory staff and the conduct of business seen as a lower position and therefore when the two functions are combined regulators tend to avoid the conduct side. Second, Regulators believe that separating the two functions enhance the focus on each side to operate at their best level which is difficult to be achieved when two of them operate under the same management level.

4.2.2. Global Theme 2: Factors that Drive the Structural Change in a Financial Regulatory and Supervisory Organisation

The second global theme that is identified from the responses gathered, answers the question of what the factors are that drive an organisation to adopt changes in its structural format? This global theme contains five areas of what motivates the regulators to change their organisational structure: 1- Objectives not defined and explained, 2 - Distinctive sectors, 3- Too many structures inviting issues, 4- External events playing a role, 5- Clearness and openness, as shown in the figure below:

Figure 4.2. Thematic networks for actuality behind the structural change



Source: own compilation

4.2.2.1. Organising theme 6: The objectives of an organisation are not defined and explained precisely

Table 4.3. Organising theme 6: Unclear definition of organisations objectives: Clarity of Regulatory Organisation Objectives

Second Global Theme	Actuality behind the structural change	
Organising Theme 6	Objectives not defined and explained	
Interview No.	Relative Code	Remarks
	Structural change	
DD10.1	Unclear mandate	'when we did reform for Twin Peaks we used a very fine scissor to cut them apart and we really describe that in detail so that we wanted to have a good start'
DD1		'So I always start off with the mandates of any organization. Get the mandate right, and everything else follows on from that An example of how unclear mandate lead to nowhere is what has been observed on Australia about the structure in the UK when there were only one single body (the Financial Services Authority) it was very difficult to one body to define responsibility that supervise the whole financial market, considering the size of such market in the UK'
DD15		'I think from Australia we sort of watch charges of the UK quite closely is that you know is there the chance that the single regulator loses focus, they don't actually what they are responsible for they are responsible for everything and because they are responsible for everything, they are responsible for nothing'
DD5	Overlapping	'Well partially of course because if you have different authorities as I said in some aspect they are overlapping by providing guidance to the market then might be like different guideline specially to one specific aspect'
DD4.1	Competition	'I do not want to go too deep but basically the argument was that having many regulators who did similar things or who had overlapping regulatory responsibilities and this lead to competition and it was in fact not good'
DE4		'then I remember i tried to plan all the work, the supervision job in the year with other authorities then I talked to the head of insurance supervision with the capital market authority to understand what we could do together. My friend, it was so complicated, so there would different prospective, different

		political views of that, they understand in a different way, i understand because they have different subjects, different mission'

Source: own compilation

Organising theme 6: *Objectives not defined and explained* as shown in table 4.3. regulators report that the most common issue they believe is one of the main drive of changing the regulatory structure is that the objective of the organisation is found to be unclear or overlapped either within the single organisation or with other regulatory bodies. They explained that the mandate of the organisation should be precisely defined to avoid any distribution when preforming supervision. Hence, regulator believe that clear mandate should be the first thing to start with because everything follow will be based on them. The issue of overlapping is particularly of concern when there are many structure operating within one financial market because this overlapping lead to competition between the regulators which is considered as a negative outcome. In addition to that, the overlapping can happen within a single structure and therefore competition will raise between different department and this is a result of not defining and explaining the objective of each organisation and departments operating within.

Table 4.4. Organising theme 7: Presence of diverse sectors: The Influence of the Financial Sector

Second Global Theme	Actuality behind the structural change	
Organising Theme 7	Distinctive sectors	
Interview No.	Relative Code	Remarks
	Structural Issue	
IO7	General differences	'I do think that the people tend to underestimate the differences of substance and of regulatory implications between insurance on the one hand and banking and securities and the other, banking and securities I believe would have more obvious overlap. Although I don't think this is an incontrovertible conclusion I personally think that insurance is different enough that it should be treated differently but it's largely a historical and political question'
DE16	Cultural differences	'I guess they have cultural differences even across the sectors that seem to carry through from the institutions to how the supervisors behave. In the insurance sector the companies and their management tend to be more open to share ideas with one another, I think more than you would find in the banking sector and the supervisors seemed operate along those lines as well and in the securities sector the regulator and supervisors tend to be very enforcement-oriented and so it is a different approach and of course dealing mostly with conduct issues not prudential and so that's understandable but still give these organizations different flavour to them I guess, different ideas of what it is most important to focus on'
DD8	Complexity	'I do spend a lot of time talking to other colleagues from other countries and I can see how they are thinking, the way the United Kingdom re did their structure few years back or in South Africa change the structure as well. it looks like keeping separate authorities remove so many of the conflict that single authorities may have around making sure that the bank or insurance company have enough money to a satisfactory level by the prudential supervisor and at the same time is not treated customers unfairly I can see that there is an inherent conflict keeping separate bodies can be a good thing but obviously on the other hand it takes a hell of time to build knowledge of companies and financial groups which can be horrendously complex. So this works and that knowledge can be problematic'

DD12		'Now, the methodology that rescue you to assess risk models of banks or one that asks you to assess risk models of insurance
		companies, it's very different. That's why I am very sceptical on those solutions that merge prudential supervisors. These are very different exercises. these are very different approaches. These are very different cultures. I don't think this will really work out'
DE4		then I remember i tried to plan all the work, the supervision job in the year with other authorities then I talked to the head of insurance supervision with the capital market authority to understand what we could do together. My friend, it was so complicated, so there would different prospective, different political views of that, they understand in a different way, i understand because they have different subjects, different mission

Source: own compilation

Organising theme 7: *Distinctive sectors* as shown in table 4.4. in this organising theme regulators share their view on understanding how each sector is different and therefore should be treated differently and regulators keep changing their structure because they underestimate the difference between each sector. Regulators argue that one of the difference between sectors include cultural and behavioural differences in both the financial market and the supervisory side, hence, every sector has different flavour in which regulators tend to change their structure to accommodate to the market nature. Regulators also state that when sectors are combined, for example, bancassurance activity where a bank is in joint with an insurance company, regulators find that extremely difficult to build knowledge on financial groups and that lead to unwanted situation where the right decision is hard to make. Because each sector requires its own knowledge and method of supervision.

4.2.2.3. Organising Theme 8: Numerous structures for establishing a financial regulatory and supervisory organisation

Table 4.5. Organising theme 8: Multiple structures: Too many structures invite issues

Second Global Theme	Actuality behind the structural change	
Organising Theme 8	Too many structures invite issues	
Interview No.	Relative Code	Remarks
	Structural	
DD1	Sharing information	'I mean in Canada, our banks and insurance companies are not integrated, in Canada. I mean they will be in continental Europe (bancassurance); there's some of that in the UK, but not in Canada. You know, is it optimal to be integrated? I think it can be helpful to promote communication, the sharing of information. But as I said, you know, if you have like bank supervisors on one floor, and insurance supervisors on another floor, they may not talk to each other even if they're in the same building. So to me the focus is the communication and how that is structured'
DD12.1		'we have problems of grey areas of competences between ourselves and the central bank, and the insurance regulator, and I can give you some examples. For instance, a financial intermediary if you want to buy and sell security you have to have two authorizations, one from the central bank because they are prudential supervisors of investment firms, and from ourselves because they will be providing financial intermediaries services, so and both regulators need to talk to each other to see whether they have shared the information that is relevant to the analysis that the other one has to do, and this is somehow difficult to achieve'
DD6	Market size	'as I thought before I think the best as a country for Germany and for larger countries like it's better to have all Finance Authority in one place, I mean in China they already merged regulators two months ago of insurance and banks it will be a huge body and they kept the capital market, in a country like China I think it makes sense because the one body would be too large would be more than 20,000 staff you cannot handle this but smaller countries I think it's an advantage to have all finance authorities and I think for Germany as well'

IO5	Cost	'the more complex and the more tough the regulation the more it costs, it is not easy to find a right balance'
DD12		'And by losing legal certainty you are in adding cost. So, I buy the argument that actually too many regulators are not good in itself and might me very costly yes'
DD2.4		'I think it probably increased the cost because you have got two separate bodies now, it's clearly will increase the cost'
DD9		But I mean you could maybe say that if you have one authority you have a number of functions like HR, accounting can be one rather than two, you know, one authority, everything else will be equal than several, because you need also top management with high wages for each authority'

Source: own compilation

Organising theme 8: *Too many structures invite issues* on the previous organising theme the issue of merging sectors discussed. However, as shown in table 4.5. this organising theme suggests that having different regulatory body for different sector invite issues that make the regulators keep changing their structure. One of the major issue regulators face when there are more than one body regulating and supervising the financial system is communication and information sharing. So having many structures create a grey area of how to communicate and share information that is reported to be difficult to achieve and therefore, regulators keep changing their structure to overcome such issue. Another issue that is reported by participants is the size of the financial market which play role on whether the regulators should be merged or separated because financial market developed overtime. Regulators report that when there are too many regulatory bodies the cost and complexity of supervision tend to increase and this has a negative impact on the financial market.

4.2.2.4. Organising Theme 9: Communication and Cooperation Between Departments and Organisations

Table 4.6. Organising theme 9: Communication and Corporation between departments: Effective communication

Second Global Theme	Actuality behind the structural change	
Organising Theme 9	Effective communication	
Interview No.	Relative Code	Remarks
	Structural change	
DD1.1	Communication	'people seem to change the structure back and forth I think they are always trying to achieve you knows a proper coordination between the various departments'
DD1		'so the issue always is communication among these organizations. And my own view is that all the different approaches that you see out there are usually just ways to address problems of communication'
DD7		'ohh well the benefit of the hindsight I mean if I take the UK as an example people there said this is the whole rational for moving the regulation to the Bank of England people said that there was weak communication between the central bank and the regulator, If you look at Ireland where the central bank was responsible for a lot of supervision yeah we saw that those communication issues was much better than the UK during the crisis yeah I think'
DD15	Compete	'I think the challenge with twin peaks or this more kind of I would call it sort of thematic of functional type of regulation obviously is the coordination problem right, so its problem is coordinators across regulators Australians has had that problem I think it has got better overtime but it takes a long time at the beginning it can be very messy because regulators are overlapping, they are competing they are getting into each other's ways'
DD6		'some other issues came up the cooperation I was responsible for Lehman in this time the lead here in Germany was the largest bank out of the US which went in bankruptcy and the problem was more to cooperate with the other countries because in this weekend 12 to 15 of September 2008 almost ten years ago we had this problem of cooperation between the US and the UK and the other countries were broken up in this even in the worst time so because in the time of crisis every country is looking at their

		own jurisdictions only and not anymore onto the other one to hope I can protect my economy to prevent any damage’
IO3		‘and the trust between the central bank and the OSFI superintendent it works smoothly so the issue which I raised previously which is the communication issue or you have a supervision separated from the central bank it'd be a problem communication over supervisory issues and other systemic risk issues as the arise that's with well in Canada because that slightly simpler and we have a quiet long standing of how it works in America because this history and championing on competition you don't have coordination or smooth coordination instead you have pushing each other towards who gets to do what and that doesn't actually work …’
DD7	Confidentiality can limit communication	‘I guess confidentiality sometime an issue less for creating regulation more an issue for supervision so for example if you take a large conglomerate like….which operate across Europe and therefore, exchanging information between regulator become difficult because there are numerus legal framework in national and international level. So you need to get that foundation before you work together’
DD9		‘to supervise a financial group it is very important that the individual supervisors are in close contact. But confidentiality is important, So you have to make sure that if you exchange the information that this information was kept confidential on the other side’
DD1	Personal	‘It's a very simple human nature. It's not a sophisticated you know, concept here. So simply putting people near each other doesn't ensure communication. You've got give them reasons to go and talk to each other.’
DD1		‘So but it is important to find those areas of intersection that allow you to promote communication. As I said, we did it by starting to go to some of the same meetings that OSFI did, and inviting them to some of our meetings. And we just got to know people. We just built personal relationships in addition to building those stronger institutional relationships’
IO3	Culture of openness	‘OF course the power of the people inside the tent or inside the institution prefer secrecy, because it's easier to get things done if no one is looking over your shoulder. But if you are the most influential organization in global financial regulation, then you need some degree of transparency or you will lack legitimacy. And I do think central banks are not that very good at transparency, they have never been, it’s not their strong suit, they like doing things in private behind closed doors.’

DE4		'In Brazil we have a problem, the authorities in Brazil is not so friend of publicity, it's a culture. I'm not thinking that bad way you need to hide something, no it's not that, before that i think it's a cultural point'
DD12.1	Trust	'but most of those problems are related to the structure and the legal regime that underpin this structure, and whenever you have limitations from sharing relevant information, then it is very difficult to have the necessary of confidence and trust and the challenge that the model of collaboration would work'
DD12.1		'for an effective mechanism for coordinating first thing that you need is trust between the institutions and you build trust based on past experience, you build trust based on some regulatory environment meaning that you have to have the necessary assurances that the information will not misused ,that the information will not be miss placed that the information will not be shared with parties that don't need these information for the regulatory purposes'
IO1		Of course, in order to be able to share things, you need to have legal frameworks enabled to facilitate that. You've equally got to come from the spirit of sharing, and to trust each other. So no matter how wonderful the legal framework is, you've got to build that trust. That doesn't happen overnight.'

Source: own compilation

Organising theme 9: *Effective communication* as shown in table 4.6. this organising theme suggests that regulatory structure is changing because regulators seeking better coordination and communication facilities between different structure and departments. Regulators report that coordination and communication is not as effective as it should because of various reasons. One reason outlined by regulators is that regulators and supervisors compete amongst each other and that lead to less communication because when you compete you try to defend and promote yourself as a department or as an institution rather than working as a team and therefore such competition culture should be minimised. Confidentiality is another reason indicated by participants that can be a legal barrier for communicating and sharing information between institutions and departments. To promote communication regulators, advise that there should be always a reason to talk, having department or institution next to each other is not enough and therefore there should be an events and reasons to encourage officials to communicate. Moreover, building personal relationship with other departments or institutions and be open to talk and communicate can boots communication which should be promoted as a cultural thing within the institution. Regulators suggest that the financial regulatory bodies need to have a culture of openness because that increase transparency which ultimately lead to better communication. The trust is a fundamental aspect in order to promote communication and information sharing effectively. Trust can only obtain over a long period of time because it is built on previous experiences in which regulatory institution should consider.

4.2.2.5. Organising Theme 10: External Factors Responsible for Structural Change

Table 4.7. Organising theme 10: External factors responsible for structural change: External events play role

Second Global Theme	Actuality behind the structural change	
Organising Theme 10	External events play role	
Interview No.	Relative Code	Remarks
	Structural change	
DD10	Financial crisis	'I think at least in the Netherlands where the organization structure has been changed the goal was to address to the weaknesses identified during the crisis and particularly the risk of regulatory capture'
DD10.2		'There is indeed you see a change in institutional structure when you see an outside event like crisis or whatever'
IO5		'most of the time they change when there's a crisis, the main changes happen after crises'
DD12		'well, the motivation is kind of defensive, defensive in the sense that you try to kind of learn lessons and be very prepared for the next crisis I think this is the main motivation. I think there is clearly many of the changes that we introduced organizationally draw very serious lessons. So, I think there was a serious exercise in learning'
DD14		'I come back to the point I made where I was saying that most of changes in regulations has been induced by serious crisis and looking at what we are seeing right now and I think it will be the same thing in the future'
DD11	Market development	'most of the time they change when there's a crisis, the main changes happen after crises, or when they realise it is difficult to cope with development of the market. The supervisors are always behind market development'
DD12		'I also think that supervisory tools that were available before the crisis were not ideal to capture the complexity of banks so what happens is that banks became very complex entities, and the supervisors did not adapt their supervisory tools. And this leads to shortcomings in the way they could capture many of the activities

		that banks were carrying forward. And I would say that the supervisory framework has clearly evolved since then.
DD14		'I think the motivation should be to conduct regulations and supervision in the best possible way that it is as close as possible to the evolutions in the financial sector knowing that regulations will always to some extent lack behind the evolution that you see in the sector but I think that should be the main objective is to have a regulation which as close as possible to the evolutions that are going on with the financial sector and within the broader economy'
DD2	International trend	'But if I go beyond the UK, this was the trends within the Central Bank, banking supervision. Then there were the trends of the last 20 years to make it separate, so now the trends gone back again to putting supervision back into Central Banks. That's more of a global trend, not just in the European perspective or the UK perspective'
DE16		And, you get trends from time to time, such as the move toward integrated supervisory agencies and then after that the trend seemed more towards twin peaks'
DD2	Politicians	'You've also got political things, so you had Gordon Brown in 1997 wanting to split up supervision from a Central Bank. You could equally argue that once you get change of government, they wanted to do the exact opposite'
DD2.2		'it's all part of the narrative building, you know what I mean, I'm not like saying there's anything I would be able to do differently if I was a politicians, but you got five year term of office and you have a financial crisis to respond to, then I think a structural change to the institutions of the regulation and supervision is a nice easy change to make because all the weapons available to make the change quickly and easily and so help to build the story that you took the problem seriously and determined that you fixed the problem and you already implementing a solution things will not be the same again'
DD10		'I think to some extent they probably also desire on the side of politics to be seen as doing something and it seems as doing something is sometimes more important than doing something'
DD4	Fear	'Fear. Primarily fear, and I'll tell you why. Fear that either something is about to blow up in a bad way and have significant financial repercussions, or fear from a political standpoint that, if it does blow up someone is going to get blamed for it. You know that. So, someone will be blamed for it, but it has to be taken care of before that happens. So, I think the motivation in many ways is

		fear. I wish it weren't, but that seems to be the principal motivator.'

Source: own compilation

<u>Organising theme 10:</u> *External events play role* as shown in table 4.7. this organising theme provides various external causes of why the regulator change their organisational structure. Regulators propose that weaknesses found by the financial crisis is one drive for a structural change. Another drive for structural change is the development of the financial market as regulators blamed to be always behind the financial market development. Some structural change happens simply because there is a trend in the international financial market, especially when developed economies change their structure, followers from developing economies try to copy as they believe that this is the best practise to apply. Some participants give responsibility to the politicians as a drive for the change of the regulatory structure and the politicians desire is a way to show the public especially after financial crisis that they are taking the issue seriously or simply fear of being blamed of the regulatory failure.

4.3. Discussion and Interpretation of the Results

4.3.1. How to Design the Organisational Structure of the Regulatory and Supervisory Organisation

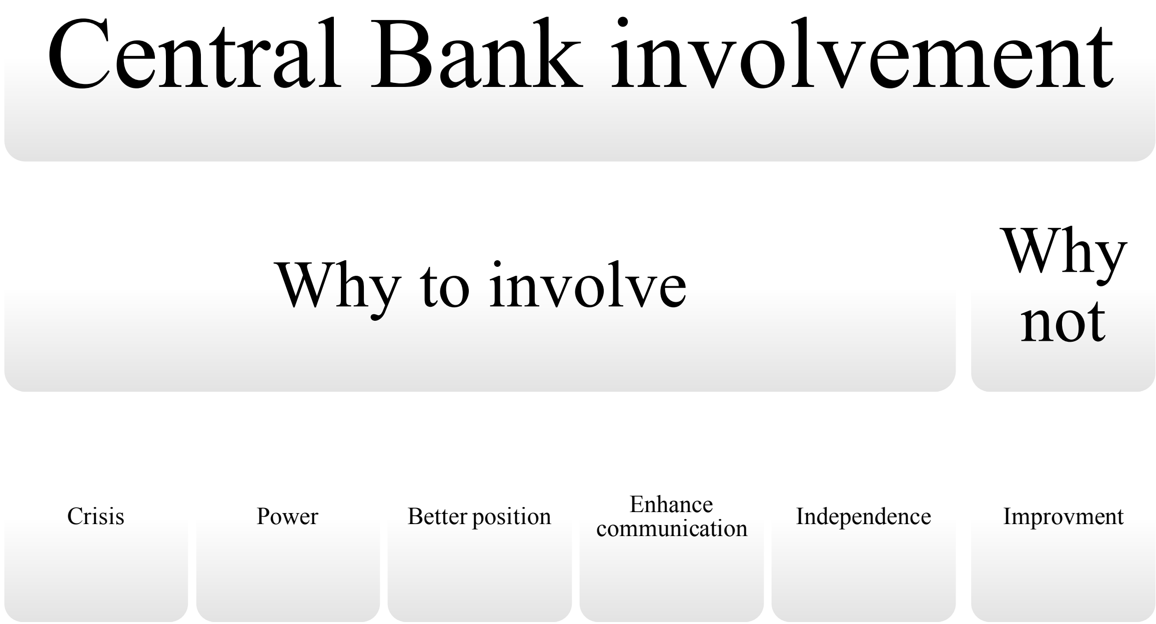
The first global theme identified was in the context of analysing the unity and motion to be pillars of the regulatory structure. The results obtained were divided into two parts. The first part analysed how much involvement a central bank should have as a regulatory and supervisory body whereas the second one aimed to analyse whether prudential regulators and businesses of conduct should operate together or independently. Both of these aspects try to develop an understanding of the essence of unity in the organisational structure of the financial regulatory authority.

4.3.1.1. Reasons for Involving and not Involving the Central Bank as a Regulatory Body

The argument about the extent of involvement that a central bank should have as a financial regulatory body has been under discussion for decades. The points that are identified in regards to this discussion from the responses gathered have been highlighted in figure 4.3 below. Goodhart (2007) argues that in this era, central banks are managing numerous verticals of the financial industry such as monetary systems and payment systems, the determination of interest rates, and acting as lenders to other financial institutions and governments. All these verticals provide the central bank with the authority to assert its position on other financial regulatory bodies, especially in regard to monetary policies.

Di Noia and Di Giogio (1999) argue that as the central bank is the liquidity holder, it can protect the payment system well. The interview answers revealed that since the central banks have power over the liquidity in the market, then this places them in a situation of power to supervise liquidity. The interviewees believe that central banks are lenders of last resort for most countries, as a result of the deep pockets created by their control of monetary policies. Some interviewees also believe that the experience of a central bank makes it equipped to carry prudential supervision and allows them to interfere in critical matters directly without losing time (see table 4.1).

Figure 4. 3. Involvement of Central bank



Source: own compilation

In the face of the need to ensure the systemic stability of the financial sector, the marriage of the monetary function and the regulatory authority is preferred. Goodhart and Schoenmaker (1995) argue that the lender of last resort tool would save the financial institution from a solvency scenario which can lead to systemic stability issues. Even the responses to the interview questions indicated that there is a thought process among the people in the financial industry that the Central Bank is in a better position to evaluate the financial market from both the micro and macroeconomics perspective. The overall stability of the financial system is ultimately the objective, entailing that the Central Bank should be in a position to involve in the supervisory function. They feel that the central bank has the power within it to provide stability to the whole system and would give priority to the whole industry rather than prioritising individual firms. Moreover, being at the heart of a financial system of a country, the central bank has a better flow of information, thus making an informed decision keeping it accountable for all the information it possesses (as shown in table 4.1).

Information is key to any supervisory and regulatory authority and here, Peek et al. (1999) point out that the central bank would be in a better position to acquire insightful information when the supervision function is within the same power. The reason is that confidential information can be accessed easily, and such information helps to ensure central banking functions perform better. Thus, in a time of crisis, a central bank is better equipped to make the right decision within the right time frame which is a crucial element during a financial crisis. The respondents also agree that supervision within the central bank would allow for better management of the crises. The respondent also stated in table 4.1 that an increase in the involvement of the central bank as a supervisory body would help in the reduction of the cost incurred to maintain coordination between the separate regulatory bodies and the central bank. Hence, it is preferable to involve the central bank as a supervisory and regulatory body.

A critical point in deciding whether the central bank should be involved in the supervision function is its independence from politicians, the financial industry and the public which arguably helps it to deliver better policy outcomes. Previous studies have given contradicted views on this matter. On one hand, in their research, Alesina and Summers (1993), Daunfeldt and de Luna (2008) and Masciandaro et al. (2008) argue that there is little evidence that supports the argument that the more independent the central bank, the better their policy outcomes. On the other hand, amongst others, Arnone et al. (2007), Pellegrina and Masciandaro (2008), Hanretty and Koop (2013) have argued that the independence of the Central Bank has a positive impact on their overall performance. The regulators are in favour of the central bank being involved in the supervision function because they believe that the Central Bank acquires more independence, which comes with more power that leads to a preferred environment to operate within, in comparison to an outside supervisory authority.

The themes identified, however, demonstrate that the regulators do criticise the central bank in two aspects. First, if the central bank will be asked to be involved as a supervisor, then they should be willing to adapt to the market changes. This requires that there is an immediate change in the structure as the markets innovate quickly while the central bank is notoriously slow in adapting to this innovation. Second, the central bank is known to rely on quantitative methods and mathematical approaches which are required for their central banking activities.

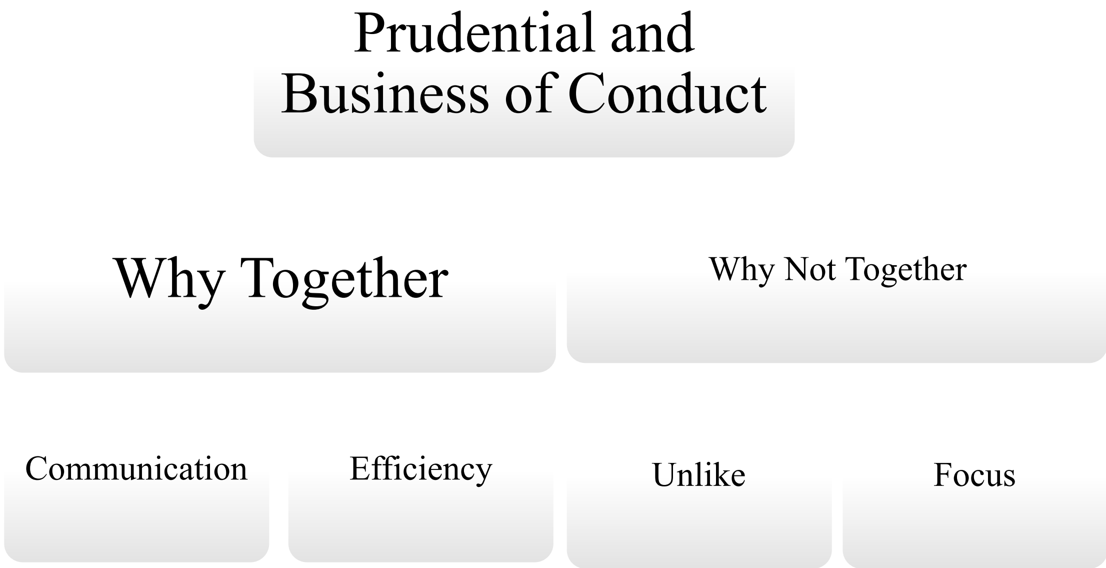
However, if the central bank is to be involved in supervising the financial sector, then both its human and cultural aspects need to be taken into consideration. Furthermore, the themes identified explain that the central bank is in a better position to manage financial stability due to having a view to both micro and macro economies. Regulators report that the involvement of the central bank was particularly important during the financial crisis for accessing data and liquidity decision-making (table 4.1).

4.3.1.2. Integrating Prudential Regulator and Business of Conduct

The second organising theme identified from the results obtained is whether working together as prudential regulators and business conduct is beneficial or not. Figure 4.4. illustrates the issues identified from the interview responses about combining prudential and business of conduct. Prudential regulators are concerned with capital requirements, financial risks and the like, whereas the conduct of business concerns itself with the assurance of having appropriate behaviour and practices from the financial services providers to the financial services receivers.

The twin peak structure of financial organisations best represents this theme. Taylor (1995) argues that the adoption of a twin peak structure is beneficial as it is a suitable choice to fulfil public expectations, financial institution's needs and the objectives of regulators and supervisors. There are a few examples of countries such as Australia, the Netherlands and the UK, which have successfully adopted the structure bringing both aspects together.

Figure 4.4. Pros and Cons for integrating The Prudential Regulator and Business of Conduct



Source: own compilation

From the data collected through the interviews, the interviewees agree that when the two aspects are put under one roof, then communication becomes simpler. The data shows that the combination of the prudential and business of conduct can be a primary benefit for increasing efficiency in the regulatory agency. It is argued that when the business of conduct and prudential regulation operates in the same agency, cooperation and coordination tend to be strong, and therefore the communication and coherence between the two functions would be at their best level (refer to table 4.2). This argument is in agreement with the thoughts proposed by Cranston (1997) where he states that combining the two is beneficial for all.

One of the respondents cited how the system, though having its advantages and disadvantages, is still efficient and there is close cooperation. The others believed that working together makes sense as two different areas can be dealt with in one body. The results obtained also highlighted the increase in efficiency of the regulatory body. The responses highlighted that since one of these stakeholders sells a product and the other looks after the customer, then buying the product it is beneficial if both are combined.

They feel that a stronger institution with a better insight towards the benefits and the risks involved can be attained.

However, some concerns are raised about putting both the prudential and conduct of business together. Some responses given by interviewees follow the arguments put forward by Taylor (2015) in which he states that there should be a separation maintained between the two functions due to the dynamic behaviour exhibited by the financial markets. The change of regulation and the innovation of financial products as well as the change on the implication of systemic risks, as a result of market development, supports the argument of the separation able to focus on each side of the coin equally. Furthermore, there is a cultural difference between the conduct of business and prudential supervision, where the conduct of business is delivered mainly by lawyers, though with the prudential regulation mainly delivered by the economist. Such a separation would lead to better facilitation of the resources of each agency, and because they are unlike each other, they require different skills and employees to achieve their objectives.

One of the major themes identified by the respondents in table 4.2 that help to support this argument is the capacity to focus. The respondents argue that it is better to keep both businesses separate, allowing each one of them to focus on their core principles. They also state that there is an absence of regulators to deal in the conduct of business in emerging markets, and although other supervisory bodies try to guide them, it becomes a cumbersome process for them. There is agreement between the responses received in the interviews and the existing literature (Goodheart et al. 1998, Page and Ferguson 1992; Artis et al. 1992), as they both state that mixing of prudential and business conduct will give rise to more complexity rather than solving issues.

4.3.2. Why Regulatory and Supervisory Organisations Change their Structure

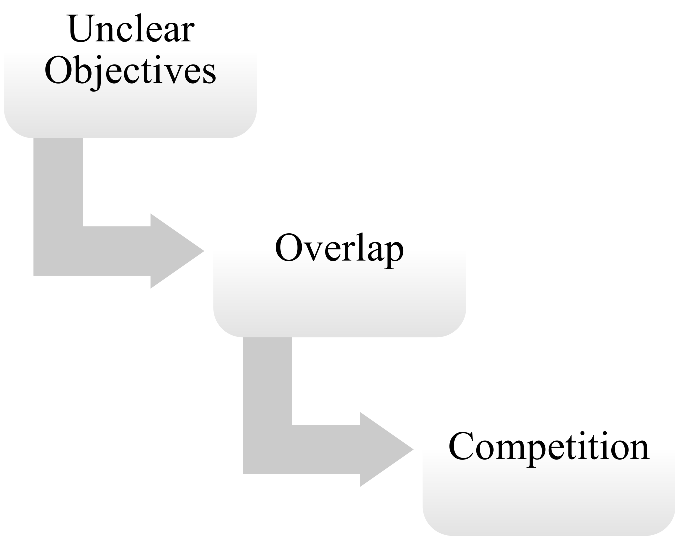
The second global theme identified in the context of the structure of regulatory bodies is the reasons that drive structural changes. The interviewees were asked questions about the factors that they identified as being behind the changes. Five themes were developed that helped in analysing these reasons.

4.3.2.1. Unclear Objectives of the Purpose of the Organisation

The first theme is about the inability of an organisation to clearly define objectives and deliver them within the organisation. Figure 4.5 illustrates the domino effect that having an unclear objective in an organisation causes. Hoshi (2011) and Garcia-Herrero (2007) argue that the main challenge for the financial regulators and supervisors is the complexity and size of the financial institutions, which require a more advanced resolution mechanism to address the issue of communication within the organisation. The respondents state that an unclear mandate is a crucial issue. An unclear mandate results in confusion in terms of defining responsibility. The respondents argued that when the organisational structure is designed, the regulators and supervisors should use a very fine pair of scissors to cut apart different functions of their agency as well as describing in detail what objectives they are trying to achieve (as stated in table 4.3).

Turner et al. (2016) stated that for a complex structure, it becomes difficult to pin-point the answerable authority. They argue that a complex structure means that the decision-making procedure is distributed, and then liabilities are distributed. Brunsson and Olsen (2018) and Burke (2017) add to that rapid changes are being observed in the organisational structure of financial institutions which have arisen to cut down repetitiveness and inefficiency caused as a result of overlapping roles. This point is fortified by the responses gathered, where respondents feel that unclear objectives lead to the overlapping of authorities and raises competition within the organisation because people feel unsure where they belong and what they need to do. As the regulators and supervisors argue in table 4.3, the overlapping leads to competition between different regulatory authorities and departments. Such competition leads to negative outcomes as organisations and departments would work to their own benefit instead of working collectively. Hence, over the years the regulators have found themselves in a position to reform their organisational structure to ensure clear and precise objectives are in place.

Figure 4.5. Results of unclear objectives in an organisation



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4.3.2.2. Presence of Distinctive Sectors within the Financial Industry

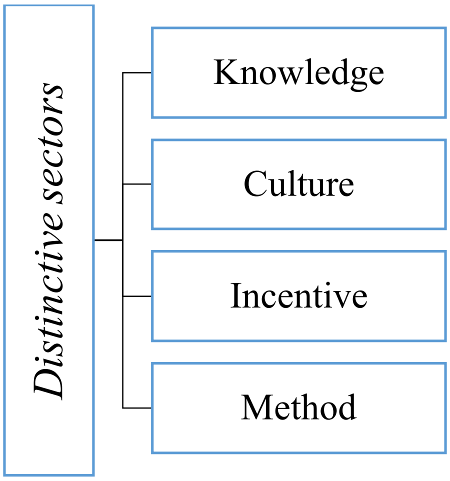
The second theme identified in introducing changes in the structure of a financial organisation is the mixture of financial bodies including banking, insurance and securities that carry more differences than commonality. Such differences drive the regulators to change their organisational structure over time in the hope of finding a way of infusing financial supervision more efficiently to all the sectors within the industry. Balseven (2016) argues that international standards such as Basel are also responsible for an increase in complexity of the structure of how a financial supervisory body should act, thus questioning the effectiveness of the structure of financial institutions as well as financial regulators and supervisors.

The presence of distinctive sectors within the industry produces differences in terms of culture and working environments which leads to further complexities for regulatory bodies to manage and supervise these distinctive sectors. The responses gathered found that while the culture of insurance and security sectors tend to be more open to sharing ideas amongst themselves, the way that the financial supervision deals with them is different in comparison to the banking sector. The respondents feel that a supervisory body has to be aware of the cultural differences between financial institutions such as banking, insurance and securities, and take into account this factor when dealing with them Please refer to table 4.4.

The theme also reports that the head of each sector naturally comes with their own perspective, different political view and incentives. Therefore, such differences lead to a conflict of interest in applying financial supervision. This agrees with the literature where Quaglia (2013) states that complex and specific political identities create challenges for financial regulatory and supervisory bodies. The information gathered from the interview concludes that the differences between banking, insurance and security are sometimes underestimated, leading the financial regulators and supervisors to consider changing their organisational structure.

The cultural aspect of an organisation is evolving rapidly due to globalisation. Feldman (2017), Veltrop and De Haan (2014) and Kwak (2013) have discussed the importance of behavioural and cultural influences on an organisation, which may lead to the adoption of new policies at the workplace. The arguments presented by them confirm the findings where the respondents state that regulations need to be adopted to avoid discrimination within the workplace as stated in table 4.4.

Figure 4.6. Sectors that create distinctiveness in the financial sectors



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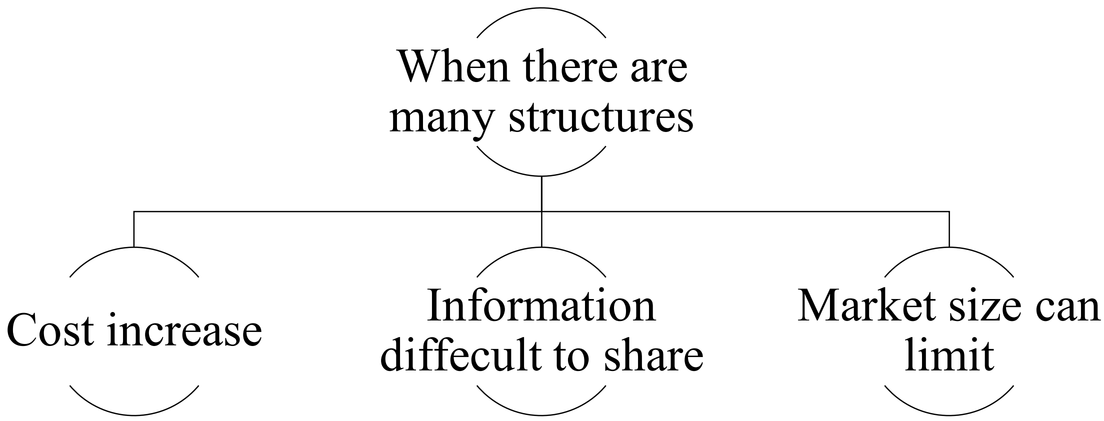
4.3.2.3. Difficulties Faced Due to Multiple Organisational Structures

The third theme identified for instigating changes in the organisational structure of a financial regulatory and supervisory body is the issues arising from having too many structures available for the different regulatory bodies from different sectors. The main issues that arise are highlighted in figure 4.7 below:

Figure 4.7. Issues arising from many structures in the financial market



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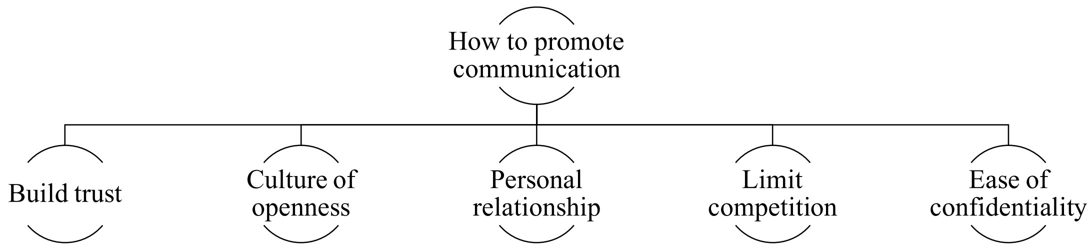
Since there is an overlap that exists between various regulatory bodies supervising various financial sectors, there are difficulties in the way the information is shared. Briault (1999), Goodhart et al. (1998) and Taylor (1995) agree that the main drive towards the integrated structure is due to the change in the financial market structure and how management techniques from the side of the financial institution have changed accordingly.

The interviewees indicated in table 4.5 that since in many countries integration does not exist between different sectors, it appears that a grey area has developed due to lack of information. They feel so because the way the financial institutions operate and provide their products usually requires more than one body or department to be involved in financial supervision. Hence, delivering financial regulation becomes more challenging and requires a more information-sharing culture which is found to be difficult to be achieved. The other issue identified during the process of data analysis is the market size. Integration of financial structure is possible for small and medium-sized economies where the amount of information and supervision is limited. For large economies, integration is not possible as the organisation will become too big to handle. Another reason the respondent pointed out is the cost that is incurred when having a complex financial regulatory body with many structures. Increasing the number of regulatory authorities that regulate and supervise the financial institutions means that it becomes more complex and costly to deliver financial supervision. Consequently, regulators suggest that changes in the structure move towards the more integrated model with the aim of minimising the cost of financial regulation and supervision.

4.3.2.4. How Can Communication and Cooperation Be Promoted?

As observed in the themes discussed earlier, communication has always played an important role in identifying the pros and cons associated with a theme that affects the structure of a financial supervisory and regulatory body. Be it the involvement of the central bank or issues arising due to the presence of distinctive sectors within the financial industry, effective communication is important to deliver sound supervision. Figure 4.7 presents the various areas that could be addressed within an organisation to improve communication, as identified from the responses during the interviews.

Figure 4.8. Methods to promote communication within an organisation



Source: own compilation

In the opinion of Herring and Litan (1995), financial markets have become more complex and globalised, making it both important and challenging to maintain coordination between financial supervisors. The respondents in table 4.6 were of the same belief, stating that communications can be limited amongst regulators and supervisors as individuals, and between regulatory authorities, thus creating difficulties between various departments. First, it was found that departments and authorities tend to compete against each other, and such competition yields less communication. However, Cooren et al. (2011) refute this point and argue that competition between departments help in bringing more to the table as this has always been proven to improve communication skills between the team members.

Second, some responses identified the reason behind such poor communication to be the competition arising to keep the individual actor/institution safe. Verdier (2013) argues that cooperation agreements are in favour of national regulators because they enhance their authority and provide a more effective way of enforcement and supervision. However, sometimes such agreements are not welcomed by the national legislature because they end up providing financial regulatory agencies with greater authority to communicate at an international level

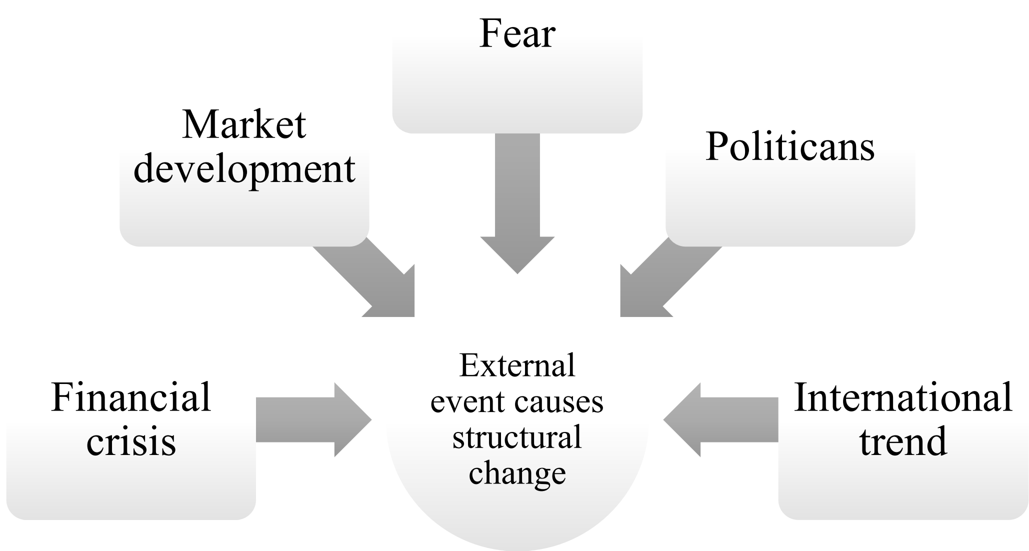
Confidentiality is the third reason found to impact the communication negatively between regulatory authorities and departments, as the fear of keeping information confidential sometimes causes some parties not disclose it. The arguments made by Singer (2007), Anderson (2005), Barithwaite and Drahos (2000) and Porter (2005) state that a cooperation agreement between supervisory and regulatory bodies can help to decrease the negative effects of confidentiality and increase communication within various organisations. The fourth reason is what is referred to as the culture of openness as the regulatory authority, and especially the central banks, are blamed for being less transparent which discourages the culture of openness that leads to more communication.

Building trust between regulatory authorities and individuals is a key factor suggested by the regulators and supervisors see table 4.6. Trust can be created by setting up the environment that encourages such an attitude and, at the same time, being assured that it is not misused. Kang and Sung (2017) provide a solution to the problem of communication in the belief that an asymmetrical method should be employed across the organisation to engage employees and make them feel valued. This would in turn result in positive behaviour from the employees and increase trust.

4.3.2.5. Effect of External Influences that Leads to Changes in a Financial Supervisory and Regulatory Body

The last theme identified from the responses that can result in changing the organisational structure is the external influences felt by regulatory bodies. The major external factors identified during data analysis leading to a change in the structure of an organisation are described in figure 4.9.

Figure 4.9. External Factors that lead to structural changes



Source: own compilation

It has been proven time and time again that an event always leads to a change in structure. For example, various crises such as the debt crises of 1980, the collapse of the global market in 1987 and the Asian financial crises in 1997 all led to the development of the international financial regulatory forum (Verdier, 2013). The interview responses are in agreement with the literature that an external event has a deep impact on the structure of an organisation. Here, financial crises were reported as being one of the reasons that drive the regulators to consider changing their regulatory organisational structure. After a financial crisis, regulators normally come up with weaknesses and lessons learnt from such a dramatic event. From there, changes to the structure are the response to such an event. Researchers such as Hoshi (2011), Davies (2010), Stohr (2015), Longworth (2014), Tropeano (2011), Miele and Sales (2011) and Lothian (2012) have argued that the financial crises of 2007 were mainly driven by structural factors, such as disregard for macro-prudential regulation and supervision and the dramatic increase of financial market innovation.

The interview participants in table 4.7 also believe that the development of the financial market evolves rapidly in a very complex and advanced manner, and is affected by the state of the economy. Alkali and Lode (2012) agree that such developments put pressure on the regulatory side to reach the expansion of the financial market, where one way to follow is to change the organisational regulatory structure. He adds that economic systems tend to go through periods of faster and slower economic activities, high and low monetary and banking transactions, and varying degrees of volatility with respect to interests and exchange rates, leading to a dynamic environment. Regulators trust that some of the regulatory organisational structural changes occur simply by following the international trend. Mathur and Nair (2015) address this belief by emphasising the competitive advantages that can be achieved by an organisation being dynamic and adapting to new trends at a prompt pace.

Politicians are also blamed for being one of the drivers that cause the change of the regulatory authority structure from a regulator's point of view. It is asserted that politicians interfere to change the organisational structure, and this argument is seconded by Burn (2016). He believes that politicians have a lack of focus on objectives, fail to balance objectives, lack relevant market and background knowledge, and have insufficient awareness of the principles underpinning the rule of law. The respondents believe that politicians are more talk less bite, being that they try to undermine the work done by the previous government and waste time in bringing in unnecessary changes to show that they are working.

Another drive for organisational structural change for the regulatory authority agency is fear. Sometimes it is a fear of failure on the part of the regulators themselves that some dramatic event might occur, whereas the change is a way to show that they are trying to do something. The fear sometimes comes from the politicians themselves not being blamed or made accountable for a crisis about to happen as shown in table 4.7.

4.4. Summary

The chapter discusses the first two global themes and their corresponding organising themes that have been identified from the responses gathered through the interviews with various senior financial regulators and supervisors. The first global theme is unity and motion as pillars for regulatory structures. The corresponding organising themes were, respectively, the strong presence of a central bank and whether prudential regulator and business of conduct work better together. The results analysed highlight that the central bank plays a crucial role as a supervisory body due to the vast resources it has at its disposal and the fact that it acts as a bridge between the public and the financial institutions. On the other hand, the respondents thought able to identify numerous benefits of combining prudential and business conduct were wary of this idea due to the increase in complexity of the structure thereby obtained.

The second global theme identified tries to determine the reason behind the causes that result in bringing upon a change in the structure. Five corresponding organising themes have been identified to address this global theme: clarity in objectives, distinctive sectors, presence of too many structures, organisation and cooperation and the effect of external factors respectively. The responses gathered in respect of these themes reflect that structural changes are introduced to increase communication, decreased ineffectiveness, make an organisation culturally sound, address issues and adapt to the changing world environment. None of the factors are exclusive, meaning every event or circumstance that triggers a change in the structure of an organisation is dependent on all the factors presented and discussed in this chapter. An organisation needs to be dynamic and ever-evolving to remain current and not become a burden either to the industry or the public.

CHAPTER FIVE

DATA ANALYSIS AND RESULTS: EFFECTIVE SUPERVISORY OPERATION AND CULTURAL FACTORS

5.1. Introduction

This is the second of a series of three chapters of data analysis. This chapter focuses on the analysis of the data collected by applying one-to-one semi-structured interviews with senior financial regulators and supervisors from 31 countries of which 15 come from developed countries and 16 come from developing countries. In addition, responses from thirteen international financial regulatory institutions were also received (Appendix G).
The objective of this chapter is to gain an understanding of the regulators perspective concerning the second objective of this thesis. The factors involved can limit the regulators to deliver their supervisory function and the cultural and human aspect of their regulatory organisations.

This chapter encompasses two parts: the data analysis and results; and the discussion and interpretation of the results. The data analysis part explains the analysis process of the semi-structured interviews through a thematic analysis approach. It includes details of the issues discussed, basic themes, organising and global themes. The second part takes the findings from data analysis to discussions and interpretation of the results where data will be displayed in more details to provide reliable and comprehensive inferences from the analysed data.

5.2. Data Analysis and Results

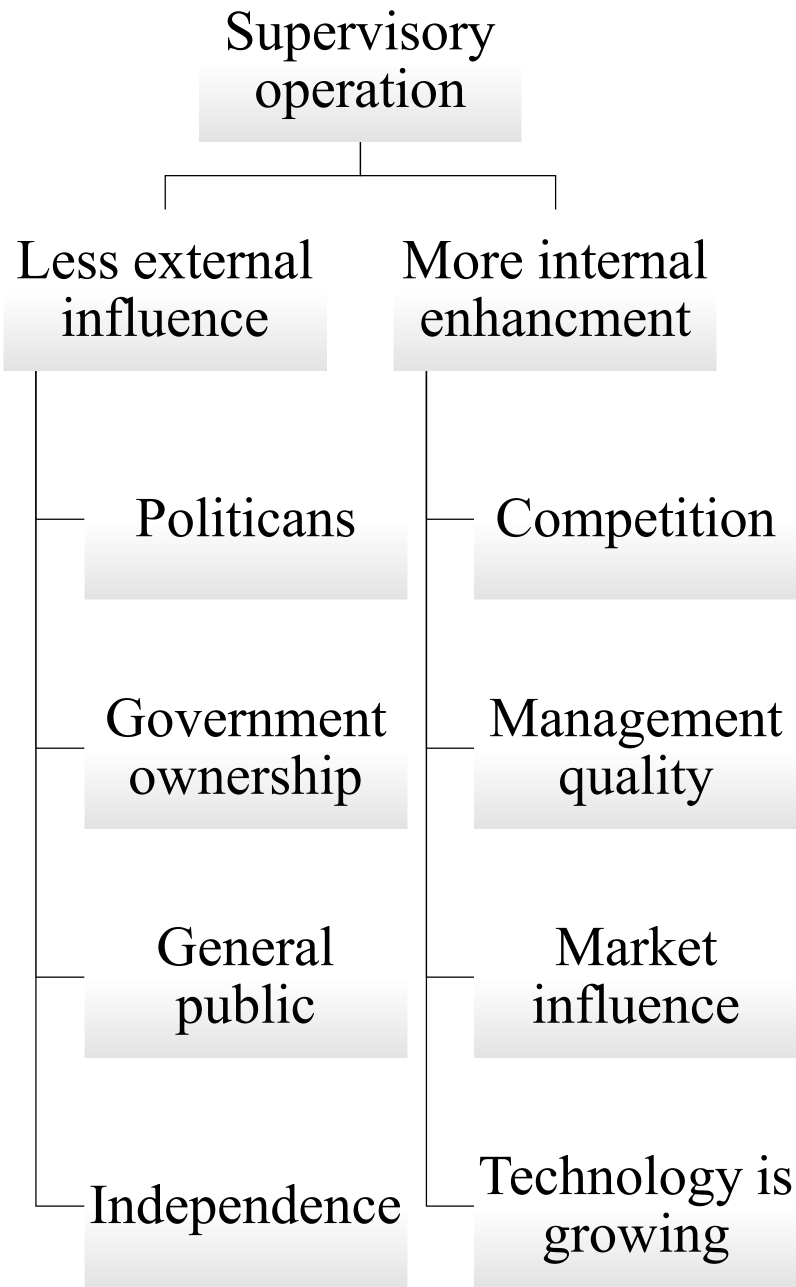
The data analysis seeks to draw out meaningful and valuable data from the interview transcripts through a thematic analysis approach. The five steps of analysis include the codes, the issues discussed, the themes as the basic theme, the organising themes and, lastly, the global themes as presented in Appendix I. The first step covers the process of coding where all relative phrases and sentences regarding a particular code are grouped. The second step is the issues discussed, including a summary of topics discussed by participants in the relative code. The third step is where the basic themes are identified from the identified issues in the previous step. The fourth step contains the organising theme where the relative themes are grouped. The fifth and last theme include the global themes which represent the main findings from the data.

Two global themes are identified in this chapter. The first global theme covers the factors that may limit the regulators when delivering their supervisory function, which includes twenty-seven basic themes and eight organising themes divided into inside and outside influences. The second global theme covers the cultural and human aspect of their regulatory organisations, which includes eighteen basic themes and eight organising themes as shown in the tables below.

5.2.1. Global Theme 3: Operational Side of Financial Supervision

The third global theme identified for the data analysis is: "Supervisors demand less external intervention and more internal enhancement." This global theme expresses concerns regarding how regulators should operate. The global theme is divided into 26 basic themes and eight organising themes (Appendix I) that fall into two groups namely: less external influence and more internal enhancement. On the one hand, the first group of 'less external influence', includes 1- Politicians 2- Government ownership 3- General public 4- Independence. On the other hand, the second group 'more internal enhancement', includes 1- Competition 2- Quality of management 3- Market influence 4- Technology is growing.

Figure 5.1. Thematic network for supervisor demand less external intervention and more internal enhancement



Source: own compilation

5.2.1.1. Organising Theme 11 to 16: Supervisor Demand Less External Interference

Table 5.1. Organising theme 11 to 16: Supervisor demand less external interference

Third Global Theme	Supervisor demand less external intervention and more internal enhancement	
Organising Theme 11 to 16	Less external influence	
Interview No.	Relative Code	Remarks
DD15	Political interference	'you know governments will appoint you know an outsider to head it up right, to shake it up a little bit I mean in Australia they appointed …….. as the commissioner of tax and he was a former big four partner, look he is a great guy super smart with great experience but has never worked in the public service in his life and it has been a bit challenge. ASIC has just appointed this guy …. or the government has appointed …. so the ASIC Commissioner in Australia is a very politically charged job'
DE15		'well I mean because the banks could be very powerful they could have close links with the politicians and so they could be pressures coming in you know and I mean I'm talking in a very practical level based on so many experience that I have and I'm sure this will be true in many countries'
IO7		'I personally think that insurance is different enough that it should be treated differently but it's largely a historical and political question. Although I think a lot of financial service regulatory questions we do actually have technical answers and it's a very very unfortunate thing that they are becoming politicized, and actually one of the reasons why I retired is that things that should be treated as technical problems are becoming political, which I don't like; but I think the question of how to organize supervision is not one of those fundamentally technical questions it's a political and historical question and as I said I don't think that has you know a right answer with a capital R'
IO7		'for example one one of the Dodd-frank provisions is that there should be vice chairman of the fed for regulation: that idea became a kind of hostage to fortune because Obama never appointed a vice chairman because he knew he couldn't get Daniel Tarullo… confirmed by the hostile senate so what in principle should have been a good idea became a political trap and I don't think there are any you know formulaic right answers and you have to analyze the historical and political context of each country and go from there'
DD12.1		'our first board of CMVM resigned because the ministry of finance interfered in a take of a bet they have decided because the government thought that the entrance of the country would be better if served by another decision and the board of CMVM resigned because they did not agree with that and we are an institution that we cannot make a decision on a specific case'

DD2IO1		'You've also got political things, so you had Gordon Brown in 1997 wanting to split up supervision from a Central Bank. You could equally argue that once you get change of government, they wanted to do the exact opposite'
DD2.3		'we have seen quite lot of very recent cases of senior appointments of regulatory bodies who's seems a bit doggy to be honest, you couldn't really understand why the government decided other than politics and where that happens for the most part there has been a public fuss so the regulator has to change their mind.'
DD2.2IO4		'I'm not like saying there's anything I would be able to do differently if I was a politicians, but you got five year term of office and you have a financial crisis to respond to, then I think a structural change to the institutions of the regulation and supervision is a nice easy change to make because all the weapons available to make the change quickly and easily and so help to build the story that you took the problem seriously and determined that you fixed the problem and you already implementing a solution things will not be the same again '
DD.7.1		You know so politicians the primary motivation isn't the welfare of the public at large the right choice is to tell that person look this is the best for your economy in the long run it is better for you it doesn't means you are no able to buy your house this year, next year and may be the year after but this is what is good for you. So I think the politicians are conflicted and it is better for them in my view is if they are able to stand back and say yes will stand by what the Central Bank is doing'
DD2.2IO4		'ahh honestly Mohamed I think just political fashion, it's the way be seen to do something is to play around like on with the duke chair on the titanic and it's not to say there's optimisation to the structure on a day level, they are. But the big splashy change that happened after the crisis were done because this was …. Straight forward change the politicians could make in a short amount of time, much easier than actually changing the way that banking sector works which takes twenty, thirty, forty years to sustain effort, yeah, you will.. especially in the UK political system you'll get ….. very major shake up the way that structure is designed, generally as a response to something has gone badly wrong, and as a way to show the public, here's a problem, something need to be done to fix the problem, this is something we can do, we should do that, is the process.'
DD9		'something happened and then the government says, you need to do things different, you need to change, and actually the focus is not really on is this more efficient but more than you need to change and do things differently, that was also the case when in Denmark when we became integrated that was not because they thought that would be more efficient but because the government wanted fewer agencies and so they merge some of them.'
DD10		'I think to some extent they probably also desire on the side of politics to be seen as doing something and it seems as doing something is sometimes more important than doing the real work'
DD8		'the discussion between let's say the regulatory supervisory side and the political side it is I mean you can see now with the new changing in political direction in the US clearly Trump's administration was very keen to do away so much regulation and they said right from the campaign trade so they did not hide it and Trump said many times that he would like to cut down Dodd Frank and all these regulations that Obama put after the crisis and he delivered his promises that very

		soon after he came up to power' 'Trump administration removed AIG from the list of the systemically important financial institutions. so clearly the political side, mostly the ministry of finance is place a massive role and they follow a different logic to political logic compared to the regulatory logic '
DD7		'if you look at the FSA simply is a response to a change of legislation a change to political will.'
DD4		'I'll give you a quick funny story. One of the commissioners that I sat beside in 2011 as appointed commissioner, and I was with him at some dinner. And I ask him you know his governor had just recently been elected. And I said, "So, what was your interest in insurance? Why did you become the Insurance Commissioner?" And he basically said that the governor told him whatever job he wanted, he could have because he done such a good job running the governor's election campaign. And he decided that basically the Insurance Commissioner's position was fairly straightforward'
DD6	Government ownership	'yah different many countries have completely different approach, I think that government should not be involved in the operation and business this practice also here they are subject to the supervision in some way budget questions but in the daily supervisory task the political should not be involved because in my experience in a country where the government is very strong impact like in China, China have five large banking groups there public owned mainly public owned, we see the same in India, India they are public owned and Iran public owned almost 85% of the sector in all these country I don't believe there's a strict supervision in place because we have meetings with them because they are too close they have someone ownership and there have interest that this banks is supporting the sector and the decision taking by the banks not the interest of the bank but in the interest of some political person'
DE11		'oh total, it should be total independent, unquestionable, political independent, of course we all live in a real world. The head of the supervisory authorities are usually appointed by minister and so they have to answer to the political leader, that tendency is more effective in more jurisdiction than other, because of culture and society, but in an ideal world having total independent, so the regulator free to take any action, particularly when it comes to enforcement action, again it's particularly issue in this part of the world when you have banks are own by the governments or by VIPs, mm it could be very difficult situation or maybe very sensitive situation for a regulator actually to take enforcement against the bank that owned by a VIP, mm or even the government'
DE16		'There are a lot of countries where the politicians like to get involved in the regulation and supervision, with some more of obvious than other. That affects many things in terms of priorities and in terms of funding and even which organizations get licensed to operate in the market and who gets intervention action taken against them and who doesn't so you`ve got some countries where some of the politicians are shareholders of the financial institutions or you have other countries that have government ownership or partial ownership of some of the entities in the markets and so that has a big influence on the ability to regulate and supervise. You might think that the government owned entities would be better behaved than ones that are not, but what I have seen is the opposite; they tend to do what they please in trying to prevent a supervisory agency to take action against the entity or fighting one minister against the other and so

		forth. So politicians have influence in many countries much more than the international core principles say they should'.
DD10	General public	'I think it depends when you have this kind of involvement you end up in situations that can be very undesirable and I think you see that for instance a lot of the non performing lots of problems are related to politicians being involved in that case not in supervision but in banking where the credit lending process is driven by political arguments rather than some economic arguments and I think you get the same risk when politicians and the general public are directly allowed to interfere in supervisory decision making that there will be tend to module with granting or not granting of individual credits and you will get lending processes that are far from optimal resulting in way more problem than are desirable.'
DD14		: 'because it's very difficult and because in the end the financial sector has a lot of client and as long as everything goes well and trusted there, nobody really cares in the public opinion on what is happening however when there is a crisis even for relatively small banks the public debate is very difficult because in the end the saving of your jurisdiction to abductions or their country's people that are endangered and that are either lost or that are covered by public deposit guarantee scheme which is very costly to achieve'
DD2.2IO4		'mmm no I don't think the public care about that, only in so far as they like to see that something has been done, you should go and speak to people around Kingston and see how many people now where the PRA and the FSA separate institution, where they were satisfied about the brake up with …… structure after the financial crisis, see how many people know what you are talking about.'
DD1.1	Independence	'I think you need to have regulatory officials that have the authority to make decisions they are subject to the politicians perhaps not subject to a lot of political interference and certainly the public can have input in the process through the politicians I think you need to have an independent regulator just like the central bank has to be independent. The regulators have to be independent of political interference'
DD2.2IO4		'mmm I think as arm's length, you don't want to have too much influence from governments upon independent bank supervisors and central banks, ahh because central bank, banking supervision independence is crucial to get the job done in an objective unbiased way which is focused on your socially optimal decision making rather than being biased by yeah yeah intense preferences from politicians exhilarate too fast out of down turn or to protect particular sector of society that vote for them'
DD11IO5		'absolutely not, there should be a process to set down regulation, there should be public discussion, in this stage everybody should be welcome with their opinion, but when applying the regulation, the risk is always political interference, so the most independent the better it is, even though, the regulator should be accountable with the government or the parliament or something like that. So too independent means no accountability, but too accountability could mean significant interference. The is regulation is careered out get by

		human beings, you know, if your career is promoted, and somebody is very powerful because gives money to the party or the parliament - and this is very common in the developing countries, with this very fragile economic system, no good check a balance system between media, politicians and supervisors, so the latter are affected by the pressure of the market participants.' However, the doubt for regulatory independent is also present 'I think some politicians, they could be influence, I mean at the top level, because all these guys went to the same schools, and same universities, same clubs, so they now each other, doesn't matter if you're regulator or a politician, you know you'll be in the same circle, I don't know how independent you'll ever be, sometime you feel like they're playing a game.'
DD13		'so it's not something that you put to a referendum it's just it requires analysis and expert knowledge that is not in the public arena and I doubt that it's not simple to present these issues in a way which make it easily digestible by the general public.'
DD14		'well I think the main difference is that supervisors they are technicians and whereas in the government you have people who are elected based on democratic process so they have the legitimacy to take decisions which are of relevance for the general public and they gave a mandate to supervisors on let's call it technical level to make sure that the financial sector is working in sound and for some authority is also an efficient way but I think it's important to have both you need to supervisors to have this technical knowledge on the functioning of the system on the regulation and then you also need to have a politicians who have much broader point of view who not only looking in terms of financial stability but who are also concerned about growth in the larger economy and welfare for the population.'
DD2.3		'it has to be regulatory experts, if you are talking about applying an anonymous body of rules, the conduct of business rules is higher than this building if you actually print them out and stuck them up. So I can't see the general public have any means of engaging with that at all. I mean it is perfectly reasonable to develop consultation arrangements for example, if that's what you want to do. If there are particular angles which need wide input that quit fair actually, especially if you want to learn the public preference or concern about a particular company or product or a business practice, I think you use that as an input but the regulator has to take the decision. I think also it should be separated from politics.'
IO7		'In fact, I think there's a democratic excess in the sense that a lot of the things that are the most stupid about financial regulation in Europe are things that some idiot in the European parliament campaigned for and that people got stuck with because of that, so I think that these are technical problems should be left to the technical solutions as much as possible and that the political direction should be taken at very high level in general.'

Source: own compilation

Organising theme 11 to 16: *Less external influence* as shown in table 5.1 these organising themes discuss concerns regarding outside factors having negative impact on financial supervision namely; Politicians, Government ownership, general public and independence. First, some regulators believe that the political interference in the supervisory process is very unwelcomed and occur for three main reasons. In finding out why regulators think that politicians are interested to interfere. Interestingly, regulators believe that one of the political drive to interfere is to show the public that they are doing something so they get voted for next election. Other regulators argue that the politicians interfere simply due to government change and new crew of politicians come to power to show their agenda. Some regulators report that the interference of politicians simply due to personal benefit exchange with regulatory individuals. Second, some regulators report that government ownership on the financial market has a negative impact on the overall of financial supervision because government can interfere from such channel. Third, some of the regulators suggests that public involvement is undesirable because they are blamed to be following what the politicians try to tell them and hence, they are not technically educated enough to get involved. The general public have little incentive to work together due to coordination issue, as well as the public found to care when there is a crisis so their interest is seasonal which make their input not valuable. Fourth, in order for regulators to make an efficient decision they believe that they should have independent from politicians, public and the market because the drive motivation to each one of them is different. The independency request comes from the believe that the supervisory process requires special knowledge which can only be found within the regulators expertise.

5.2.1.2. Organising Theme 17 to 20: Supervisor Demands More Internal Enhancement

Table 5.2. Organising theme 17 to 20: Supervisor demand more internal enhancement

Third Global Theme	Regulators demand less external intervention and more internal enhancement	
Organising Theme 17 to 20	More internal enhancement	
Interview No.	Relative Code	Remarks
DD10.2	Competition	'Yeah I mean when you have let say three sectorial supervisors in a country they all feel that they are responsible for their tariff and as soon as they start cooperating, you know they feel that they lose power so the interest in cooperating if it is not kind of enforced upon them it is very little. Yeah you can say from economic point of view it is better to cooperate that is true but their institutional interest that avoids them doing so. Because they might also see it as a risk or be afraid of the risk that by cooperating you know they might lose influences, competencies might even you know be afraid of a merger, those kinds of things.'
DD15		'They compete for resources look I think regulators compete quite a bit I think they compete because if they relied on government funding, they are competing, yeah they are basically competing on that basis so they compete I know and this happens quite a bit in Australia that is so they are trying you know publicize their actions they are trying to demonstrate to government that they are adding value and they are doing their jobs so they are trying to expand their power and influence, they are trying to get more budgets, they are trying to get more staff, I think this is a bit of that'
DD4.1IO3		'there are differences in regulatory approaches in the federal reserve board in Washington - which is the main headquarters - has somewhat different regulatory outlook than the federal reserve bank in in New York which is the principle Wall Street regulator - I do not want to go too deep but basically the argument was that having many regulators who did similar things or who had overlapping regulatory responsibilities; it was a good thing because you had a competition and it was in fact not good. This is all the obsession with classical economics in America.'
DD4.1IO3		'as the regulators compete amongst themselves against things are better. But actually that's not true, if you have this competition amongst regulators then you will have confusion about how to apply regulations.'
DD4.2		'I've always been a proponent of one structure for the whole market, I think it improves efficiency, I think it allows banking organisations to be on a level playing field with one another. When banking organizations are subject to different requirements based on the regulator, issues of fair competition can arise. Even when the requirements are the same, they can be applied quite differently in practice among different agencies and different regulators.'
DE4		'I can tell you something interesting, in my history in central bank of Brazil, i remember a lot of times indicates we saw this what I'm calling power, this political side, this fight among different departments / director of the central bank. Each one has this ownership of the data, you cannot see that I'm not going to share it

		with you from the monetary department, this data from banks because for a supervision, this data is important for me as a supervisor and regulator, and you are not supervisor, you are monetary authority and you don't need this data from banks. I remember how they compete quite well this.'.
DD2IO1	Management quality	'there is a huge cost on how it's discharged nationally. And there's a huge difference in how it's paid. So it's not really just the model, it's actually how you run that model, how efficient you are in running it. There are some places that would be far more efficient than they are at the moment. So there are advantages of being an integrated supervisor, because you've got that macro overview, you can share things and see that cross sector link between financial institutions. But it depends on how you discharge it. Some organisations have an incredible number of people doing the same functions as another one, would do with just one person. So it's not from my experience, and I've performed EBA peer reviews, and compared quite a few of the different models of supervision. By peer reviews I mean going around all the different supervisory authorities in Europe, ranging from those at the Central Banks, to the SSMs or whatever, and assessing how they discharge several aspects under their supervision. It's the efficiency of how they work. So some are very efficient integrated, some are very efficient single sector, some are very efficient within the Central Bank. Equally some are very inefficient. If you took away from the numbers of staff, would I come to a different viewpoint? It really is the devil is in the detail on how you discharge it. It depends on the competence, responsibility(ies) and powers of the person.'
DD3		'If a current structure is not working or not meet the needs then it is time to make changes in the financial sector. The changes in financial architecture also requires changes in human resources (qualified people who have enough and competent skills) who will conduct the new system.'
DE3		'you know Basel capital requirements, like Basel one, Basel two, Basel three or four only increasing the numbers but the rationale behind it that is not so well understood by the applicant institutions. You know first credit risks applied in the banking sector and then market risk has added to the capital adequacy and then operational risk, and then liquidity. Other types of risks keep to be included in capital adequacy calculation. Some high mathematical methods or other tools at the same time started to be used in risk management and capital adequacy calculations but bank shareholders and top management not aware of what's going on their risk management departments and capital adequacy compliance part. Because of that, the risk management units can easily manipulate the shareholders/top level management because they don't have adequate knowledge that high mathematical knowledge used in current risk management'
DE8		'I tell you that you know majority of the central banks in the world are not really close to what the commercial sector is going into, I believe that definitely we have to engage all of this, academics, PhDs researchers, students, policymakers, economists, practitioners, to better understand the market.'
DD1.1		'Canada came through the financial crisis I think better than any of other big economies but I don't think necessarily that the structure was the reason I think it was the fact there is very conservative of management of banks and very conservative management in regulators and so we have more capital than others, I don't think that

		structure contributed to the good result. So what I think is important that the bodies work together.'
DE8		'Governor Carney has been very good about saying in response to the more radical Brexiteers: no matter what people say, we are not going to have radical deregulation in the UK because we saw what happened in the crisis. That's another example of where politics threatened to commit another horrible political intrusion into appropriate bank regulation because some of the Brexiteers take a radical deregulatory view, but I think Carney and the Chancellor have done a very good job so far resisting that. Now of course if there were a bad choice of the next governor by the prime minister -- and Carney is leaving in a year so – the UK might not have such good results and you might get a regime that tries to bolster the City of London by going for lower regulation'
DE11		'mmm what I noticed tend to happen is that the focus of that authority tends to be mmm driven by one thing, this is probably not surprising, it tends to be driven by what kind of regulator or supervisor the CEO of that authority is or was, because the other unique thing you have about this part of the world where you got this international financial free zone is that they mainly staffed experts and so the CEO of the of (middle east country) financial centre was the head of prudential supervision (in his country) before he came to came to this (middle east country) and so he drove the agenda as been all about prudential'
DD7.1		'I am actually quite sceptical about a lot of the changes because a lot of changes tend to come soon after a new Governor has been appointed. And you know everybody wants to put their own stamp on it'
DD2.4		'what happened if you go from one extreme to another? So you have to change, don't you? Any Chief executive, anybody take over a company, what do they do, the blame the other guy first of all, and then they change everything, and then they go'.
DD1		'I would expect that one could do a lot more there, in bringing in a broader set of views. But the problem too with a broader set of views is well how do you make the decisions in the end? You know, if you make bodies too large, the different bodies that operate by consensus, it can be difficult to reach a satisfactory conclusion to that process. So I don't think many people would argue against bringing in a broader set of perspectives. But what they would ask is how do you expect to reach decisions in a consensus-oriented body?'
DD12.1		'But when it comes to make decisions you cannot make a decision with 50 people around the table that doesn't work. So these structures are important as forms for discussion but when it comes to making very concrete decision and look for instance, in implementing Basel resolution since forever'
DD4.1IO3		'if you make the institution too big, then you give too many people a say, then the institution will fail to work. That's the problem of having hundreds of people around the table, as opposed to having a few score'
DE11		'Yeah because nothing stay still, the world is always evolving, new technologies have come in, politics come and go, so it is something that can never stand still, mm and I see whatever the structure are today I expect them to be different tomorrow because these things like, particular in current time, things like fintech and cryptocurrency

		will I think change the nature of the landscape in terms of the regulatory structure and how it's going forward'
DD14		'I think the motivation should be to conduct regulations and supervision in the best possible way that it is as close as possible to the evolutions in the financial sector knowing that regulations will always to some extent lack behind the evolution that you see in the sector but I think that should be the main objective is to have a regulation which as close as possible to the evolutions that are going on with the financial sector and within the broader economy,'
DD10.1		'Well when you are in regulation or especially when you are in a finance ministry directing the regulator's there is this or possibly in my environment that high-level idea that financial institutions are highly professional very well-managed institutions orderly professional well done so then I moved to ….. to the other side and I then experienced how these large financial firms are that time at least they were poorly managed poorly structured out of control too big to manage I've always compared after that these large international banks with big water tap water channel where a lot of water comes out not they are not water but money so a lot of money was flowing out of these banks or being produced by or earned by these banks and whether they were spilling quite a bit of money by having massive processes didn't really matter because the money just kept flowing and what the crisis did was stop that money tab so that the spillage became much more serious and also much more visible so in terms of quality of management controls'
DD11IO5	Market influence	'also I could say that a fragmented supervisory architecture surely has eased the spread of the crisis so for example the AIG, it was had several American institutions but there was one subsidiary- which was financial product AIG in London of which is was under control of the central insurance group and mainly utilising the franchising of the group so they issued thousands of thousands of billions of credit derivative but there was no any capital support and then centralised control either. Hence, the case of AIG in the US it was operating in several state but nobody was overviewing the group as a whole, it's a missing loop, but in the US regulatory framework up to now, there's no group concept for supervision. So they deal with single entities.'
DD12		'I also think that supervisory tools that were available before the crisis were not ideal to capture the complexity of banks so what happens is that banks became very complex entities, and the supervisors did not adapt their supervisory tools. And this leads to shortcomings in the way they could capture many of the activities that banks were carrying forward. And I would say that the supervisory framework has clearly evolved since then.'
DE12		'Then those institutions, the bank can get by not giving its bank supervisor all the appropriate reality, because the bank supervisor wouldn't be allowed to go and touch information from the insurance supervisor and for the investment company the bank owns. So in this respect, you know, comes to the point where supervision needs to have the big picture. Just like when you are supervising a company, either bank or insurance, the supervisor usually only supervises, has authority in his own country. But if that company has open branches elsewhere, then unless you get the big picture and unless you can make sure that information that company is giving you about its

		foreign branches, then you cannot do an appropriate supervision. Which means that we are getting into increasingly into having to collaborate with other supervisors in other countries and that's a very complex process'
DE4		'I tell you, the capital market authority in Brazil and the central bank had to change the way / they have this conversation /this relationship because we had some problems with financial institutions, with entities in the market, and both thought that they had to work in some way together in order to understand what is going on in the financial market as a whole'
DD10.1	Innovation	well then after some years you see new areas coming up for example IT where they would both be looking at yah then you know you can allow them to collaborate but you have to keep an eye out to see whether that collaboration is constructive and efficient and effective and if not intervene'
DD14		'I think it's always important to have a good dialogue and as a regulator a good understanding of how the sector is working especially around everything related to digitalization innovation and fintech the big risk is there that you start regulating too early and that you don't really understand the pros and cons related to these new initiatives'
DD15		'but we all know that the payments is completely going into different direction at the moment with all this fintech and you know your pay bills, and your block chains all these interest things some of which are regulated some are not regulated, so politicians and regulators are scrambling to respond ok how do we regulate this new technology, it was easy when we were regulating a bank but now it is hard that we have to regulate you know two teens in a carriage somewhere who have set up a website and now offering something that looks financial services right?'
DE11		'things like fintech and cryptocurrency well I think change the nature of the landscape in terms of the regulatory structure and how it's going forward'
DD2.3		'I mean fintech and the development of technology are actually changing that interface a lot, and certainly one of my concerns is that interfaces insufficiently developed. One thing you need to do is to be quite flexible, you need to listen to changes in the market, particularly things that emerge from the growth of the internet and from change of technology, because I think these things are changing all the time'
DD7		'here in Ireland and this has been a growing part of the market of the last decade, and some years ago they made a very radical change on the structure a simply to adapt to that new reality. So if you look at the new fintech and insurtech is going to have an impact on how the regulator structure themselves.'
DE11		'one thing I definitely want to mention is that with the emergence now of block chain and fintech and cryptocurrency, this is going to shake up regulators like never before I think, mm and regulators going to have very much start resourcing themselves with IT professional within the regulator themselves, so to get in touch with academics to get their thoughts and feedback.'

DE14		'yeah I think we need skills from all sectors and particularly now I think regulator need a lot more skills in the technology field its one area that they look at in terms of the operational risk in the past but not just IT but whole technology part where we I think a lot of regulators needs to build new skills in this area and ammm and get expertise in that area..'

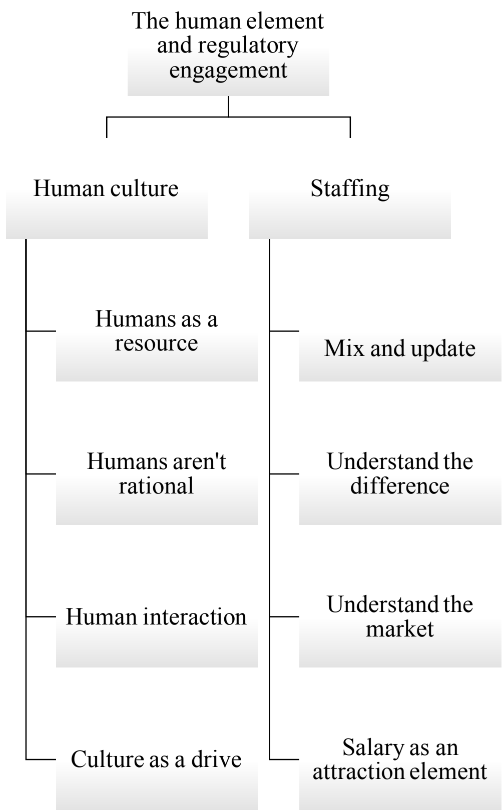
Source: own compilation

<u>Organising theme 17 to 20:</u> *More internal enhancement* as shown in table 5.2 These organising themes discuss issues that exist internally within the supervisory environment that request more improvement namely; competition, quality of management, market influence and technology. The first issue reported by the regulators regarding the operation of regulation and supervision is the competition between the regulators. When there is more than one body regulating and supervising the financial market, regulators tend to compete amongst themselves for power, influence and resources and this competition is explained to be unsatisfactory and lead to uncertainty. The second issue regulators reported are managerial issues when operating financial regulation and supervision. In running a financial regulatory body in an efficient way, regulator should be in a position to manage such organisation by having the knowledge needed to have a better understanding on the requirements and their implementations. The management style tends to change from time to time depending on the change at the top official of the organisation which can have an immediate impact on the direction of the organisation. Too big financial regulator is too difficult to manage, in particular during decisions making which should be considered by regulator and supervisor. The third issue that should be revisited by regulator and supervisor from time to time is the way how the financial sector is evolving and managed because this is also an element that affecting how the regulators and supervisors operate. It is suggested that the complexity of the financial market should be noted by the regulators and supervisors by having the whole picture of the whole sector and assuring they are equipped with the needed tools to supervise such complex entities and the right communication method with other regulatory institutions. The financial market innovation is developing dramatically with the use of technology, such as fintech. This area of development is considered relatively new and some regulators state that they lack knowledge in this regard and blamed to be always behind. Such thing requires new level of cooperation and knowledge.

5.2.2. Global Theme 4: The Cultural and Human Aspect of Financial Regulatory Organisations

The fourth global theme to have been identified is “The human element and regulatory engagement.” In this global theme, regulators provide insights on the importance of the human culture and how it can affect the way regulators and supervisors operate and engage at both the national and the international level. This global theme includes eighteen basic themes and eight organising themes that fall into two groups namely: human culture and staffing. On one hand, the first group ‘human culture’ includes: 1- Human as a resource. 2- Humans are not rational. 3- Human interaction. 4- Culture as a drive. Then, the second group ‘staffing’ includes: 1- Mix and update. 2- Understand the difference. 3- Understand the market. 4- Salary as an attraction element.

Figure 5. 2. The human element and regulatory engagement



Source own compilation

5.2.2.1. Organising Theme 21 to 24: Effect of Human Culture on the Operations of an Organisation

Table 5.3. Organising themes 21 to 24: Effect of human culture on operations

Fourth Global Theme	The human element and regulatory engagement	
Organising Theme 21 to 24	Human culture	
Interview No.	Relative Code	Remarks
DD1.1	Human as a resources	'Yes, I think that Canadians are known to be nice people they got along where in comparison to Americans who are more confrontational and I think it does go to the Canadian culture the leaders of the organizations don't tend to have big egos where I think the leaders of organizations of US do tend to have big egos and it's partially the political system and partially the culture.'
DD10		'Another thing is culture and people deal with one another and that one thing is better or worse than something else but you discover that a lot of differences in how supervision is carried out or not driven by an agenda but simply how people are used to cooperate and interact how much relevant power difference'
DD2.4		'what happened if you go from one extreme to another? So you have to change, don't you? Any Chief executive, anybody take over a company, what do they do, the blame the other guy first of all, and then they change everything, and then they go.'
DD10.2		'Because of Institutional Interest, political interest may be you know you have a separate if you establish a separate institution, the institution of course wants to you know have its own tariff, defend its own tariff, wants to have its own responsibilities, wants to defend its own legitimacy and so that is the drawback you know you need to have something in place like former coordination mechanism because it is not common just by itself so I think it is more like, it's basically you can almost say it is a human behaviour in a way which kind of avoid sometimes this kind of cooperation happening.'
DD2.4		'I think some politicians, they could be influence, I mean at the top level, because all these guys went to the same schools, and same universities, same clubs, so they now each other, doesn't matter if you're regulator or a politician, you know you'll be in the same circle that's how human behave, I don't know how independent you'll ever be, sometime you feel like they're playing a game.'
DD7.1		'I am actually quite sceptical about a lot of the changes because a lot of changes tend to come soon after a new Governor has been appointed. And you know everybody wants to put their own stamp on it it's simply human behaviour.'
DE11		'mmm what I noticed tend to happen is that the focus of that authority tends to be mmm driven by one thing, this is probably

		not surprising, it tends to be driven by what kind of regulator or supervisor the CEO of that authority is or was, because the other unique thing you have about this part of the world where you got this international financial free zone is that they mainly staffed experts and so the CEO of the of (middle east country) financial centre was the head of prudential supervision (in his country) before he came to came to this (middle east country) and so he drove the agenda as been all about prudential I guess it's a human behaviour and everyone would do the same '
DE8		'The institutions should not follow politicians wishes or directions but for this to happen we need to changes the culture, the mind-set of people working or heading these institutions. S2- what do you mean change of mind? S1- I mean the personal change, I mean the people need to change their approaches and the people need to change their behaviour so a particular change, cultural change across the government functioning to make these institutions dependent which is very difficult to get in many countries.'
DD10.2	Human are not rational	a text book tells you that cooperation is much better and there are other reasons that doesn't happen because people and institutions do not always behave rational.'
DD15		'you can kind of set expectations around what actually financial regulators are able to do right, they start to understand that they cannot just put anyone in jail right, sometime it's going to be a trade-off you know your role as a regulator is not always to be a policeman with a big stick, but also to encourage good behaviour's by banks and our financial institution to work with industry to try to get better outcomes look at self-regulatory things, the code of conducts, you know it's about changing behaviour it's not necessarily always about punishing or fining people.'
DD1	Human interaction	'Well you know, ultimately I guess it just goes to human nature. People focused on their own short term issues at hand. And you need people with the sort of a larger vision to bring these institutions together. As I said, it all comes down to the incentives people have. You know, I've been rewarded for promoting institutional interaction. If they are rewarded, it'll happen. And if not, then it'll mean we probably won't move forward.'
DD2.2IO4		'when you talking about supervisory cooperation across London and New York then there's no realistic possibility that you're going to have a single direct supervisor dealing with both those jurisdictions and so it's comes down to good human relations and a sensible mount of political support'
DD3IO2		'Well, I guess that the one we have is working quite well. I don't think we want a better mechanism of coordination, what we want is people bringing things to the meal. So at the end of the day this is like, you know, a Spanish hostel, you find what you bring. So I think the coordination mechanisms are there; the FSB, the IMF, the BIS. There is room for discussion,

		negotiation, there are plenty of forums where people are meeting. So all in all I think there are channels for international cooperation. Then after, it depends a bit on the governments. And the politicians to a certain extent’
DE11		‘But of course everything comes down to playing their role, we all people, we all just human beings, even if you put those mechanism in place, mechanism will only be effective if from a human to human level there’s a willingness and openness to the transparent and to communicate with each other, if say the representative of the central bank hate the representative of the from the financial services regulator, they won’t talk to each other and all the mechanism in the world won’t be effective, it all comes down to personal relationship because we all human beings at the end of the day’
DE12		‘Well all people. Don’t touch my side, don’t get that, don’t reduce my power by saying we need to have a committee where we all decide together on something. We’re all people. Wherever I go, I saw ego, I saw lack of communication, I saw people getting into disputes or at least don’t agree on the option. Americans and European fight for years over the solvency issue. The Americans didn’t want it. They had a system that worked in their country and didn’t want to change it. So it’s not that there’s a bad guy and there’s a good guy, there are just two options and they didn’t see it the same. I witnessed very strong arguments, so wherever you go you have it’
DE12		‘so in my mind, it was very important to collaborate with other supervisors if they need it. So this is what I call good will because it’s easy to say institutions and people have to collaborate but it’s much more difficult to see it done for two reasons. One, the ego. Second, it’s more work. You’re supervising something and then somebody from another institution ask you for information, asking for a meeting, let’s talk about this, we need to have this, that… So it can make the system heavy, at the same time you need that collaboration.’
DE4		: ‘We don't have this governance for me is very weak, each authority preserves this boundary of personal power, the power of data, the power of knowledge about some point, but in fact we see that things in some way are connected, maybe not so connected. If you have just one very unique perspective of yourself and you don't have this governance. I can tell you something interesting, in my history in central bank of Brazil, i remember a lot of times indicates we saw this what I’m calling power, this political side, this fight among different departments / directorate of the central bank. Each one has this ownership of the data, you cannot see that I'm not going to share it with you from the monetary department, this data from banks because for a supervision, this data is important for me as a supervisor and regulator, and you are not supervisor, you are monetary authority and you don't need this data from banks. I remember quite well this’
DE16		‘People are looking all the time for a perfect solution, but in any organizational structure you are going to have the advantages and disadvantages, but with good people running them and willing to cooperate with one another any reasonable organization structure is probably capable of working well.’

DE8	Culture as a drive	'I think it should be minimal it should be as minimal as possible the institution's should try to get their independence should try to do those operations keeping in view their mandate. The institutions should not follow politicians wishes or directions but for this to happen we need to changes the culture, the mind-set of people working or heading these institutions.'
DE4		'In Brazil we have a problem, the authorities in Brazil is not so friend of publicity, it's a culture. I'm not thinking that bad way you need to hide something, no it's not that, before that i think it's a cultural point'
DD1.1		'If you look of what they do in Canada there is a group of FISC and a group of SEC and I forgot of what they stand for but basically the leaders of government financial organizations meet on a regulator bases to coordinate policy but you must have a culture that's open to that kind of coordination.'
DD10		'also make it very challenging to operate across national supervisory ideas nowadays since the culture differences are still there.'
DD12		'For instance, imagine a kind of internal governance structure to be implemented in China. Internal governors' requirements as the ones that we have today developed in Europe through the EBA. I think those standards are very difficult to implement in China. I think they would not understand those standards from a cultural perspective, okay? It doesn't set on their culture, I'm quoting china because have seen having some experience with the Chinese investors. And with a lot of difficulties for them in understanding the more qualitative regulation that today we have in Europe. So I wouldn't very much favour that to be realistic, I don't think with the different legal and cultural traditions from region to region, that it would be suitable for us to sort of enforce those standards in terms of commonality.'
DD12		Different legal and cultural backgrounds are clearly a limit to applying those international standards in a consistent way,'
DD2.4		'I think with culture how we do things around here. I suppose there will be different culture on how things are done in different regulators. Some of regulators will be doing lots of visits and taking teams out, other regulators will be just doing the minimum.'
DD7.1		And you know one of the things that struck me while I was there is that even though they are clearly in charge, the cultural differences in the process of the member states has traditionally been so different even though they are subject to the same directives and Basel requirements you know there are interpretations of them that can be so varied that you wonder do people actually read the same documents. But a lot of things to is down to culture'
DE11		Again to give an example here in the middle east, you don't have the same consultation process and this is not necessarily a criticism, it's just a different society, different culture, different way of doing thing, but when the central bank issue a new regulation or requirement they just tend to issue the regulation and issue a circular to all the bank and say here's a new regulation you must comply, no consultation no drafts,'

DE14		'At the QFCRA. we found particularly that the culture within the GCC region was they weren't used to commenting on rules they were used to being told what to do and they just complied and there was no real consultation approach so when we were putting things out in consultation we weren't getting any feedback.'
DE16		'On the securities side IOSCO has pretty wide membership and I guess done a useful thing to try to encourage cooperation that its international memorandum of understanding. I guess they have cultural differences even across the sectors that seem to carry through from the institutions to how the supervisors behave. '
DE7		'for example well you can get recommendation letter from someone you know who worked with you but if one candidate gets a recommendation from really powerful politician for example high government officials well in a more fair society this should not actually matter more than who actually supervise the person right but you know in a society like less I'd say mature society that could influence a lot more than people who you know just worked and they worked well I mean so who you have as your like background actually can influence the this procedure so I think that's a cultural thing in a sense in that sense.'

Source: own compilation

Organising theme 21 to 24: *Human culture* as shown in table 5.3 in these organising themes regulators explain factors affect the operation of regulation and supervision in regard to the human element namely; human interaction, humans are not rational, human as a resource and culture as a drive. The regulators attitude can be an influence in the way how they operate the supervision. The behaviour of regulators and supervisors can be sometime a negative input to the operation of regulation and supervision and can change the way of how regulators and supervisors should look like. Regulators believe that to have better supervision it is crucial to encourage good behaviour because people and institution do not always behave rationally. Regulators trust that human interactions rely on people and people rely on incentives, personal relationship and self-willingness. Hence, it is important to promote such behaviour to achieve higher level of communications. Regulators and supervisors should encourage individuals to have self-willingness to cooperate and communicate between themselves and with others and to minimise personal power to be assured that the supervision process is efficient. There are certain issues provided by the regulators are associated with the culture dimensions. For instance, independence of regulators and being publicity friendly. Furthermore, culture differences seem to bring some challenges for national and international cooperation and implementation which make it difficult for regulators to be on the same page.

5.2.2.2. Organising theme 25 to 28: Importance of Effective Workforce in the Organisation

Table 5.4. Organising theme 25 to 28: The importance of effective workforce

Fourth Global Theme	The human element and regulatory engagement	
Organising Theme 25 to 28	Staffing	
Interview No.	Relative Code	Remarks
DD10.1	Quality of people	'I think you can have a Twin Peaks model which is very poor supervision if all the things we've just discussed are not done well or if the quality of the staff of course it's another important issue as they don't have high quality staff and these regulators are saying you can have marvellous model but poor staff quality then that will be failure'
DD11IO5		'absolutely agree, the problem is, when you have a capital regulation you have to apply different models, the more sophisticated the more should be more countries, in terms of, capability of the market as well as the regulators. So for example, sometime it is not easy to apply this advanced sophisticated risk based models because the market is different and there are not sophisticated people in the central bank too, so why to ask these countries to do so?'
DD2IO4		'I mean, size isn't the only thing. It's the quality and the experience of the people, and also their competence, and whether as I said; they have the powers, the tools to be able to discharge their responsibilities.' 'Some organisations have an incredible number of people doing the same functions as another one, would do with just one person. So it's not from my experience, and I've performed EBA peer reviews, and compared quite a few of the different models of supervision. By peer reviews I mean going around all the different supervisory authorities in Europe, ranging from those at the Central Banks, to the SSMs or whatever, and assessing how they discharge several aspects under their supervision. It's the efficiency of how they work. So some are very efficient integrated, some are very efficient single sector, some are very efficient within the Central Bank. Equally some are very inefficient. If you took away from the numbers of staff, would I come to a different viewpoint? It really is the devil is in the detail on how you discharge it. It depends on the competence, responsibility and powers of the person.'
DD3IO2		'if you have an integrated supervisor than different bosses at the top of the shop who are making the key decisions on the monetary policy staff and on the banking supervision staff. It is a difficult balance you need to make and it get back to my overall conclusion that is just relies upon is more kind a human judgment and having the right people, so there's no perfect

		model that you going to come up with, it just requires really smart people who have a good judgment.'
DD4		'Yes, I do. Yes, I do. I'll give you a quick funny story. One of the commissioners that I sat beside in 2011 as appointed commissioner, and I was with him at some dinner. And I ask him you know his governor had just recently been elected. And I said, "So, what was your interest in insurance? Why did you become the Insurance Commissioner?" And he basically said that the governor told him whatever job he wanted, he could have because he done such a good job running the governor's election campaign. And he decided that basically the Insurance Commissioner's position was fairly straightforward.'
DE11		'so I would say definitely the most important thing, and then after you take politics out of your equation, then definitely it comes down to the quality of individual regulator in each jurisdiction as how effectively they implement international standard.'
DE3		'If a current structure is not working or not meeting the need then it is time to make changes in the financial sector. The changes in financial architecture also requires changes in human resources (qualified people who have enough and competent skills) who will conduct the new system.'
DE2.4		'I mean this is really serious and if the regulators don't have enough experienced staff this will be an issue, how can you understand what's going on in Lloyds bank, I mean their guys on the top they don't understand. The FSA was trying to reduce the cost by employing graduate people and not to pay for more experienced people, it's a difficult one really.'
DD1.1	Industry experience	'I think if you look at the supervisory staff, I think they should largely come from financial institutions. So they should have the expertise and knowledge to work in regulatory institutions and I think that some of regulatory staff should either come from other government positions or directly out of the Universities'
DD10		'You should have I think you should have a mix between people with experience in the sector and people from freshly from school, people from other public authorities. '
DD10.2		'I think that diversity is important it is good to have people that come from the industry because they have experience in the industry they always said you need a thief to catch a thief and at the same time it is also good to have people who have no filiation with the industry because research also shows also that people who come from the industry and go to the regulator they are often that let say they tend to be biased sometimes towards the financial sector because they have been working there. So I think you need both you need people who have been working in the financial sector in the industry but also you need people who actually have never worked there. I think it is about if you mix that in a way I think you probably have the best mix of staff.'
DD12		'from the very different origins. The only way that you have a very proper supervisory culture or regulatory culture if you want is to have broad origin of the supervisors and regulators. So, I think clearly they should be coming from inside, from the

		regulators, from the supervisors, but also from the industry I think. There are lots of merits in having people from the industry, who can also understand some of the shortcomings of regulation and the supervising enforcement of supervisory standards to make part of those things. And eventually also I wouldn't totally disregard some people coming from academia, think they are also relevant in that regard. They bring different conceptual approaches which in itself might enrich some of the methodologies and tools that the supervisors should be building. So I would say the broader the origin the better. And different cultural backgrounds are always positive in that regard.'
DD12.1		'I think you should have people coming from different places, I think you should that people coming from the universities, I think you should have people come from the market I think you should have people coming from different sectors within the market because you need diversity, so you can't built the institution only on the basis of academics and you should not build an institution only based on practical people you the mixture you need people with different skills, people with different backgrounds because from this diversity that you reach better solution and the way you are educate and the background that you've gives you a certain number of biases and if you only have people coming from one sector or one field you'll have mostly the same biases, and you won't have a global view, you'll have a very limited perspective of what things are'
DD15		'I think there is always a good mix, I think you want some people to come straight out of the university and then kind of work their way out and then you want some people to come from the industry as well I think it is always good to have a mix of people so I think yeah I think you want diversity I think you want diversity in terms of their experience both in public and in private sector I think you want diversity in terms of people who have worked in that national context and other national context, I think you want diversity in terms of their professional backgrounds as well too you don't just want an organization of all lawyers right, you just don't want an organization of all economists right, I mean yes, yes you are going to want people who have that kind of background because your mandate your responsibilities but you want diversity I think and I think diversity is kind of a key and then managing that well, I think you need up with probably better decision I think.'
DD2.2IO4		'ahh I think you need diversity there because it's a difficult job and you need to have like a range of different perspectives presented so I think this means you need a good mix of lawyers, economists, financially qualified people, CFAs, etc, the whole sweets, it also means you should like a good diversity people who grown up on the official sector as well as good amount of people of market experience who understand a little bit better the way that the market works in certain ways that you wouldn't really be able to understand if you haven't actually worked within it, also it's good to have some research people community coming in and out the organisation just to

		like refresh the thinking and make sure that the latest ides integrated on the way we do business.
DD2.4		'I think, I think… we need a balance, I think you need a number of experienced people who worked in businesses, they are qualified, accountants, lawyers, secretariats, who worked in business and then moved to the regulator. I think the problem is the young people who might joined early they can't really challenge, because what happen in theory in the regulatory point of view is totally different in business, I think the important is to have an experienced professional. But I think the difficulty you've got is that the regulator is based in London, most of the population isn't based in London, so there's only limited number of people who can work there, so you limiting the skill sets aren't you? They're just not thinking right in term of attracting the best people, unless they offer flexible work etc. I don't know. '
DD5		'well it depends when we hire people they come from universities but in some cases from the market as an example the latest people who have being involved in risk control or independent risk management function and so it's different it is always good to have someone comes from practical experience but let's be honest the salary and bonus system might not be like fully comparable to the market so in some cases it is difficult to get fully experienced people from the market but sometimes we are lucky.'
DE11		'I'm so glad that you have asked this question, mm because I have come from different path before working in regulation, there's a Hugh different actually between myself and a lot of my colleagues who had went straight and worked for the regulators out of university in their graduate programme and just got trained up and I don't want to say the word brain washed but they just get trained to think in a certain way and that how the regulator thinks, and it amazes me to this day that almost in a way I guess you can say the system is fundamentally broken, you've got people who have never ever worked in a bank in their life, regulating and telling bank how they should run their operations and setting the roles that the banks have to comply with while they haven't worked in one, to me that fundamentally bubbles my mind'
DE14		'I think there should be definitely a good mix we need experts in their fields whether that be IT, technology, actuary, accountants, specialists in all the various risks. we need people that have worked in the industry body, institution we need ammmm…. You know people that have come up through full understanding of supervision and know the process oh yeah I think we need skills from all sectors and particularly now I think regulator need a lot more skills in the technology field its one area that they look at in terms of the operational risk in the past but not just IT but whole technology part where we I think a lot of regulators needs to build new skills in this area and ammm and get expertise in that area..'
DE15		'well, you need people from different fields, so this could be economic, finance etc. You need several areas nowadays it should be including IT because you have cybersecurity and you know these kind of issues I mean different areas and they should be somebody who's have a good communicating things

		because the supervisors also need communicating with other publics and markets also need somebody who has those skills.'
DD2.4		'it is important to know that the structure of the FSA was designed by McKinsey, the chairman of the FSA at the time was Howard Davies which is ex-McKinsey partner I think, and is now the chairman of RBS, so you've got some conflicts there already'
DD10		'you have to ensure that you have good compliance roles, governing conflict of interest. It will be very strange for some working for Barclays to go to the PRA supervise HSBC and after four years and go back to Barclays again.'
DD11IO5		'I was in the market, I didn't want regulation I wished to do easy money, because regulation is a cost, or burden, or limit, even with saying this, there should be public hearing and public consultation on main changes in regulation.'
DD2IO1		'It's a very different mind-set to having worked in the private sector, where basically you're a business, and therefore you're looking at profits, whereas in the public sector, you're looking at enhancing the outcomes of the general public. So there is an issue of risk reward in the sense that a regulator buyer is naturally risk averse'
DD10	Salary	'In practice it is kind of challenging to attract people from the market since the salaries are not always competitive.'
DD10.2		'If people leave the regulate they mostly go to industry because of the differences in pay. In general, the industry pays better than the regulator because most of the regulators are government institutions. '
DD15		'they don't just see spending sometimes at the financial regulators is a way of increasing their market value so that they can get more money working back in a private sector sort of thing, I don't know how do you break that link, unless financial regulators are able to compete financially you know in terms of salary levels with the private sector which normally they can't so they need to look at other ways of rewarding people, that are not financially I guess yes sometimes in term of the culture, in terms of the meaningfulness of the work, in terms of other opportunities you know you need to think about those things bit so people can't stop and can make twice as much three times as much walking across the street to work for a bank which is what people think quite a bit.'
DD2IO1		'People need to understand that, because if you're just incentivised by money in the UK, working as a regulator could be a problem in financial services, because it currently doesn't pay anywhere near as good as the market in most areas.'
DD2IO4		'So my answer to you is it's better if you deter it, and the way to deter it is to pay supervisors serious market equivalent salary, which you want anyway, because you really want smart people in the supervisory regulatory authority because this really very key for citizen getting good deal out of what the industry does. '
DD5		'so it's different it is always good to have someone comes from practical experience but let's be honest the salary and bonus system might not be like fully comparable to the market so in some cases it is difficult to get fully experienced people from the market but sometimes we are lucky.'

IO7		'the problem that is getting much worse in this country is that the public sector is so underpaid and now so despised and rejected by the right-wingers that it's hard to get good smart people with good degrees to go into bureaucracy so I think more acceptance of careers that allow people to go in and out of the public sector from the law firms and the institutions is a good and necessary thing, although there's obviously the danger that in so doing people will be driven by wrong incentives'

Source: own Compilation

Organising theme 25 to 28: *Staffing* as shown in table 5.4. these organising themes underline the importance of the staffing of the regulators and supervisors. First thing underline the staffing of the regulators is competence of the individual. Regulators believe that the quality of their staff reflect the quality of their supervision, the more qualified supervisor lead to more efficient supervision. Diversity and skills are the two key words that regulators believe that their staffing should keep. The more diversify the more the capability to run financial supervision and the more skilful the official the better expected results. However, there is a conflict of interest in moving between the regulators and the financial market that should be monitored. The salary gap between the regulator and the financial market is huge and it is considered as a limitation of why not the regulators recruit more qualified officials, therefore, competitive salary is required to attract experts to the regulatory side.

5.3 Discussion and Interpretation of the Results

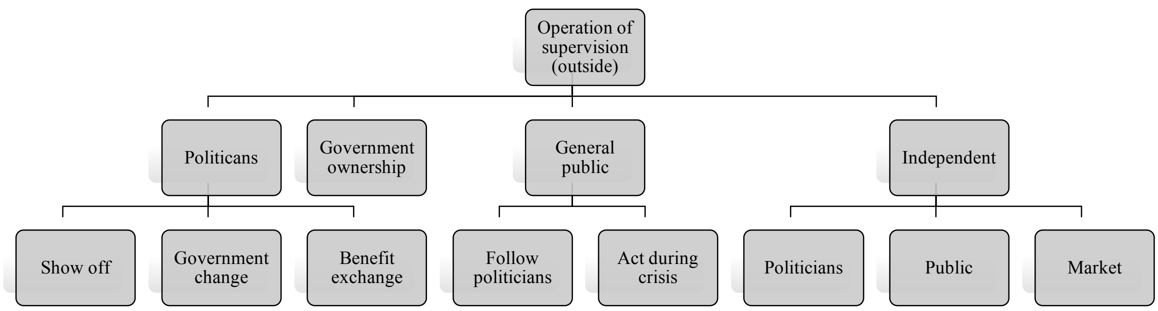
5.3.1. The Operation of Financial Supervision

The first global theme identified from the responses received from the interviewees revolves around the operational side of financial supervision. This theme studies the effects of external influences and internal developments on the operational activities of a financial supervisory body. A discussion of the results obtained from the interviews covering the respective effects are laid out in the following sections (5.3.1.1. and 5.3.1.2).

5.3.1.1. Outside Factors Influencing the Operations of a Financial Regulatory Body

The first organising theme identified in the third global theme is developed around the effects of outside influences on the operations of a financial supervisory body. Four subcategories were further identified as discussed: 1) Political effects; 2) Effects due to government interference; 3) Effects caused by the general public and lastly 4) how does independence affect operations? A descriptive flow chart is presented in Figure 5.3 to better represent the various causes highlighted in the interview responses:

Figure 5. 3. External factors influencing the operation of a financial regulatory organisation



Source: own compilation

The theme developed is in line with the views of Mueller (2003), Berger et al. (2010), Rosenblum (2012) and Goddard et al. (2010) who say that the financial sector is a combination of a set of groups that includes politicians, the public and the financial institutions with each group having its own set of interests, trying to expand and maximise their impact for their gains. Verdier (2013), Singer (2007) and Kapstein (2014) agree with the statements made by the respondents that a change in government leads to an agenda shift being pushed by the government that influences the regulatory and supervisory bodies.

The respondents firmly believe as shown in table 5.1 that the politicians and government of a country exert influence on a financial and supervisory regulatory body. This statement is supported by evidence collected in the literature review where Tarullo (2008) and Drezner (2008) state that, for international regulatory and supervisory bodies, the government of advanced economies greatly influence the policies developed to be in line with their national interest.

Furthermore, from the responses received, it is evident that the people in this industry do believe that there is a great deal of influence exerted by the politicians and the government to promote their self-interest and sometimes to promote their propaganda. The extent of this political influence is more damaging for a supervisory and regulatory body than beneficial and hence should be limited, as it can be used to exchange benefits with business. The literature shows evidence that the process of financial regulators is driven by the motivation of the political influence rather than the public interest especially when it comes to structuring the financial regulatory authority (Levine, 2012; Barth et al., 2013). Here, Ferran (2011) extensively studied the break-up of the Financial Service Authority in the United Kingdom and she concludes that the political influence was at a high level for such a break-up.

The public has both a direct and an indirect influence on the operations of a regulatory body. The respondents feel that the general public is easily influenced by political propaganda, which tries in turn to exert its influence through its sheer volume by raising demands and pressurising the government. They also believe that the public is least concerned with the functioning and operations of the regulatory bodies but they do get involved in the case of crises. They eventually conclude that the interest of the general public is very subjective to their needs and they only exert their influence in case of dire situations (please see table 5.1).

To address the influence of the public and keep their interest in mind the public interest theory for regulatory bodies was developed to serve the interest of the general public. Stigler (1971) and Posner (1974) support the idea and argue that the interest of the public should be served first and is the primary goal of the regulation. Hertog (1999), Meade (1984) and Hantke-Domas (2003) agree that since the general public is often uneducated about the operations associated with the functioning of a regulatory body, then it is better to keep their influence at bay and support theories such as public interest theory to address their concerns.

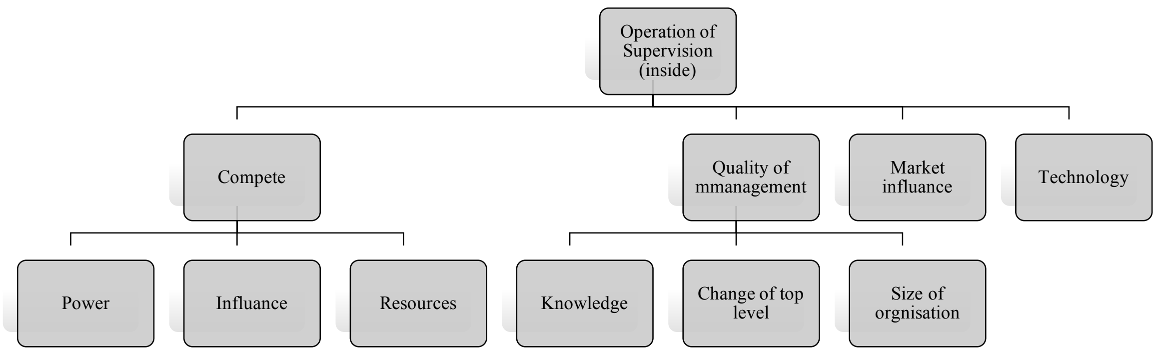
A financial supervisory organisation is a permanent body that develops and frames guidelines for long term implementation. When these organisations are subjected to government and political influence which keeps on changing over a set period, then the objectives of the organisation are impacted. This scenario calls for protection of the financial regulatory organisation from the policies of self-interest promoted by the government and hence it is argued to limit the influence exerted by them. The respondents observed that external influences created due to the involvement of politicians, governments, the general public and market trends tend to have a more negative impact on the operations. The belief hence arises that regulatory and supervisory body should be independent of these influences.

Most of the respondents agree that independence will provide more power to regulatory bodies and aid them in forming policies that are beneficial for the public. However, certain responses should lead to scepticism concerning this and desire for an external influence exerted on these bodies so that these organisations are answerable and do not misuse the extensive power they have as stated in table 5.1. Masciandaro and Quintyn (2008) come to the conclusion that the policymakers are found to take the position of ‘grabbing hand view’ in the context of redesigning the structure of the supervisory bodies. The grabbing hand view tends to explain the policymakers behaviour to benefit the organised interests group in the system hence and so concluding that certain independence from policymakers is important for regulatory bodies.

5.3.1.2. Inside Enhancement Process Influencing Operations of Financial Regulatory Bodies

The second organising theme in regard to the third global theme identified from the responses from the interview focuses on how internal operations have an impact on the operation of a supervisory or a regulatory financial body. The flow diagram presented in figure 5.4 highlights the various areas that impact internally on the operations of a financial body. The areas identified as requiring improvement are the following: competition, quality of management, market influence and technological advancement.

Figure 5. 4. Inside the improvement process of operations in a financial regulatory organisation



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The presence of multiple supervisory bodies as presented by the twin peaks structure, the institutional structure and the functional structure leads to multiple regulatory bodies that govern different aspects of the financial industry. Although there are functional divisions in each body, there are certain aspects that overlap. The responses gathered to help identify the themes expressed by respondents indicates that there is an unspoken competition between bodies within the organisation to exert each body's power and dominance. The interviewees believe that this competition is unhealthy as it raises a conflict in procuring resources as indicated in table 5.2. As per Weiess (2015), the institutional landscape of the current international financial regulation is fragmented with national and international financial regulatory and supervisory agencies leading to a conflict of interests. Tylor (2015) states that fewer organisational structures enhance coordination activities to minimise overlap and conflict between institutions, thereby reducing the competition.

The other point identified from the responses received is in regard to the quality of management. The respondents feel in table 5.2 that for a financial organisation to run in an efficient way, the management operating needs to have in-depth knowledge in the field. Singer (2007), Kapstein (1994) and Verdier (2013) say that a knowledge gap between the regulators and the financial industry can lead to a crisis. From the interview responses, it can also be gathered that change brought in by the top-level management of the organisation helps create a positive work environment.

Bailey (2017), Cialdini (2016) and Westrum (2004) believe that the senior leaders play a pivotal role in defining the culture of an organisation since they could set the 'tone from the top.' The size of the organisation is also a factor that affects internal enhancement in an organisation. Initiating a positive development is difficult for an organisation that is large in comparison to a medium or small-sized regulatory authority, as the number of employees increases. Hence management that is efficient will try to exert a positive influence on the employees irrespective of the size of the organisation. The thoughts presented by the respondents are in agreement with the literature where both feel an effective quality of management is necessary for efficient operation of a financial regulatory and supervisory body (please see table 5.2).

The next issue identified in this organising theme is related to market influence, which is closely related to the last issue - technology. The market has a dynamic influence arguably related to the external issues discussed in Section 5.2.2.1. Technology has been a great asset, but ever-changing technology has made it difficult for regulatory and supervisory bodies to catch up. The respondents believe that the financial market is dynamic and supervisory bodies need to adapt to these dynamic trends as soon as possible. The responses have emphasised how new technology such as cryptocurrency, fintech and insurtech is revolutionising the financial markets and how it has negatively impacted the regulatory bodies as they were ill-equipped to handle the IT influence.

The literature also agrees with the need for regulators to update themselves with the latest market trends. Drener (2008) agree that for any institution to address the current market situation, it needs to be well equipped to adapt to the changing times as soon as possible. Broeders and Prenio (2018) define supervisory technology (suptech) as the use of innovative technology by supervisory agencies to support supervision. Agencies face several challenges in developing or using suptech applications. Some of these issues relate to computational capacity constraints, increased operational risks (including cyber risk), data quality, finding the right talent, management support and buy-in from supervision units, and rigid rules in project management.

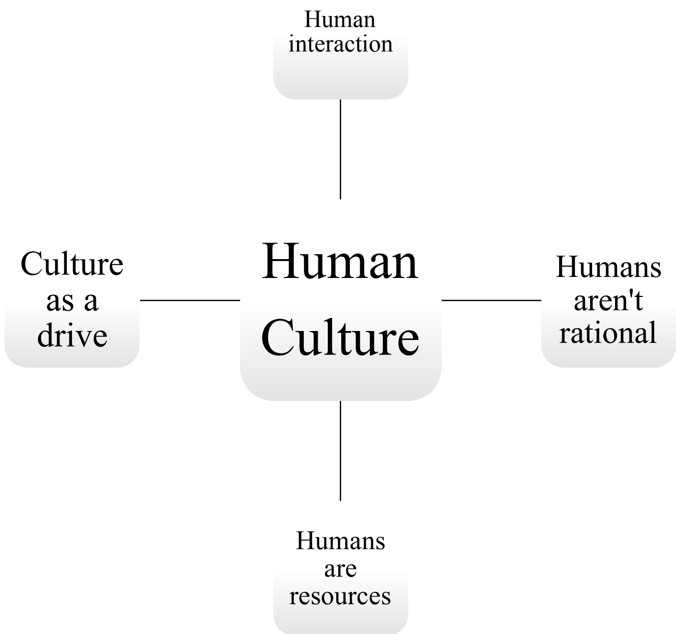
5.3.2. The Human Element of a Financial Regulatory Organisation

The human element in the regulatory and supervisory body is the fourth global theme which is identified from the responses received from the interviews. The following discussion looks at how important the human element is in the functioning of a regulatory and supervisory organisation. Two aspects of the human element are discussed in the following sections: 1. human culture and 2. staffing.

5.3.2.1.The Influence of Human Culture on Operations of an Organisation

Human culture is an important aspect of any organisation, which has been proven by both the literature and the responses received. The organising theme of human culture is divided into four parts, as illustrated in Figure 5.5 as per the following.

Figure 5. 5 Parts of human culture affecting the operations of the regulatory and supervisory organisation



Source: own compilation

Culture as drive-in operations is a major aspect for any organisations. In their research, Ortega Parra and Sastre-Castillo (2013), Yirdaw (2014), King (2012) and Schneider et al. (2014) have established the importance of organisational culture and how it affects the working. The respondents also feel that the work is affected by the type of people present in the organisation and the culture they bring with them. Various sources dealing with organisational culture have been highlighted by the works of Martinez-Canas & Ruiz-Palomino (2014) and Uddin, Luva and Hossian (2013). The responses received also state that every individual working in the organisation brings his/her own culture that affects the overall culture persisting in the organisation. Due to various workers coming from various walks of life, it is important to have an effective interaction between the human resources of an organisation as expressed in table 5.3. WDR (2015) and Kelman (1958) have discussed the effects of behavioural influence on an organisation and have highlighted the importance of identifying how people feel while working in a big organisation.

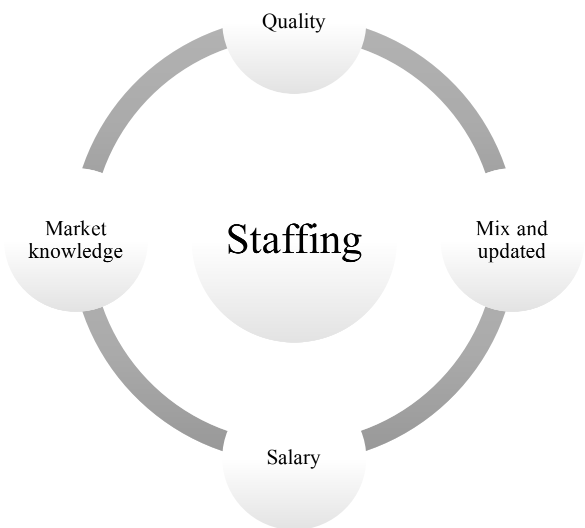
The study has also revealed that humans are not rational and carry with them biases and prejudices. Swaab (2010) and Feldman (2017) have discussed various types of biases that are developed in human beings and highlight the reasons for irrationality displayed by them. The same is established by the responses given in the interview in table 5.3 where it is a general feeling that humans are somewhere not rational and unable to understand the cultural differences that exist, especially in international organisations where people from different parts of the world come together to work and supervise areas of various cultures.

This irrationality can sometimes cloud the judgements of the members of the financial regulatory organisations, making decisions that are not beneficial for the overall society. Hauser (2006) and Rax (1983) discuss how the norms of a workplace, region and country impact the decision-making process. They say that due to variance in legal norms, social norms and market norms present in the regions, it becomes difficult for national-level regulatory bodies to integrate effectively with international regulators.

5.3.2.2. Impact of Effective Staff on the Operations of a Financial Regulatory Body

The second organising theme developed in the fourth global theme revolves around the staff of an organisation. The theme discusses the quality, salary, knowledge and mix of the staff as illustrated in Figure 5.6 below:

Figure 5.6. Effects of staffing on the operations of the regulatory and supervisory body



Source: own compilation

The respondents feel that in table 5.4 the quality of the staff is very important as it reflects the quality of work produced by them. Quality is interrelated to knowledge, which is an opinion that a staff member with adequate market knowledge will have a higher quality of thoughts and produce more efficient work. From the responses gathered it is also understood that the financial market is complex and needs to employ people with enough experience. The same is argued by Bailey et al. (2015), Cialdini (2016) and Westrum (2004) who insist that it is the role of senior and more experienced staff to guide its employees in the right direction and use their experiences to raise the quality of work delivered by the organisation.

The quality of work is also dependent upon the incentives provided by an organisation. Salary is the most basic incentive and it is understood from the responses that the salary received in a supervisory regulatory body is not on par with what a person would receive working in private financial firms. These organisations are either funded by a national government or international fund collection, entailing that there is a need to manage their resources adequately. This is one of the major issues that leads to adverse staffing in these organisations, thus effectively affecting the quality of work produced as stated in table 5.4.

5.4. Summary

This chapter has focused on two major themes affecting the operations of a regulatory and supervisory body. The first theme discusses how operations are influenced by external and internal factors, while the second theme has discussed the effect of culture on the operations of an organisation.

On comparing the information received from the interviews with the literature review, it is evident that previous research is in agreement with the responses gathered. Both believe a lot of external influences are created due to the interference of government, politicians and the public that hinders operations. When analysing the independence of an organisation, they recommend that it is beneficial to have independence up to a certain extent but complete independence can also result in a negative impact. Hence it can be concluded that external influences and independence are both essential for effective operations and a balance needs to between them. Moving forward towards the internal influences, it is understood that competition and market influences are two internal factors due to external influences, where they indirectly affect the efficiency of work as organisations fight for resources and position. The theme also suggested that the quality of management also affects the operations, as helpful management can guide their employees properly.

The last factor that has a crucial effect on present-day operations is technology. From the information gathered, it is felt that organisations struggle to adapt to technology at the same pace at which it is put on the market. Hence, for an organisation to operate effectively it needs to reduce competition among peers, have good management and adopt technology at a faster pace. The other global theme that discusses the influence of people working in the organisation is human culture, which is initially analysed as a discussion on the impact of humans as resources. The rationality and interaction of humans is then discussed, followed by establishing what drives cultural behaviours. It is evident from the information received that humans are an important aspect of any organisation and need to be handled with the utmost care.

People working at an organisation come from varied backgrounds bringing with them their own culture that affects the way they interact with others they meet. This impacts upon the cultural atmosphere of an organisation. With most of these organisations working on international levels, a mix of cultures takes place in the same workplace. Moreover, the rationality of human thoughts needs to be addressed as humans tend to make decisions based on their personal biases and characteristics, which impacts upon the role of staff in an organisation. The research identified that to attain efficient staff, incentives such as the quality of employees, their experience in the industry and the salary received by them are crucial points. The research concludes that for effective operations, the quality and experience of the staff is essential which raises the question of providing an adequate salary to employees.

CHAPTER SIX

DATA ANALYSIS AND RESULTS: DELIVERANCE OF INTERNATIONAL FINANCIAL REGULATION

6.1. Introduction

This is the third of a series of three chapters of data analysis. This chapter focuses on the analysis of the data collected by applying one-to-one semi-structured interviews with senior financial regulators and supervisors from 31 countries. Fifteen of these professionals come from developed countries, while sixteen come from developing countries. In addition, thirteen international financial regulatory institutions also participated (see Appendix G). The main objective of this part is to conduct the qualitative analysis to understand the following: 1. The regulators' perspective concerning the third objective of this thesis; 2. How best to deliver international financial regulation, including consideration of how dissimilarity creates barriers amongst international practise; and 3. Why optional regulation creates confusion in applying international financial regulation?

This chapter encompasses two parts: data analysis and results; then interpretation of the results and discussions. The data analysis part explains the process of analysis taking place for the semi-structured interviews through a thematic analytical approach. It includes details of the issues discussed, basic themes, organising and global themes. The second part takes the findings from data analysis to result from the discussion where data will be displayed in more details with tables and figures to achieve the aim of providing reliable and comprehensive interpretations from the data analysed.

6.2. Data Analysis and Results

The data analysis seeks to draw out meaningful and valuable data from the interview transcripts through a thematic analysis approach. The five steps of analysis are presented in Appendix I include codes, the issues discussed and the themes, being the basic theme, organising themes and the global themes applied for data analysis.

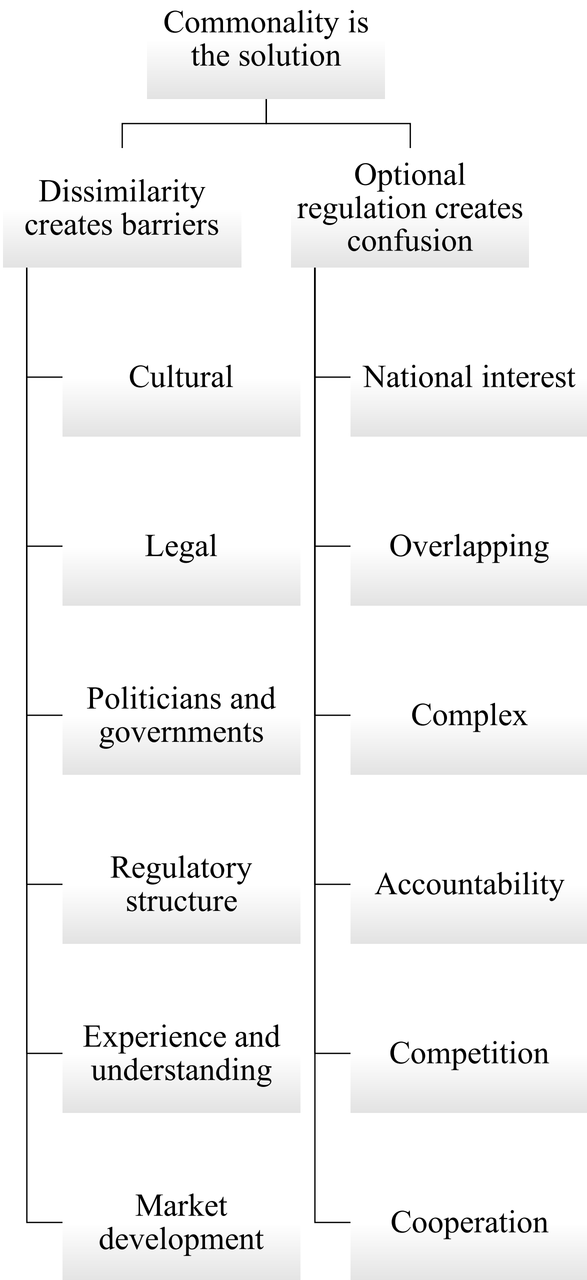
The first step covers the coding process where all the corresponding phrases and sentences regarding a particular code are grouped. The second step covers the issues discussed, which contain a summary of topics discussed by participants in the relative code. The third step is where the basic themes are identified from the identified issues in the previous step. The fourth step contains the organising theme where relative themes are grouped. The fifth and last theme includes the global themes which represent the main findings from the data.

This chapter discusses the final global theme that is identified from the results obtained. This global theme covers how best to deliver international financial regulation, which includes ten basic themes and two organising themes.

6.2.1. Global theme 5: How to Promote International Financial Regulation (IFR)

The last global theme identified from the results collected is “Commonality and flexibility is the way forward for International Regulation.” This global theme contains two organising themes: dissimilarity creates barriers, and optional regulation creates confusion. The first organising theme ‘dissimilarity creates barriers’ covers six different areas of discussion: 1- Culture. 2- Legal. 3- Politicians and governments. 4- Regulatory structure. 5- Experience and understanding. 6- Market development. The second organising theme ‘optional regulation creates confusion’ also covers six different areas of discussion: 1- National interest. 2- Overlapping. 3- Complexity. 4- Accountability. 5- Competition. 6- Cooperation. This is illustrated in Figure 6.1 below:

Figure 6.1. Thematic network for commonality and flexibility is the way forward for international regulation



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6.2.1.1. Organising Theme 29: Factors Causing the International Financial Regulation to Move Forwards

Table 6.1. Organising theme 29: Factors affecting the IFR in moving forward: Dissimilarity create barriers

Fifth Global Theme	Commonality is the solution	
Organising Theme 29	Dissimilarity create barriers	
Interview No.	Relative Code	Remarks
DD7.1	Culture and legal differences	'And you know one of the things that struck me while I was there is that even though they are clearly in charge, the cultural differences in the process of the member states has traditionally been so different even though they are subject to the same directives and Basel requirements you know there are interpretations of them that can be so varied that you wonder do people actually read the same documents. But a lot of things to is down to culture, a lot of thing is down to local legislation, you know each country has its own corporate law structures it has its own legacy legislation and you know directives do leave an element of latitude as to how interpret it and to incorporate it into a national law, so that leads I think to a lot of differences and certainly a big contributor to the financial crisis because while some countries were quite good, still may be not up to expectation but quite good in terms of their approach, others and include Ireland in this were not and you know that allows banks to get into the mess they got into.'
DD2.4		'I think with culture how we do things around here. I suppose there will be different culture on how things are done in different regulators. Some of regulators will be doing lots of visits and taking teams out, other regulators will be just doing the minimum'
DD12		'it should be sort of good that we would come to that level. I think that we have very different legal traditions amongst geographies. I would put this in a more regional level than really between countries. I think we have completely different legal traditions from a region to another. And also the cultural aspect here is relevant. So, it might be difficult. For instance, imagine a kind of internal governance structure to be implemented in China. Internal governors' requirements as the ones that we have today developed in Europe through the EBA. I think those standards are very difficult to implement in China. I think they would not understand those standards from a cultural perspective, okay? It doesn't set on their culture, I'm quoting china because have seen having some experience with the Chinese investors'
DD12		'Different legal and cultural backgrounds are clearly a limit to applying those international standards in a consistent way, not to say that of course you have also countries departing from certain policy that adopted at that level. You see now in the US where we have clearly a shift from some of the consensus that was built after the crisis in terms of regulatory approaches.' DD1.1: 'Yes, I think that

		Canadians are known to be nice people they got along where in comparison to Americans who are more confrontational and I think it does go to the Canadian culture the leaders of the organizations don't tend to have big egos where I think the leaders of organizations of US do tend to have big egos and it's partially the political system and partially the culture.'
DE14	Political will	'definitely politics, definitely, if there's no political will to implement international standers, then regulator can stream all they want, and this not going to happen, so I would say definitely the most important thing, and then after you take politics out of your equation, then definitely it comes down to the quality of individual regulator in each jurisdiction as how effectively they implement international standard.'
DD2.3		'I think it is a combination of domestic government and the political context in which they operating. I can see there are very strong parasols between the EU countries and Canada, US, Australia, New Zealand they are not identical by any mean, in some respect the US is very different from EU than many people realise, but more generally if you look across the world you will see that government in different countries are responding to very different ques and very different level of concerns about particular things, and then different level of source, different level of expertise, they have got different exposure to world trade, I mean some of them they don't even got to trade internationally, they quite big countries and they trade among themselves, India been quit a good example. So I think it is about politics and about context rather than about any of the mechanisms that where, I mean the mechanisms are there if you want to use them.'
DD4.1IO3		'There are some tension there because it's certainly in the first phase of the FSBs work …… and ….. were successful in basically keeping the finance ministry's arms and legs for most of the decisions were taken predominantly by technocrats, so they were isolated from political pressures not completely but largely. there is always, there is tension between the finance ministries and the central banks and there will be tension between different interest inside the FSB. And we cannot pretend that all national supervisors are all just having exactly the same interest and in normal times they don't.'
DD3IO2		'Yeah, though will be difficult, if you want, to have an international arrangement to have a lot of involvement of politicians. If you have too much involvement of politicians, then you turn your back to international cooperation. And if you start to have a different regulation in different countries, you don't have a level playing field anymore. And if you don't have a level playing field, people are going to install barriers.'
DD4.1IO3	Power	'Now Trump is not directly responsible for the FSB's operation and it's a central bank fund operation it's principally regulators who are engaged in that. But having said that; he does select the regulators and the central bank governors who will then represent the US, the FSB, and so if the tone of American policy significantly changes then what the FSB can do going forward would also change because of course the FSB limits is a consensus based body and it can only do that which basically major players agreed to do.'
DD1		'We need the US to follow good regulation, because if you know, if they have a financial crisis as they did in 2009, it clearly impacts on us and on other countries. So international financial stability is critical to us, and the way for us to have an influence over that is through these international organizations. You know, obviously

		Canada cannot force anybody to follow any particular regulatory regime’
DE11		‘at the international level, cooperation between them, ah that’s a tricky one, you can define that certain jurisdiction, from what I’ve seen certain jurisdictions tend to dominate these international bodies and so they influence the priorities that these international bodies set, and that flow down and have an impact on all the rest of the jurisdictions around the world. I don’t know or not that necessary a bad thing, but certainly I don’t know how to change that, it is always going to be effective that the major global financial centres; UK, US in particular are going to drive the agenda on the international level when it comes to coordination in the international level’
DD7.1		‘I mean just look at the geo political situation around the world at the moment, you have got Trump in the White House, you have got Brexit, you have got all sort of stuff going on in proxy wars in Syria you know I mean it is just an endless, so who knows what comes next and they don’t recognise the problem. How can supervisors predict the future, they can’t they just got to make a best guess’
DD12.1		‘I think it’s more or less the same with the international organization once you’ve created one, it gain a life of itself, so it is very difficult to you to grasp and say well we’re going to close down IMF, that’s never going to happen unless you have a very critical situation where this is the only solution but once you’ve created one of the institution they gain a life and it is very difficult for you to say well we have to control it, we have to limit what they are doing because most of the time it depends on political will and most of the time member state the severance belong that part of these organization. So sometimes for political reasons the backing of this international organization to fundamental for you to implement a certain policy. And it is much easier to do it from the back of organization that you do it on your own, so in this interest somehow seed and maintain this organization. We need to know exactly what each one of them is doing, we should avoid creating new institution to a balanced all of this, and we need to understand they are effective up to a certain point. But in the end this is all led by the political will or the political agenda of the members of organizations. So it is very difficult to under control them’
DE4	National structure	‘when you have a different structure you need to deal with people with different perspectives they need to preserve and defend their own institutions. In case of you US, i worked with different authorities from US i performed inspection in Brazilian banks in US for instance then i worked with different authorities and it's not so simple, each one has its own perspective but they have very interesting thing, for instance in US they have a lot of state authorities, authority of banks for California for instance, then, this authority is not a federal authority, is not federal reserve, it's not OCC it's one FDSC it’s another one it’s a specific authority for this state California or New York.’

DD4.2		'I think some of it because of differences in the organisational structures of the different agencies that are in charge of banking supervision, prudential regulation, It's also the structure of the banking industry in different jurisdictions – for example, in some jurisdictions the banking industry is very aligned with the insurance industry, whereas in other jurisdictions bancassurance is not a predominant model. In some jurisdictions, such as Canada, you have a few dominant banks, and in others like Germany, you have a few large banks and a large number of smaller cooperative or savings banks. In other jurisdictions like the United States you have a very large number of large banks and then you have an even larger number of regional and community banks'
DD11IO5		'I would say different regulatory structure, but also the lobbying of the financial groups toward the authorities, in some countries, the financial regulators have strong support from the government, in other countries is the other way around, so it's always a trade-off between the capability of moving forward with more regulation and the pressure raise from lobbies and so forth, where's now a strong pressure in the US to roll back the regulation. So the governments are lobbying to slow down the international organisation aimed to lowering bank capital requirements and have more time till the new one comes'
DD11IO5	Level of experience and understanding	'So for example, sometime it is not easy to apply this advanced sophisticated risk based models because the market is different and there are not sophisticated people in the central bank too, so why to ask these countries to do so?'
DD10		'I think there are multiple dimensions to it, of course there is for instance there are differences between country banking sector and how healthy the banking sector is that kind of affects what is happening, I think there are differences in the maturity of bureaucracies how well government in general is working in an individual country'
IO7		'Here you should note the big differences, going off in another direction, between the Basel committee and IOSCO: Basel committee has traditionally been the major financial countries where you have people, regulators for the most part, who really understand what they're talking about, whereas IOSCO has hundreds of countries and a lot of them don't understand the issues in any depth because they don't have complex markets.'
DD1.1		'And another issue we get and we talk about was the regulation for small countries or less developed countries and I think the supervision there is really not that good and I know the world bank and the IMF are both conducting audits and trying to strengthen that local supervision, but it is very difficult and I think that's another

		issue that needs to be addressed at international level, and would be good to have some kind of global regulator expertise. I think all the answers I gave were directed to large industrial countries and not for small countries'

Source: own compilation

Organising theme 29: *dissimilarity create barriers* as shown in table 6.1. in this organising theme participants express some rationality on understanding factors influencing the international financial regulation to operate effectively. First reason proposed by participants is that the differences in the legal and cultural tradition is a one of the factor that create barrier at the international level of financial regulation. Furthermore, some participants argue that the difference in the political power is the second factor affecting the direction of the international regulation. It is obvious that some major economy obtains greater power in comparison to other international players and such power is considered as a barrier to effectively apply international financial regulation. The difference in the political will is also a force of what makes the implementation of the international financial regulation as smooth as it should be because sometime the political will can delay the international adaption of the international standards. Further to the political will the government decision is affecting the way how international regulation is cooperating because there is a conflict of interests between governments, politicians and the regulators within each jurisdiction which will turn to be a barrier to take the international financial regulation to practice. An additional factor affecting the coherence of the implementation of the international regulatory standards is how the national regulatory body structure because some regulatory structure can be a barrier to implement the international standards. The level of experience and understanding as well as the market development in the national level are contributed factors to what make implementation of international standards restricted to expand.

6.2.1.2. Organising Theme 30: Factors Limiting International Financial Regulation to Act Collectively

Table 6.2. Organising theme 30: Factors limiting IFR to act collectively: Optional regulation create confusions

Fifth Global Theme	Commonality is the solution	
Organising Theme 30	Optional regulation create confusions	
Interview No.	Relative Code	Remarks
	Central Bank power	
DD14	National interest	'I think the huge challenge is to implement all of these regulatory frameworks and especially the new ones that have emerged since the financial crisis to implement this in a harmonized across the globe because the tendency that you are now seeing that every jurisdiction is trying to cherry-pick a little bit what works well for its jurisdiction and is not that keen on implementing things that really hurt and I think the latest discussion on the so-called Basel 2 and hassles their regulators took several years to come to an agreement on for example the output flow is a very good example where you have different jurisdictions with which are in fact looking in their own backyard defining quite strongly their positions and a appointing that their sector is getting hurt but you know I think we have to be realistic the financial sector itself is limited by boundaries the European boundaries the national boundaries within Europe they are active across the globe and if you want to avoid that some cherry-picking amongst within the financial sector I think we need to have as much as possible a harmonized approach across the different jurisdictions'
DD2.1		'I think here the problem I think at the broader possible level is that prudential regulation is essentially a sovereign activity and it doesn't matter how much you try and improve regulation so lots of discussions at the Basel Committee they end up where they are with the regulation is the one everybody is compromised and they compromise and reached an agreement because nobody will give up the sovereign authority over their markets and so I think there is a natural limit to what you can achieve, because nobody is going to give away that sovereign no country, the US does introduce regulations doesn't care what is going on in Europe in a way because its responsibility to the people of America'
DD7		'I mean I guess there all slightly unique in their own way the FSB yeah is much smaller than the IMF and involve different countries …yeah I mean there's history behind them and usually they are not consistent and it takes longer time to get a new regulation in place and by the time you implement them you will need to update them so yeah they are different. Yeah I guess the main concern is the power which doesn't exist for different national interest'
DD1		'the Basel Committee does not issue edicts which everybody has to follow. There's no penalty, right? It's just you know, soft law. And

		I'm sure you're familiar with this if you've been looking into it. So they're just guidelines which you can choose to not follow. So that creates a very tricky situation you know'
DD12		'But this said clearly, I think there is a case for international standards to exist in the many areas that came after the crisis. And I think there is really a case for those standards to be put forward, to advance and then to be implemented. Now the question is whether the countries are implementing them in a consistent way. That might be the sort of a question mark? And that would call for a sort of that international body to have more powers in terms of the scrutiny, I would not call necessarily enforcement, because it might be sort of legal hurdles for an enforcement at international level. But clearly in a way they conduct a result of reviews, from which conclusion you would have a case for more consistent and harmonized implementation of those standards'
DD12	overlapping	'There is where I think that today we have I will not necessarily say overlapping, but there are areas today that are overlapping, there are areas in terms of activity of the financial stability board and the Basel committee that sometimes you see are overlapping and not necessarily in a consistent way. I think there should be an effort to be more clear about the areas where each of those international supervisor or regulator is acting'
DD1	Complex	'you need to make things very simple and straightforward. So I don't know if you know the problem with ... one problem ... I'll use the Basel Committee as you know, my best example. You're probably aware that everybody is criticizing the Basel Committee guidelines for being overly complex. You know, too many regulations, too much guidance, too much stuff. And it has an element of truth. If you were to put everything into a book, all the Basel Committee guidelines right now, it would ... your desk would collapse under the weight'
DD15	Accountability	'so given a global nature of finance now but I think international regulation is very difficult because who do you make that accountable to, national regulations accountable to national governments'
DE4		'When Basel committee and FSB started to perform, the peer review of countries and the results are public document, then you see that bigger country, you need to have some sort of accountability for the planet and this accountability which is something public'
DD8	Competition	'me personally have been involved in standard development in an international level for about 10 years now, it is a horrendously political process in which, yes there is a goal to have some international consensus but that goes hands in hands with very heavy handed national level of political disputes, and you can see that for example, I don't know, like around the naming of systemically important financial institutions the US started that back in 2010 with Dodd Frank and the FSB picked it up at an international level, now it has been some change in the US government and with a new administration you can see that so much of Dodd Frank been done away with, so, this big friction between achieving some degree of commonality and protecting national interests, it is just it is always there and it comes to the front door, through the window, or throw the chimney but it is always there, it is an ever moving dispute and again, so much of that is driven by competition, so, let's say just to get the big one, so, the competition between the US and the European union around having regulatory framework that yes protect

		consumers and insure as much as possible solvency but they're competitive and so on is competitive and something is just of a different logic'
DD6	Cooperation	'some other issues came up the cooperation I was responsible for Lehman in this time the lead here in Germany was the largest bank out of the US which went in bankruptcy and the problem was more to cooperate with the other countries because in this weekend 12 to 15 of September 2008 almost ten years ago we had this problem of cooperation between the US and the UK and the other countries were broken up in this even in the worst time so because in the time of crisis every country is looking at their own jurisdictions only and not anymore onto the other one to hope I can protect my economy to prevent any damage'
DD2.3		'I think it's vital that the UK should play an active part on those things, post Brexit assuming happen that the government seems to have in mind, who knows, but post Brexit those things will become even more important, I will not be surprise if the EU colleagues won't talk to us that much, but we will see'
DD12.1		'There are quite a number of discussions that then turned imbalanced because they depend on national interest and if you look for instance at all these discussions around the derivative being cleared through centralized system, we've been discussing that issue for quite a while, you have slightly different approaches in the United States and Europe. Because There is national specificity that are not taken into account when the right decision was made that we would clear into centralized system that done when you go to the details you cannot implement them as strictly as they were defined in the beginning. So international coordination structure are very important indeed, but you have to realized that they cannot, they will not have the all the necessary information to defined a standard that can be applied as is throughout various economic spaces because there are quite number of things that can limit and condition the way these principle would apply in the concrete situation of Europe, of Asia, of America, wherever'
DD3IO2		'Well, look at the UK, you know? They don't want to have the European Court of Justice issuing rules in the UK. So this is just an example that I'm giving you, but it's the sort of emergence of sort of a more protectionist and I wouldn't use the term nationalist, but I would say still this is a little bit the willingness of not ... Well, let's say populist, you know, let's say populist in a certain sense. You don't want to have things which are dictated by other countries. So international cooperation is always a tough thing'
DD8		'and I wouldn't exclude the ability of financial regulators to compete with each other in the in the search for attracting global financial business as one of the criteria that to feeds into how you design your supervision authority.
DD8		: 'Um, and the other important one that the FSB has been very keen on is this so called cross-border arbitrage, so if there is a new rule and one country applies it and the other country doesn't apply it, or applies it in a creative way, then obviously the financial institutions smell that and they will be moving not only to the sector that has thinner burden of regulation but also the country that has thinner burden of regulation. And to me that obviously have conflicts very heavily with the supervisory authorities often hidden goal to be very competitive, so obviously, one way of becoming competitive is lowering the burden of regulation and supervision that you pick up

		by UK back in 15 years ago in the Tony Blare years called light touch regulation was clearly a way of bringing the business into the UK and then proved to be a complete disaster when everything collapsed, but it was clear there was a competitive goal around regulation.'
DD7		'personally have been involved in standard development in an international level for about 10 years now, it is a horrendously political process in which, yes there is a goal to have some international condenses but that goes hands in hands with very heavy handed national level of political disputes, and you can see that for example, I don't know, like around the naming of systemically important financial institutions the US started that back in 2010 with Dodd Frank and the FSB picked it up at an international level, now it has been some change in the US government and with a new administration you can see that so much of Dodd Frank been done away with, so, this big friction between achieving some degree of commonality and protecting national interests, it is just it is always there and it comes to the front door, through the window, or throw the chimney but it is always there, it is an ever moving dispute and again, so much of that is driven by competition, so, let's say just to get the big one, so, the competition between the US and the European union around having regulatory framework that yes protect consumers and insure as much as possible solvency but they're competitive and so on is competitive and something is just of a different logic.'
DD11		'I guess two key limits to international cooperation one is the limit around how much cooperation you can expect when the things go wrong and when things go wrong supervisors and regulators will tend to fall into defending their national interest and it is very difficult to blame them for that, they will follow legal mandates. So I guess I guess the expectation is around how much cooperation can you get when things go wrong is a question that caught global attention but one thing I guess people talk a lot is what kind of cooperation you can get when you know that countries are competing with each other so so..that is one in the one hand this massive push around get making the world more competitive so people should ask you what is the role of a regulator body is it counter balancing or joining that competitive discussions… many will call raise to the bottom regulation, but yeah it it's a fantastic one but I guess it's all about political will.'

Source: own compilation

Organising theme 30: *Optional regulation create confusions* as shown in table 6.2. in this organising theme participants provide insights on understanding why the optional international regulatory standards are creating confusions on implementation. The optional regulation makes the implementation inconsistent and incoherent and participants provide six different reasons. First, some regulators argue that national regulators just cherry-pick what works for them which is not necessary the best for the overall international community. Second, other regulators argue that international regulatory bodies are found to be overlapping in the way they implement their standards.

In addition to the overlapping issue, international regulatory bodies blamed by regulators to produce overly complex guidelines which turn to cause confusion in implementing it. Accountability of regulators at the international level is another reason that cause confusion and therefore, there should be a mechanism to make international bodies accountable. Because international regulation optional and more in a voluntary basis the issue of competition between the regulators arias as every country compete to make their financial market more attractive for investors. Some participants also experienced the issue of cooperation at the international level and especially during financial crisis because every regulator aim to protect its own jurisdiction.

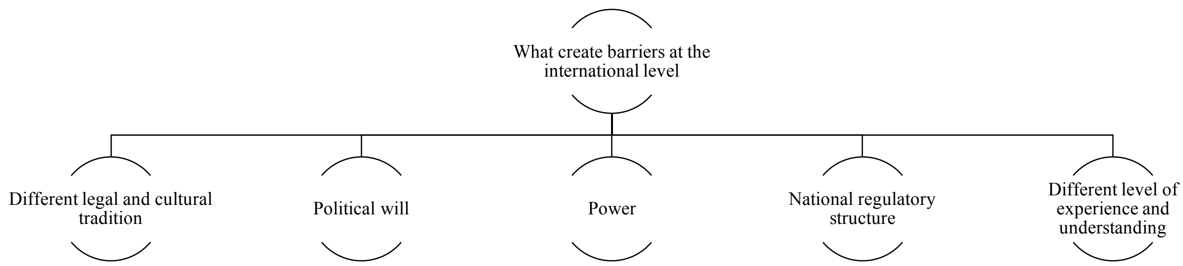
6.3. Discussion and Interpretation of the Results

The last global theme identified from the responses collected then highlights the difficulties faced by an international financial regulatory and supervisory organisation. This theme discusses the importance of commonality and flexibility between international and national financial regulatory organisations to apply the standards coherently set by them. To analyse the global theme, it is divided into two organising themes to debate the existing barriers that and the factors that affect the efficient delivery of regulations on an international level.

6.3.1. What Creates Barriers for the International Financial Regulation

The first organising theme in the fifth global theme identifies five factors that are associated as barriers to the proper functioning of an international financial regulatory body. These factors are highlighted in figure 6.2 below:

Figure 6. 2 Factors identified as barriers for international regulatory organisation



Source: own compilation

The first factor to be identified as a barrier is the difference in the legal system and cultural behaviour of every region. In terms of the legal system, every country has a different system and it becomes a tedious process for an international regulatory body to have a blanket legal system. The respondents feel that in table 6.1 due to different legal

regulations and cultural differences that persist along the international borders, it is difficult for a supervisory organisation to formulate regulations that would erase these borders.
In terms of legal norms, Raz (1983) believes that since legal norms are state-imposed it is difficult for an international organisation to bypass those. In terms of culture as a barrier, authors such as Lagarde (2015), De Vries (2013) and Feldman (2017) have highlighted several facts that agree with the responses that legal and cultural differences act as a barrier to an international regulatory body.

The debate about legal and cultural differences indicated that the political will of a country is also a barrier. Political will, directly and indirectly, affects the legislature of a region. The responses received stated that it is difficult for an organisation to function properly if political interference exists. To align the ideas of multiple people is very difficult and authors such as Downs (1957), Olson (1965) and Stigler (1971) had identified this factor very early in the last century. The literature shows evidence that the process of financial regulation is driven by political influence as a motivator rather than public interest, especially when it comes to structuring the financial regulatory authority (Levine, 2012; Barth et al., 2013). According to Verdier (2013) Singer (2007) and Kapstein (1994) in applying the international standards, the national legislature can be a barrier before international regulators. As governments change from time to time, such changes influence the direction of the regulators because every government comes with its own agenda and set of interests.

The next barrier identified in table 6.1 is power. Power provides ample ammunition for one ideology to be forced upon regions, people and workers who do not have comparable power. This has been proven by Giovanoli (2009) and Helleiner & Pagliari (2010) who have evaluated the power of the G20, the group comprising the twenty lead world economies, whose role is to agree on an agenda for global international financial regulations. The group exhibits great power and dominance over developing economies.

In their efforts to provide accountability, they appear to forget that it is unequally difficult for developing economies to adhere to policies that they put in place. In their research, Verdier (2013) and Wood (2005) have also debated how advanced economies with greater power can force agreements upon developing economies. The same concerns have been highlighted by Berger et al. (2010), Rosenblum (2012) and Godhart (2010) where they point out that a small group of financial institutions hold a vast amount of assets and can play vital roles and influence policymakers for their benefit.

Drener (2008) reveals how nations with great power can influence IFR to obtain better control and encourage them to buy into what they believe is important and convenient. From the discussion, there is clear evidence that power becomes a barrier for international financial regulators trying to guide national regulators to adopt standards properly because the national regulators would feel that the policies and advice they are being given may not be to their benefit.

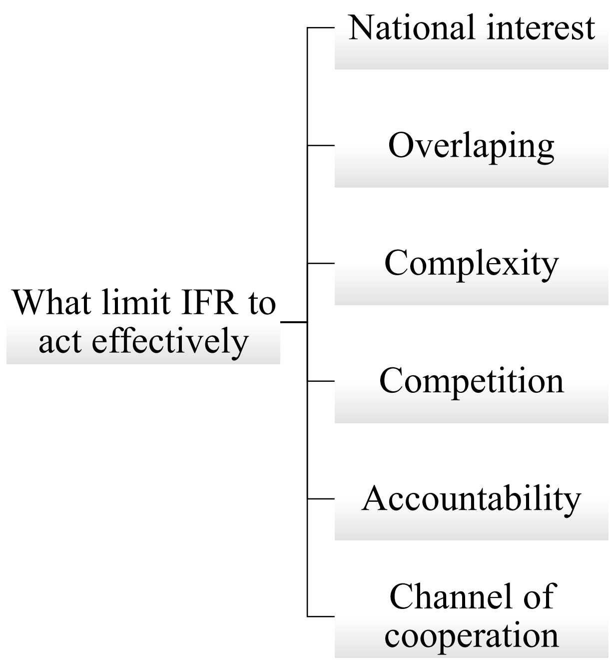
The fourth point identified is the presence of multiple structures for financial markets (see Section 2.4). Countries across the globe have adopted different regulatory structures that best suit their regiont. In the absence of a universal regulatory structure, it becomes tedious for an international regulatory organisation to develop a regulation or supervisory theme to be used across the board. Acharya et al. (2009), Schwarcz (2008), Rim (2005), Ueda and Weder (2012), Hughes and Mester (1993), Oliveira et al. (2011) and Verdier (2013) have provided ample examples of limitations that hinder the implementation of international policies.

The last point identified is the experience and understanding of the management team handling the organisation as shown in table 6.1. This barrier is related to the human resources of the international supervisory and regulatory organisation. Elsewhere, in the literature, Feldman (2017), Shefrin (2011) and Veltrop & De Haan (2014) reiterate how management affects the functioning of an organisation. Even the respondents feel that finding experienced management for such a large organisation is difficult and this is a barrier that hinders efficient working of international organisations.

6.3.1.2. Factors Affecting the Delivery of the International Financial Regulatory Services

The next theme identified in the global theme is the factors that affect the delivery of international financial regulation. The factors that are identified are 1.) National Interest 2.) Overlapping of responsibilities 3.) Complexity 4.) Competition 5.) Accountability and 6.) Channel of cooperation. These are illustrated in Figure 6.3 below:

Figure 6.3. Factors identified the delivery of the international financial regulation



source: own compilation

The factors identified in the figure above are all interrelated to each other. The first factor is national interest wherein each government tries to guard the interest of its citizens and, consequently, national regulatory bodies are formed. These agencies try to put their policies ahead of international regulations to show their importance. Kapstein (1994) contends that the national legislature can act as a barrier in applying international standards to protect the national interest. The financial sector combines a set of groups such as; politicians, the public, and financial institutions. However, each group endeavours to expand and maximise its interests, which can negatively impact the application of international standards, forfeiting this in place of national interest (Mueller, 2003; Berger et al., 2010; Rosenblum, 2012; Godhart, 2010).

Some roles and policies overlap with both national and international regulatory organisations. This seeming double work leads to increased accountability but also complexities for financial agencies to follow. Berger et al. (2010), Rosenblum (2012) and Goodhart et al. (2010) considered the increase in competition and complexity in the financial industry. Balseven (2016) observed that the Basel standards complicate the structure of how financial institutions should be supervised even more than the existing complexity and, therefore, questions the effectiveness of the structure for both financial institutions as well as financial regulators and supervisors. The respondents in table 6.2 noted that these agencies appear to feel that the presence of multiple regulatory and supervisory bodies leads to the duplicity of work while also increasing complexity. As the Basel standards increase accountability for financial firms, it is felt that the amount of unnecessary work has also been increased.

Herring and Litan (1995) have discussed the complexities that exists as a result of multiple organisations being involved in cooperation agreements due to the challenges of many channels. Cooperation agreements are in favour of national regulators because they enhance their authority and provide a more effective way of enforcement and supervision. However, sometimes such agreements are not welcomed by the national legislature because they ultimately provide financial regulatory agencies with greater authority to communicate at an international level (Verdier, 2013). This creates a situation of complexity for both the international and national financial regulators where multiple channels for communication exist between them making the task of cooperation difficult. These factors create a domino effect and result in diminishing the efforts put forward by international financial regulatory and supervisory agencies to deliver the policies formulated efficiently (refer to table 6.2).

6.4. Summary

The chapter discussed the last global theme that was developed from the responses received from the interviews conducted. The theme focused on understanding the problems that are faced by international financial regulatory organisations in delivering their strategies. To analyse the challenges faced, the theme was further divided into two organising themes.

The twelfth organising theme discusses the barriers that hinder the implementation of international financial regulation. From the data collected, the first barrier that was identified concerned the legal and cultural differences. Information gathered from both the respondents and the literature review lines up with the fact that the presence of different legal systems and cultural aspects act as a barrier to proper implementation. Politics was identified as the second barrier. Since IFR is independent of local/national politics, the politicians try to influence the national regulatory bodies and hence hinder the processes bought forward by the IFR.

Power was the third barrier as per the data collected. The data indicates that whether it concerns a country, a group of countries or an organisation, power creates fear and hence is opposition. The national regulatory structure and the inconsistencies in experiences and exposure of management staff were identified as the last two barriers. Both of these barriers are present due to the concentration of resources on a national level. Hence, they are implemented to adhere to the needs of local regions.

The last organising theme analyses the factors that hinder the delivery of standards as described by international financial regulation. The theme identifies six factors in relation to this. The first factor focuses on keeping the national interest. The information shared in the interviews indicates that politicians, the public, the market and financial institutions want to safeguard their interests and the interest of their nation first before calling for international cooperation. The next four factors are dependent on each other: 1) overlapping, 2) complexity, 3) competition, and 4) accountability. These elements hindering the delivery of standards are dependent on each other because the regulations and standards placed by IFR may be similar to that placed by national regulatory organisations, and would lead to the overlapping of regulations. The overlapping of organisations leads to a complexity of work and an increase in accountability for financial institutions. Competition is created due to the need to dominate both the national and international financial regulatory bodies. Hence, all these four factors make it tedious for the IFR to deliver on its policies. The last factor that was identified is the channel of cooperation. However, the prevailing characteristic is actors displaying a desire to protect their interests. Hence, there is reduced cooperation which causes difficulties for any international financial regulator to operate and deliver properly.

CHAPTER SEVEN

CONCLUSION

7.1. Introduction

To conclude the study, this chapter presents the key findings deduced during the research. The study as a whole was undertaken to build upon the existing understanding of theories of financial regulation, those addressing the organisational structure of financial regulation and supervision. In addition, the study was undertaken to extend current knowledge of international financial regulations in terms of how to harmonise the international standards and enhance cross-border cooperation. These conclusive points are made based on the analysis of the interview responses and the literature review.

The chapter hence presents a clear definition of how each objective is achieved whilst listing the findings. Policy recommendations are stated to apply the findings efficiently based on personal understanding of the research topic. The chapter also presents the limitations incurred during the research and provides recommendations for future work. The chapter ends by presenting a summary of remarks relative to research.

7.2 Findings of the Study

Three objectives in undertaking this research were all aimed at harmonising the theories of financial regulation and the organisational structures of international financial regulatory and supervisory organisations, together with enhancing cross-border cooperation. To achieve the aim, the three objectives were decided and undertaken by conducting an extensive literature review and research analysis of the transcripts of all interviews conducted. A semi-structured interviews was conducted and the research analysis of the interview transcripts identified five global themes and 30 organising themes towards the goal of completing the aims and objectives of the study. The completion of each objective has thus laid the foundation for achieving the aim of the research.

The first objective of the research was to analyse empirically how the organisational structure of financial regulatory and supervisory authorities should be structured, as well as investigating the underlying factors driving structural changes for financial regulatory and supervisory authorities. The data collected through interviews argued the benefit and drawbacks of having central banks as financial supervisory bodies but, in the end, concluded that central banks are beneficial when acting as a supervisory body. The argument was supported by factors such as the ability of the central bank to deal with crises due to control over the monetary system and its independence from political interference that places it in a position of power. Inconsequently enables the central bank to govern financial institutions and to yield its power to control market liquidity. The study concludes that the adaptation of any organisational structure is dependent on the behaviour of the local market and factors that seem fit for a particular government of a region. The study also found that once a crisis emerges, a financial regulatory and supervisory body undergoes a series of changes - structural, political and market change. The research indicates that a structural change may be bought about to rectify the inconsistencies that may have led to crisis. The research revealed that the presence of multiple structures for financial regulatory and supervisory organisations leads to both an increase in costs and a breakdown of communication. Consequently, the researchers suggest that the requirement for promoting communication is to build trust, confidentiality and reduce competition. The analysis conducted here suggests that in order to harmonise the functioning of various financial regulatory and supervisory organisations, structural changes should be introduced.

The second objective of the research was to investigate and analyse factors critically influencing the effectiveness of the organisational structure of financial regulatory and supervisory authorities. The organisational structure impacts the operations of an organisation that ultimately relates to the effectiveness of the financial regulatory and supervisory organisation. To address this issue the research focused on collecting data that would identify external and internal factors that impact the operations of an organisation along with the influence of human culture on an organisation. The research indicates that the effectiveness of organisational structure is influenced by factors such as overlapping responsibilities, multiple channels of operations, competition between various regulatory organisations and the accountability of employees. The presence of multiple stakeholders such as politicians, governments, public and market forces also have an impact on the operations and effectiveness of the organisational structure. Furthermore, the interviews resulted in establishing factors such as power, position, completion for resources, quality of staff members and technology as some factors that impact the effectiveness of the organisational structure from within the organisation. The results further indicated that human behaviour and culture has a deep impact on the operations of an organization. it was found that human behaviour is subject to the decision-making capabilities, biases, norms and culture of individuals which impact the effectiveness of an organisational structure. Financial regulatory and supervisory organisations need to understand the importance of cultural behaviour while designing their organisational structure in order to prevent any cultural or personal sentiments of its staff members.

The third objective of the study was to investigate how to harmonise the international standards and enhance cross-border cooperation for the international financial regulatory authority. The focus of the objective arises from the need of having global policies that would enable business to operate across boarders without the complexity of following multiple regulatory and supervisory policies. The presence of different polices and regulations increases the complexity and cost for international business to operate at optimum efficiency. To achieve this objective, the research focused on identifying barriers and the limitations of the international financial regulatory organisation. The study found that the development of the international regulatory and supervisory organisation to the globalised market and complicated standards. The study also found that the international regulatory and supervisory organisation is governed by the G20, a group of the twenty leading economies of the world that give huge power to small number of jurisdiction. Here, the research analysis concluded that to harmonise the international standards and enhance cross-border cooperation organisations should be independent of political will and power, working to increase cooperation with regulatory and supervisory organisations present at the national level. The research founds that in attempting to secure international financial regulation, the advanced economies of the world have great power and influence over financial regulations and they exert this power primarily to protect their interest. The study indicated that the cultural and legal dissimilarities existing around the globe are one of the fundamental barriers that international financial regulatory organisations face when working across international borders. The research also concluded with the finding that the financial regulatory and supervisory organisations existing at the national level act as a barrier and a limitation for implementing international financial regulations.

7.3 Policy Recommendations

Based on the findings in 7.2, the study successfully provides recommendations on how the organisational structure of financial regulatory and supervisory authorities should be structured and operated. In addition, the study also provides recommendations on how an effective international financial regulatory framework should look like considering two aspects: harmonising international standards and enhancing cross-border cooperation.

It is recommended that to achieve stable structure of the financial regulatory and supervisory organisations the central bank should be involved at the time of determining the roles, responsibilities and regulations of such organisations for several reasons; first, due to liquidity power. Second, because of nature as bank that holds information regarding the whole financial system and economy. Third, central bank known for its power in recruiting and facing politicians and governments. Fourth, it is recommended that when central bank becomes part of financial regulation and supervision it enhances the communication and cooperation. Lastly, central bank known to be well of and therefore can afford recruiting very competent staff. It is also recommended that the prudential and conduct of business regulation will operate better if they are merged within one organisation and that should promote the regulator and supervisor of the financial system with better understanding the financial system as a whole. However, it is suggested that the financial regulatory body should be aware of the differences in the financial system including banking, insurance and securities. The study has also evaluated the importance of organisational structure and factors that drive changes in the structure of a financial regulatory and supervisory body. In this aspect the research recommends that policy makers should clearly define the objectives that are indented for an organisation to serve. A clear picture of the organisation's objective would enable the organisation to effectively administrator and achieve its needs. Furthermore, policy makers should reduce the duplicity of organisational structures which leads to difficulties in defining clear roles and objective of the organisation, increase difficulties in information sharing and results in increasing the cost of operations as well. Defining clear structures and boundaries of financial regulatory and supervisory organisations by policy makers would result in better communication, reduction in costs, cultural amalgamation and a defined process for information sharing. The research also recommends that to limit the impact of external factors on the financial supervisory and regulatory body it is essential that the structure of these organisations be independent from politicians, governments, public and the financial sector. This would cushion the organisation from changes in the government and allow a stable organisation structure.

In relation to operations of the financial regulatory and supervisory organisations the research advises that there should be minimum outside influence on the operational activities of the organisations. To achieve this, it is recommended that policies be framed in a manner that limit the influence of government, politician and public on the organisations. To achieve this polices can be framed that mandates transparent work environment allowing for transfer of information to all stakeholders that impact the operation activities because politicians blamed to interfere only when they are trying to show off the public or when there is new government take over which make their interference not welcomed. On the other hand, inside the organisations it is recommended that regulator should reduce competition because regulators found to compete for power, for influence and for resources. The quality of management is another factor that is recommended in this research to be aware about as sometime when the top level management change the whole organisation tend to change with the new management knowledge and expertise. The human culture has been identified as one of the factors that influence the operations of an organisation. Since financial regulatory and supervisory bodies maintain international relations, strict policies are required to be framed that avoid any cultural conflict at the work place and encourage human individuals to interact to promote cooperation and communication at both national and international level. For maximum operational efficiency it is also recommended that the organisation frames policies that focus on quality of staff, improvement in working conditions, adaptation of technology and equal distribution of resources in order to gain a knowledgeable and motivated staff member. Furthermore, it is recommended that the HR policies framed for recruiting staff members should focus on their knowledge and desires. Incorporating a diverse staff from various cultural backgrounds would allow financial regulatory and supervisory bodies to achieve a better operational performance.

To address the barriers that are faced by the international financial supervisory and regulatory bodies the research recommends that the organisation should adopt policies that make it mandatory for them to understand the legal repercussion of their regulations before enforcing them. Secondly policies should be framed that allows for integration to international and national regulatory organisations this would reduce redundancy, increase corporation, increase ease of doing business and limit competition. Thirdly it can be recommended from the results of the study that frameworks should be available for both international and national regulatory organisations to ensure accountability of any action. Furthermore, a proper channel of cooperation that is continuously monitored needs to be established for an IFR to keep a check on accountability, redundancy and competition. It is also recommended that international regulators should be aware of the level of maturity of national regulator as some developing country would not have the skills and resources required to comply with advanced international standards. It is suggested that the level of trust at international level should be promoted to enhance cooperation and communication and that can be achieved through introducing the culture of openness at the national level and to encourage individual to communicate internationally. National interest comes with its drives and desires and some national regulators strive for making competitive advantages, hence, it is recommended that international regulator introduce policies that tackle such issues and encourage international motivation drive.

7.4. Limitations of the Study

The research presented itself with certain limitations that might affect the proposed framework. The information collected during research lacked quantitative and empirical data, focusing more on qualitative data. The lack of available quantitative data in terms of practicality, cost-saving and benefits of management practices has hindered the findings of the research in generating a better understanding of the application of these practices. In addition, empirical evidence and cross-comparative analysis would have offered additional information on the structure and operations of international financial regulatory and supervisory bodies.

The research used a small group of people from different backgrounds in the industry to validate the data and develop an understanding of the barriers, thereby providing sufficient knowledge to validate the proposed recommendations. The researcher acknowledges that there may be greater variation of opinions when applied to a larger sample set, given that the data collected is subject to individual opinions and beliefs. The research faced challenges while contacting regulators and supervisors from various financial regulatory and supervisory organisations from across the globe. Not everyone who was approached was eager or even willing to participate in the survey, and even some of those who participated were reluctant to provide the responses required.

The research was specific to the structure and operational side of a financial regulatory and supervisory organisation, focusing on a handful of countries and regulators. The research is thus limited to the theoretical applications of the concept and has not analysed the practical effectiveness of the recommendations. The recommendations also suggested that disturbances not be accounted caused by any factors outside human control. However, the present research offers much-needed insights regarding the structure and operations of financial regulatory and supervisory organisations, which can be built upon as the basis of further development of research in the related field. The research also faced limitation due to the outbreak of COVID-19 which prevented the free movement of the researcher. The inability to meet regulators personally and observe them at their place of operations has limited the input of practical knowledge that would have been gained while visiting a financial regulatory and supervisory organisation.

7.5. Suggestions for Future Research

The research conducted here contributes much-needed knowledge towards the understanding of the operations and structure of financial regulatory and supervisors organisations. However, certain limitations were noted during the research, as discussed in the previous section (section 7.4). Understanding these limitations helped to identify areas where future research can be conducted. This section discusses suggestions for future work.

Since the work presented in this report is qualitative, a quantitative analysis of the same topics could be carried out. To do so, weightage would have to be assigned to each parameter; that is, to the barriers and influencers that are faced by the financial regulatory and supervisory organisations. Nonetheless, application of the quantitative analysis would help in developing further knowledge with regard to which barriers require more attention and which factors influence the financial regulatory and supervisory organisations more deeply.

Further work could also be carried out specifically on the impact of natural factors on the structure and operations of the financial regulatory and supervisory organisations. The year 2020 presented the global Covid-19 pandemic for which there was no precedent and, in many ways, the pandemic has deeply affected the structures and operations of every organisation. A study looking at the impact of the pandemic might be conducted to help prepare financial regulatory and supervisory organisations to deal with such situations in the future.

Finally, the current research took a global approach towards understanding the structure and operations of financial regulatory and supervisory organisations. More specific research could then be undertaken to understand the regional cooperation, operations and the structure of financial regulatory and supervisory organisations.

The study used the views and knowledge of participants from different fields concerning the financial regulatory and supervisory organisations and used their collective experiences. We would recommend that the research be broken down further for an in-depth analysis where a large sample size would be selected from a particular domain of the financial regulatory and supervisory organisation. This will enable us to generate more concrete data in terms of opinions, barriers and willingness to implement the proposed recommendations.

7.6. Closing Remarks

The study has conducted an extensive analysis concerning the structure and operations of financial regulatory and supervisory organisations. The study has identified various barriers such as lack of communication, overlapping responsibilities and functions and the power, competition, redundancies costs and issues of human culture which then create difficulties for harmonisation and cooperation between various international and national financial supervisory and regulatory organisations. The study also identified the following factors: the role of the central bank; political, government and public will; financial difficulties; market trends and international trends that influence the structure and operations of financial regulatory and supervisory bodies.

This study analysed these factors with the help of an in-depth literature review and research analysis. The literature review provided a base to construct the questions for the interview. The interview questions were then developed to expand the knowledge gained from the literature. The results obtained were in agreement with much of the literature and provided more information in regards to the topic.

In conclusion, this study has been able to achieve the intended aims and objectives it set out to address. The research offers recommendations that would aid in harmonising the structure and operations of financial regulatory and supervisory organisations.

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Appendix A: Letter of Ethical Approval (redacted)

Kingston University London

FREC 18 15: Structure and Operations of Financial Regulatory and Supervisory Authority

Dear Mohammed

Further to the submission of your project entitled 'Structure and Operations of Financial Regulatory and Supervisory Authority' for review, the Faculty Research Ethics Committee has given approval for you to proceed.

With kind regards

Appendix B: Letter of Information and Consent

INFORMATION AND CONSENT

Dear,

I, Mohamed Aljarallah, am a PhD researcher at Kingston University London. The purpose of my study is to investigate how the structural change of the financial regulatory bodies affect the financial supervision and how to achieve an optimal structure considering prudential, conduct of business regulation and the position of the central bank for an efficient regulatory and supervisory framework. This study will also investigate how the international financial regulatory structure is limited to preforming well. In addition, this study will examine how theories should shape financial regulation so as to enhance social welfare.

I will be interviewing senior financial regulators and supervisors, and I am asking if you would help me with my PhD study. I am doing this study to find out the perspective of regulators and supervisors on the research area of investigation to achieve an optimal structure for an efficient regulatory and supervisory framework. If you agree, the interview could be done across Skype (or over the telephone) if your schedule does not permit an actual meeting. It will be between 30 to 40 minutes' interview.

The interview will be recorded: however, all interview transcripts would also be sent to interviewees for approval before use in the research. All information gained from you will be maintained in a strictly confidential manner. The only people who will have access to the information will be I Mr Mohamed Aljarallah and my supervisors; Dr Mohamed Nurullah and Professor George Saridakis. After the project, all raw data that can identify individuals will be destroyed. In the reporting of the project, no information will be released which will enable the reader to identify who the respondent was.

If you have any questions or problems, please do not hesitate to contact me. The final results would be sent to participants for comments and for their knowledge. I would very much value your input to the development of this research and would appreciate if you are able to confirm your agreement to be interviewed. No incentives are provided.

Yours sincerely,

Contact details:
1. Researcher contact details in case of query (redacted)

WRITTEN CONSENT TO PARTICIPATE IN A RESEARCH STUDY

Statement by participant

- I confirm that I have read and understood the information sheet/letter of invitation for this stu I have been informed of the purpose, risks, and benefits of taking part.

Structure and Operation of Financial Regulatory and Supervisory Authority

- I understand what my involvement will entail and any questions have been answered to satisfaction.
- I understand that my participation is entirely voluntary, and that I can withdraw at any time with prejudice.
- I understand that all information obtained will be confidential.
- I agree that research data gathered for the study may be published provided that I cannot be identified as a subject.
- Contact information has been provided should I (a) wish to seek further information from the investigator at any time for purposes of clarification (b) wish to make a complaint.

Participant's Name:

Participant's Signature:

Date:

Statement by investigator

- I have explained this project and the implications of participation in it to this participant withoı bias and I believe that the consent is informed and that he/she understands the implications participation.

  Name of investigator: Mohamed Aljarallah
  Signature of investigator:

  Date:

Appendix C: Invitation Letter to Participate for Individuals

Dear,

I am contacting you in regards to research I am carrying out in support of my doctoral thesis -on the Structure and Operation of Financial Regulation- through your LinkedIn profile, where I recognise your work experience and believes you might be able to assist me. I have already conducted face to face interviews with regulatory professionals and organisations nationally and internationally across the globe.

I would be very grateful to you if you could spare 30 minutes of your time to participate in my research by Skype/Telephone interview at your convenience. If in principle you feel open to participating in the research, I would be grateful for your response by to my message.

I would be happy to offer more details regarding the nature and methodology of the research.

Best Regards,
Mohamed Aljarallah

[contact details redacted]

Appendix D: Invitation Letter to Participate for National and International Financial Regulatory and Supervisory Organisation

Dear Sir or Madam,

I am contacting you in regards to research I am carrying out in support of my doctoral thesis -on the Structure and Operation of Financial Regulation- as a Central Bank I believe you are in the best position to assist me. The main contribution of my research is to present the voice of the regulators.

I have already conducted face to face interviews with regulatory professionals and organisations, eg the IMF, the Hong Kong Monetary Authority, the European Central Bank, among others. I would be very grateful to you if you could facilitate an official to participate in my research by way of either a face to face interview, time and venue at your convenience, or a Skype interview.

If in principle you feel open to participating in the research, I would be grateful for your response by return of email. I would be happy to offer more details regarding the nature and methodology of the research.

Best Regards,
Mohamed Aljarallah

[contact details redacted]

Appendix E: List of the National Regulatory Authorities and Supervisory Agencies

Country	Agency	Country	Agency	Country	Agency
Albania	Bank of Albania	Maldives	Maldives Monetary Authority	Pakistan	State Bank of Pakistan
Algeria	Bank of Algeria	Malta	Central Bank of Malta	Palestine	Palestine Monetary Authority
Angola	National Bank of Angola		Malta Financial Services Authority	Panama	National Bank of Panama (Banco Nacional de Panamá)
Anguilla	Financial Services Commission	Mauritius	Bank of Mauritius		Superintendency of Banks of the Republic of Panama
Argentina	Central Bank of Armenia	Mexico	Comisión Nacional Bancaria y de Valores	Papua New Guinea	Bank of Papua New Guinea
Aruba	Central Bank of Aruba	Moldova	Republic of National Bank of Moldova	Paraguay	Central Bank of Paraguay
Australia	Reserve Bank of Australia	Montserrat	Financial Services Commission	Peru	Superintendencia de Banca y Seguros
	Australian Prudential Regulation Authority	Morocco	Bank of Morocco	Philippines	Central Bank of the Philippines (BangkoSentral ng Pilipinas)
Austria	National Bank of the Republic of Austria	Mozambique	Bank of Mozambique	Poland	Narodowy Bank Polski
	Austrian Financial Market Authority	Myanmar	Central Bank of Myanmar		Polish Financial Supervision Authority
Azerbaijan	The Central Bank of the Republic of Azerbaijan	Namibia	Bank of Namibia	Portugal	Bank of Portugal

Bahamas	Central Bank of the Bahamas	Nepal	Central Bank of Nepal (NepalRastra Bank)	Puerto Rico	Office of the Commissioner of Financial Institutions
Bahrain	Central Bank of Bahrain	Netherlands	Netherlands Bank	Qatar	Qatar Central Bank
Bangladesh	Bangladesh Bank	New Zealand	Reserve Bank of New Zealand		Qatar Financial Centre Regulatory Authority
Barbados	Central Bank of Barbados	Nicaragua	Superintendencia de Bancos y OtrasInstitucionesFinancieras	Romania	National Bank of Romania
Belarus	National Bank of the Republic of Belarus	Nigeria	Central Bank of Nigeria	Russian Federation	Central Bank of the Russian Federation
Belgium	National Bank of Belgium		Nigeria Deposit Insurance Corporation	Rwanda	National Bank of Rwanda
Belize	Central Bank of Belize	North Macedonia, Republic of	National Bank of the Republic of North Macedonia	Samoa	Central Bank of Samoa
Bermuda	Bermuda Monetary Authority	Norway	Central Bank of Norway	San Marino	Central Bank of the Republic of San Marino
Bhutan Royal	Monetary Authority of Bhutan		Finanstilsynet (The Financial Supervisory Authority of Norway)	Saudi Arabia	Saudi Arabian Monetary Authority
Bolivia	Central Bank of Bolivia	Oman	Central Bank of Oman	Serbia	National Bank of Serbia
	Autoridad de Supervisión del Sistema Financiero	The organisation of Eastern Caribbean States (OECS)	Eastern Caribbean Central Bank	Seychelles	Central Bank of Seychelles

Bosnia and Herzegovina	Banking Agency of Republika Srpska	Haiti	Bank of the Republic of Haiti	Sierra Leone	Bank of Sierra Leone
	Banking Agency of the Federation of Bosnia and Herzegovina	Honduras	Central Bank of Honduras	Singapore	Monetary Authority of Singapore
Botswana	Bank of Botswana		Comisión Nacional de Bancos y Seguros	Slovakia	National Bank of Slovakia
Brazil	Central Bank of Brazil	Hong Kong	Hong Kong Monetary Authority	Slovenia	Bank of Slovenia
Brunei Darussalam	Monetary Authority of Brunei Darussalam	Hungary	Magyar Nemzeti Bank (Central Bank of Hungary)	Solomon Islands	Central Bank of Solomon Islands
Bulgaria	Bulgarian National Bank	Iceland	Central Bank of Iceland	South Africa	South African Reserve Bank
Burundi	Bank of the Republic of Burundi		Financial Supervisory Authority of Iceland	Spain	Bank of Spain
Canada	Office of the Superintendent of Financial Institutions	India	Reserve Bank of India	Sri Lanka	Central Bank of Sri Lanka
Cape Verde	Bank of Cape Verde	Indonesia	Bank Indonesia	Sudan	Bank of Sudan
Cayman Islands	Cayman Islands Monetary Authority	Iran, the Islamic Republic of	The Central Bank of the Islamic Republic of Iran	Suriname	Central Bank of Suriname
The central African Republic	Commission Bancaire de l'Afrique Centrale	Ireland	Central Bank of Ireland	Sweden	SverigesRiksbank
Chile	Banking and Financial Institutions Supervisory Agency	Isle of Man	Financial Supervision Commission		Finansinspektionen
China	The People's Bank of China	Israel	Bank of Israel	Switzerland	Swiss National Bank
	China Banking Regulatory Commission	Italy	Bank of Italy		Swiss Financial Market Supervisory Authority (FINMA)

Colombia	SuperintendenciaFinanciera de Colombia	Jamaica	Bank of Jamaica	The Syrian Arab Republic	Central Bank of Syria
Congo, the Democratic Republic	Central Bank of Congo	Japan	Bank of Japan	Tajikistan	National Bank of the Republic of Tajikistan
Cook Islands	Financial Supervisory Commission		Financial Services Agency	Tanzania, United Republic of	Bank of Tanzania
Costa Rica	Central Bank of Costa Rica	Jersey	Jersey Financial Services Commission	Thailand	Bank of Thailand
	Superintendencia General de EntidadesFinancieras (SUGEF)	Jordan	Central Bank of Jordan	Tonga	National Reserve Bank of Tonga
Croatia	Croatian National Bank	Kazakhstan	Astana Financial Services Authority	Trinidad and Tobago	Central Bank of Trinidad and Tobago
Cuba	Central Bank of Cuba	Kenya	Central Bank of Kenya	Tunisia	Central Bank of Tunisia
Curaçao	Central Bank of Curaçao and Sint Maarten	Korea, Republic of	Bank of Korea	Turkey	Central Bank of the Republic of Turkey
Cyprus	Central Bank of Cyprus		Financial Supervisory Service		Banking Regulation and Supervision Agency
Czech Republic	Czech National Bank	Kosovo	Central Bank of the Republic of Kosovo	Turkmenista n	Central Bank of Turkmenistan
Denmark	Danmark National bank	Kuwait	Central Bank of Kuwait	Turks and Caicos Islands	Financial Services Commission

	Danish Financial Supervisory Authority	Kyrgyzstan	National Bank of the Kyrgyz Republic	Uganda	Bank of Uganda
Dominican Republic	Superintendencia de Bancos	Latvia	Financial and Capital Market Commission	Ukraine	National Bank of Ukraine
Ecuador	Superintendencia de Bancos	Lebanon	Central Bank of Lebanon	United Arab Emirates	Central Bank of the United Arab Emirates
Egypt	Central Bank of Egypt	Lesotho	Central Bank of Lesotho		Dubai Financial Services Authority
El Salvador	Central Reserve Bank of El Salvador	Libya, State of	Central Bank of Libya	United Kingdom	Bank of England
	Superintendencia del Sistema Financiero	Liechtenstein	Financial Market Authority		Prudential Regulation Authority
Estonia	Bank of Estonia	Lithuania	Bank of Lithuania		The Financial Conduct Authority
	Estonian Financial Supervision Authority	Luxembourg	Central Bank of Luxembourg	United States	Board of Governors of the Federal Reserve System
Eswatini	The Central Bank of Eswatini		Commission de Surveillance du Secteur Financier		Federal Deposit Insurance Corporation DC
Ethiopia	National Bank of Ethiopia	Macao	Monetary Authority of Macao		New York State Department of Financial Services
Fiji	Reserve Bank of Fiji	Madagascar	Central Bank of Madagascar		Office of the Comptroller of the Currency
Finland	Bank of Finland	Malawi	Reserve Bank of Malawi	Uruguay	Central Bank of Uruguay
	Financial Supervisory Authority	Malaysia	Central Bank of Malaysia	Uzbekistan	Central Bank of the Republic of Uzbekistan
France	Autorité de ContrôlePrudentiel et de Résolution	Greece	Bank of Greece	Vanuatu	Reserve Bank of Vanuatu
The Gambia	Central Bank of The Gambia	Guatemala	Superintendencia de Bancos		Vanuatu Financial Services Commission
Georgia	National Bank of Georgia	Guernsey	Guernsey Financial Services Commission	Venezuela	Superintendencia de Bancos y OtrasInstitucionesFinancieras

Germany	Deutsche Bundesbank	Guinea	Central Bank of the Republic of Guinea	Vietnam	State Bank of Vietnam
	Federal Financial Supervisory Authority	Guyana	Bank of Guyana	Virgin Islands, British	Financial Services Commission
Ghana	Bank of Ghana	Gibraltar	Financial Services Commission	Zambia	Bank of Zambia
				Zimbabwe	Reserve Bank of Zimbabwe

Source: BIS (2018)

Appendix F: PhD Interview Topic Guide and Questions

PhD Interview Topic Guide

Interview objective:

- The organisational structure of financial regulation and supervision: To propose recommendations on how it should be designed
- The organisational structure of financial regulation and supervision: To explore underlying factors driving the structural change
- Delivering financial regulation and supervision: To identify external and internal factors affecting the operation of financial supervision
- Delivering financial regulation and supervision: To assess the impact of human component within the regulatory and supervisory authority
- International financial regulation: To identify the main factors impacting the implementation of IFR and forecasting implications for the way forward
- **Target:** Senior Financial Regulators and Supervisors

Interview format: (face to face – telephone/Skype) interviews scheduled to take 30 - 60 minutes. No incentive provided.

Interview date:	
Interview time:	
Company name:	
Address:	
Web address:	
Interviewee name:	
Email address:	
Interviewee job role:	
Interviewee organisation:	(what business is it in?)
Industry sector:	(public/ private/ not-for-profit)

I, Mohamed Aljarallah, am a PhD student at Kingston University London. There are three primary aims of this study. The first aim is to build up on the existing understanding on theories of financial regulation and the organisational structure of financial regulation and supervision in line with the existing of literature. The second aim is to provide insight of what limit the regulators and supervisors to deliver their functions and enhancing our understanding on the cultural and human aspect of their organisations. The third aim is to extend the existing understanding of the theories of international financial regulation and how best to deliver international financial regulation. I will be interviewing senior financial regulators and supervision

As indicated in the email/letter I would like to ask some questions relating to what you think about the structure and operation of financial regulation at the national level and how to promote the effectiveness of the international financial regulatory framework.

I need to check that you are happy for me to record this interview. I am interviewing a number of people in the next four months and will be providing you with your interview transcript to verify for use in my research. This will provide you with the opportunity to check your transcript and add any comments you wish. Also, just to note that these interviews are confidential and your responses will remain completely anonymous.

CONTEXTUAL INFORMATION: POPULATION PROFILE.

For the scope of this research senior financial regulator and supervisor defined as an professional who have worked/is working to a financial regulatory and supervisory body either nationally or internationally.

Q1. Talk to me about your work experience in terms of positions and roles?

Q2. Could you provide information about your educational background?

Q3. Do you have any work experience in the financial sector?

KEY THEMES:

1. IDENTIFYING THE REGULATORS AND SUPERVISORS PREFERENCE ON THE ORGNISATIONAL STRUCTURE

For the scope of this research we define the organizational structure as how the national and international body is designed (i.e. Institutional Structure, Functional Structure, Twin Peaks, and Single Structure)

Q4. In relation to the organizational structure we're talking about, can you talk to me about your current structure?

Q5. Do you think this structure was sufficient enough to stop the recent financial crisis? What do you think was missing?

Q6. What regulatory and supervisory scope of business you feel is appropriate? Should there be integrated agencies for each financial sector or should it be a single agency for the whole financial system? Why?

Q7. Should prudential and conduct of business regulation and supervision be structured under one agency or should be separated?

2. EFFECTIVENESS OF THE RELATIONSHIP BETWEEN THE CENTRAL BANK AND THW REGULATORY AND SUPERVISORY AUTHORITY

Q8. What role should the central bank have in in the regulatory and supervisory process?

- If the answer is to involve:

Q9. What about moral hazard? bureaucracy effect? power centre?

- If the answer is not to involve:

Q10. What about reputational damage? Independent? Lender of last resort? Accountability? Banking sector?

3. FACTORS INFLUANCING HAVING EFFICIENT INTERNATIONAL FINANCIAL REGULATORY BODIES

Q11. In relation to the organizational structure we're talking about, what institutional mechanisms are most efficient at facilitating international coordination and cooperation amongst national regulatory agencies?

Q12. Based on your experience, how important is to achieve commonality for an efficient international financial regulatory agency?
Prompts:

- Licensing
- Supervision style
- Capital requirements
- Assessment of risk management
- Corporate governance
- Rating system
- Accounting system
- Penalties

Q13. What factors do you feel are limiting achieving efficient international financial regulatory agency?
Prompts:

- International standard
- Domestics government preferences
- Different national organizational structure
- Political preferences
- Structure of the financial sector
- Different regulatory scope

4. UNDERSTANDING THE PREFERNCE OF THE REGULATORY AND SUPERVISORY APPROACH OF REGULATING AND SUPERVISING THE FINANCIAL SYSTEM

Q14. Who do you think should involve in the regulatory and supervisory process and decision? Only regulatory experts or others; for example, researchers and public?

Q15. What role, if any, is there for competition authorities in the regulatory process?

Q16. Does institutional structure have a bearing on the cost of regulation?

Q17. What degree of political independence should regulatory and supervisory agency have?

Q18. What degree of coordination is required between different agencies, such as supervisory agencies, central bank and finance ministry, and what mechanism is required to ensure best coordination and information sharing?

Q19. How do you think various regulators and supervisors should get ideas, concerns and experience from consumers, small and large participants and users of financial services?

Q20. Where should regulatory and supervisory staff come from?

Q21. Why do you think we change the organizational structure?

Appendix G: List of the Participant's Demographic Information

No	Background	Degree	Field of Study	Industry	Position Status	Position Held	Region
1	Prudential	MSc	Politics	Banking	Retired	Department Head	DD
2	Prudential	PhD	Math	Banking	In-position	Director	DD
3	Prudential	PhD	Management	Banking	In-position	Deputy Governor	DD
4	Prudential	PhD	Economic	Banking	Retired	Department Head	DD
5	Prudential	PhD	Economic	Insurance	In-position	Department Head	DD
6	Prudential	MSc	Finance	Insurance	Retired	Department Head	IO
7	Conduct of Business	PhD	Law	Banking	In-position	Advisor	DD
8	Conduct of Business	MSc	Law	Security	In-position	Senior Manager	DD
9	Prudential	MSc	Management	Banking	In-position	Advisor	DD
10	Prudential	MSc	Economic	Banking	In-position	Director	DD
11	Conduct of Business	PhD	Economic	Banking	In-position	Director	DD
12	Prudential	BSc	Math	Banking	In-position	Department Head	IO
13	Prudential	MSc	Economic	Banking	In-position	Department Head	IO
14	Conduct of Business	BSc	Politics	Banking	In-position	Senior Manager	DD
15	Prudential	MSc	Finance	Banking	Retired	Department Head	DD
16	Prudential	BSc	Economic	Banking	In-position	Advisor	IO
17	Prudential	MSc	Finance	Insurance	Retired	Senior Manager	DD
18	Prudential	PhD	Finance	Banking	In-position	Director	IO
19	Prudential	MSc	Finance	Banking	Retired	Advisor	DD
20	Prudential	BSc	Economic	Banking	In-position	Department Head	DD
21	Conduct of Business	BSc	Law	Banking	In-position	Deputy Governor	DD
22	Prudential	MSc	Math	Banking	In-position	Director	DD

23	Conduct of Business	MSc	Management	Banking	Retired	Director	DD
24	Prudential	PhD	Economic	Banking	In-position	Senior Manager	DD
25	Prudential	PhD	Politics	Insurance	Retired	Director	DD
26	Conduct of Business	BSc	Law	Banking	In-position	Advisor	DD
27	Prudential	MSc	Finance	Banking	In-position	Advisor	DE
28	Prudential	MSc	Economic	Banking	In-position	Department Head	DE
29	Conduct of Business	MSc	Law	Security	In-position	Senior Manager	DE
30	Prudential	MSc	Management	Insurance	In-position	Director	DE
31	Conduct of Business	MSc	Finance	Security	Retired	Department Head	DE
32	Conduct of Business	BSc	Law	Security	In-position	Director	DE
33	Prudential	MSc	Finance	Banking	Retired	Deputy Governor	DE
34	Prudential	BSc	Math	Insurance	Retired	Director	DE
35	Prudential	PhD	Math	Security	In-position	Department Head	DE
36	Prudential	MSc	Finance	Banking	In-position	Director	DE
37	Conduct of Business	PhD	Politics	Banking	Retired	Advisor	DE
38	Prudential	MSc	Finance	Insurance	In-position	Director	DE
39	Conduct of Business	PhD	Law	Security	Retired	Director	DE
40	Prudential	PhD	Finance	Banking	In-position	Senior Manager	DE
41	Conduct of Business	MSc	Finance	Banking	In-position	Department Head	DE
42	Prudential	MSc	Economic	Banking	In-position	Director	DE
43	Prudential	PhD	Economic	Banking	In-position	Senior Manager	IO
44	Conduct of Business	PhD	Law	Banking	Retired	Director	IO

Source: own compilation

Appendix H: List of Developed and Developing Economies along with International Financial Organisations that Participated in the Research

No.	Developed Economy	Developing Economy	International Financial Organisation
1	Canada	Tunisia	European Central Bank (ECB)
2	UK	Turkey	European Banking Authority (EBA)
3	France	Brazil	European Securities and Markets Authority (ESMA)
4	USA	Nigeria	European Insurance & Occupational Pensions Authority (EIOPA)
5	Estonia	Saudi Arabia	European Central Bank
6	Germany	South Korea	International Monetary Fund
7	Ireland	Pakistan	World Bank
8	Bermuda	Kuwait	Bank International Settlement (BIS)
9	Denmark	Jordan	International Association for Insurance Supervisors (IAIS)
10	Netherlands	United Arab Emirates	International Organisation of Securities Commissions (IOSCO)
11	Italy	Lebanon	The Institute of International Finance
12	Portugal	Egypt	The Group of Thirty
13	Iceland	Qatar	
14	Belgium	India	
15	Australia	Jamaica	
16	Hong Kong		

Source: own compilation

Appendix I: From Codes to Themes and from Organising Themes to Global Themes

Codes	Issues discussed	Themes identified	Organising Themes	Global Themes
Regulatory Structure				
1. CB involvement	• Failure • Sources • Better understanding • Tools • Stability • Crisis • Conflict • Market development	1. The liquidity of CB makes it in a position to involve 2. CB involvement brings micro and macro together for better understanding and financial stability 3. The crisis shows that CB immediate involvement is crucial for accessing data and liquidity decision making 4. Separating the CB from the regulator side increases the cost of coordination	(1)CB presence is vital	(1)Unity and motion are pillars for a regulatory structure

	• Efficiency • Coordination • Communication			
2. Central Bank power	• Lender of last resort • Deep pockets • Equipped • Not formalistic • Not legally oriented • History • One institution • Independence • Ignorance	5. Liquidity makes CB powerful in terms of recruitment 6. Information makes CB in a powerful position 7. CB is known to be more independent than a regulator which adds power to their work	(2)CB is unique	

3. <u>CB out of date</u>	• Moral hazard • Behind • Innovation • Speed • Dialogue • Globalization • Technology • Mathematics • Human element • Culture change	8. CB criticised for being not willing to change quickly, as market development and innovation is dramatically fast and regulators are always behind. 9. CB rely on a mathematical approach that ignores the human element in the financial market which leads to making them out of date	(3)CB willingness to change	
4. <u>With B&P combine</u>	• Communicate • Coherence • Coordination • Efficiency • Cooperation	10. Having a business of conduct and prudential regulator together for better communication and cooperation 11. Financial products contain both conduct and prudential aspects which mean they have to be seen together	(4)Togetherness works better	

5. With B&P separation	• Unlike • Focus	12. Business of conduct and prudential are so unlike each other in terms of objectives and nature of employees that should be separated 13. Separation enhance the focus of each body to function to their best ability	(5)Concerns to be aware of	
6. Common objectives	• Clear • Overlap • Compete • Will	14. When the organisation objectives aren't common, this leads to the unwanted organisation 15. Overlap of responsibilities increase when the objective of any structure is not specified 16. Unclear and precise objectives lead to competitions between organisations and departments	(6)Objectives not defined and explained	(2)Actuality behind structural change
7. Sectoral issue	• Experts • Management • Tools	17. Every sector is unique which requires different experts of skills, tools and management style	(7) Distinctive sectors	

	• Sector-unique • Complex • Knowledge • Unclear • Communication • Information • Weaknesses • Size • Personal • Sector-domain • Limited	18. Knowledge and culture is different between sectors as well as the technical requirements in which it becomes complex to merge regulators 19. Separate the sectors increase the issue of communication and information sharing 20. The size and value of each sector can determine whether merge of regulators can be beneficial or not		

8. <u>Cost of the regulatory structure</u>	• Simplicity • Overlap • The market • Quantity	21. The cost of the regulatory structure is associated with the number of bodies. The more organised it is the costlier it becomes, which also lead to overlaps in terms of responsibilities	(8)Too many structures invite issues	
9. Structural change	• Unclear mandate • Unclear • Unmeasurable • Coordination	22. Organisation structure change quite frequently if the mandates are not clear 23. Measuring structural change is difficult which make the whole process unclear	(9)Effective communication	

	• communication (confidentiality , openness, trust, incentive, • Freshness • Crisis • Efficiency • Market development • Trend • Managerial • Fear • Blame • Politicians	24. Effective coordination and communication is what regulators looking for when they change the structure and that require; openness, trust and incentive 25. Issues that appear during the event of crisis tend to be the reason why the structure changes 26. The development of the market sometimes causes the change of the regulatory structure 27. Some structural change occurs simply because of the international trend, fashion or other countries experiences 28. Structure change due to political change or politicians trying to show they are doing something	(10)External events play a role	

		29. Fear of being blamed can be a driver of structural change		
<u>Regulatory operations</u>				
10. Political interference	• Show off • Personal • Self-interest • Control • Power • Independence • Connection • Change • Market • Lobbying	30. Politicians change the regulatory structure to show the public that they're doing something so they can get elected again 31. The connection between politicians and head of regulators is quite obvious as they come from the same level of schools, universities and clubs and this connection decreases the regulator independence and increases politicians' control and enforcement power 32. Financial conglomerates are powerful to lobby the politicians against the regulators	(11)Politicians seeking power	(3)Regulators demand less external intervention and more internal enhancement

11. Example of political interferenc e	• Government change • Fashion • Crisis • Not understood • Benefits	33. Experience shows that when the government change soon the regulatory structure change 34. It became a fashion that politicians change the regulatory structure after a crisis event or simply copy others 35. Sometimes it's not clear for the regulator why the politicians change the regulatory structure 36. Politicians provide treats and power in exchange for loyalty and agreements	(12)Politicians as a negative value	
12. <u>Ownership</u>	• Supervision efficiency • Supervision independence • Supervision interference	37. When the government ownership of the financial institution increase the supervision efficiency and independence tend to decrease, besides, political interference tend to increase	(13)Close relation not ideal Consequences of relationship	

13. Independent	• To make decision • Efficiency • Market pressure • Market power • Control • Game	38. To make optimal decisions regulators and supervisors require independence from politicians as well as from market pressure which can happen through lobbying the government to their interest 39. Independence is something that can't be avoided due to the senior regulators and politicians are informally connected through schools, universities and clubs at the same time regulators and supervisors can develop a personal relationship with both the market and the politicians, hence, accountability is crucial	(14)Close relation not ideal Consequences of relationship	
14. <u>Technocrat matter</u>	• Know-how • Knowledge	40. Regulators believe that, in carrying out supervision, externals shouldn't be involved, because such a job	(15)Technical skills	

	• Limited	requires certain knowledge and a broader sense of view		
15. General Public	• Undesirable • Unclear • Unbalanced • Unhappy	41. General public involvement is undesirable because usually, this happened through politicians 42. Public voice increases when they're unhappy especially during a crisis event if there's a bailout of a financial firm 43. The general public is not equal to the market in the way they organise and present their voice as well as for lobbying	(16)The general public are incapacitated	
16. Competition of regulators	• Power • Influence • Resources • Cooperation	44. Supervisors tend to compete with each other to gain more power over data, influence the government decision and resources 45. Competition between regulators sometimes is driven by the	(17)Competition as obstructive	

	• Politicians • Confusion • Not good • Market • Confusion • Many players • Attraction • Importance	politicians to gain more power at the national and international level 46. Making regulators compete usually leading to confusion when the financial market applies supervision requirements 47. Competition between regulators can be useful for international financial institution who wish to seek a more relaxed supervisor		
17. Matter of Management	• Power • Too big to manage • Quality • Limitation • Know-how	48. To be able to manage a supervisor organisation at an efficient level you require a power of enforcement 49. The issue of too-big-to-manage applies to both the supervisor organisation as well as the financial firm	(18)Management quality	

	• Management style • Responsibility	50. Quality of management in both the supervisory side and financial firm side can determine the overall quality of both of them during the crisis, as the decision-making process can limit the function of both side 51. Changing a management style is usually happening after changing the head of the organisation. However, what you need is to increase the know-how and the knowledge of the human capital		
18. <u>The regulated entity</u>	• Sector nature • Management • Complexity • Evolving	52. The financial market tends to evolve and develop quite quickly and very complex to manage and the supervisors are always behind 53. The financial market can be very powerful i.e. megabanks with	(19)The market as an influencer	

	• Power • Conflict	balance sheet similar to some GDP which makes their influence over regulators easy 54. Government ownership of the financial firms increase the issue of conflict of interest		
19. <u>Involve IT</u>	• Underestimated • Understanding • Hard • continuously changing • New reality • Change landscape • Quickly	55. The involvement of IT in the financial sector, such as cyber risk, blockchain and other risks of IT is developing continuously and changing the whole sector but is underestimated by the regulators 56. The level of understanding on the regulator's side regarding IT issues seems to be weak and lacking knowledge	(20)Tech is growing	

20. Quality of people	• Attitude • competence • Behaviour • Willingness	57. Regulators and supervisors staff lack competence which makes them in a position to act successfully and efficiently 58. To have a high quality of regulatory cooperation you may need to look at the regulators and supervisors attitude towards their institution or other national or international institution 59. If you want to run a regulatory and supervisory body that act with communication and cooperation first you need to have willingness within the people running such organisations 60. To have high quality regulatory and supervisory bodies; change of people behaviour is crucial as it's found to	(21)Human as a resource	(4)The culture and human environment of regulators is central

		be an important driver of people decision		
21. Culture	• Perspective • Openness • Ego • Differences • Issue • leadership • Attraction • Driver	61. The cultural differences between regulators make it challenging to operate and cooperate at the national and international level; differences include; personality, perspective, power, leadership, behaviour, understanding 62. The regulators and supervisors culture can be an element of attraction for experts to join and a drive for financial firms to choose where to be located	(22)Culture as a drive	
22. Behavioural issue	• People • Institution • Choice	63. Regulators should be aware that people and institution don't always behave rationally 64. Investors should be provided with the necessary information and the	(23)Human aren't always rational	

	• Change	choice of taking a risk because investors have a risk appetite 65. Regulators should encourage behavioural change rather than always thinking about punishing and fining		
23. Human nature	• Incentive • Relationship • Willingness • Ego	66. The incentive should be provided to those who promote institutional interaction 67. Regulators should build a human relationship at both national and international level to promote communication 68. Willingness to communicate and cooperate is a culture that should be spread amongst regulators and supervisors because otherwise the ego will domain	(24)Human interaction	

24. Staffing	• Diversity • Biased • Knowledge • Skills	69. Diversity is a key when staffing a regulatory and supervisory institution to face the market development and that's including; academic background, the industry, other public and non-public fields, fresh graduate and others 70. Regulators and supervisors staff should be always up to date with relevant knowledge and skills so they can predict the future crisis and market innovation	(25)Mix and updated staff	
25. Conflict of interest	• Strange • Different mind-set	71. Moving job frequently between regulators and the market found to be strange as it makes great conflict of interest 72. Being a regulator requires a different mind-set than being a banker	(26)Each side is different	

26. <u>Industry experience</u>	• Critical • Understanding	73. Having an industry experience is critical for regulators to understand how the financial sector is going to operationalise the supervisor's requirements	(27)Understand the market	
27. Salary	• Attraction • Government • Compete • Reward • Incentive • Smart people	74. For the regulators to attract skilled professionals they have to compete with the market salary. Government positions are known to be very low in paying and in providing incentive and reward	(28)Salary as an attraction element	
<u>International Regulation Structure</u>				
28. <u>Direction</u>	• Culture • Legal	75. Different legal and cultural tradition can limit having coherent international regulatory bodies	(29)Dissimilarity creates barriers	(5)Commonality is the solution

	• Democracy • Government • Power • Politics • Lobbying • History • Development • Structure • Market	76. Historical starting point and the level of development is different amongst countries which makes it difficult to be in the same level of understanding for participants in such international institutions 77. The way how national regulator and market structured is affecting the way how they respond and involved in such international institutions 78. Governments and politician's decision on their jurisdiction have an impact on how such international regulator operate 79. Lobbying and political power can have an impact on how the international regulatory institution operate and make decisions.		

29. Non-compulsory	• Tricky • Power • Similarity • Consistency • National interest • Simplicity • Trust • Flexibility	80. International regulatory standards tend to be quite complex and advanced which makes it difficult to be understood and implemented 81. International regulatory institutions are in quite a tricky situation in the sense that they only issue soft power, yet there's no enforcement power - it's more a consensus 82. As the international regulatory body is more optional, the implementation becomes inconsistent due to the national interest which also raises the cooperation issue 83. The level of trust plays a crucial role in how communication and information sharing can move at an international level	(30)Optional regulation creates confusions	

		84. When international implementation is not similar the issue of competitive advantage and regulatory arbitrage arise		

Source: own compilation

Appendix J: List of Emerging Market and Developing Economies (EMDE)

	Fuel	Nonfuel Primary Products
Commonwealth of Independent States		
	Azerbaijan	Tajikistan
	Kazakhstan	Uzbekistan
	Russia	
	Turkmenistan[1]	
Emerging and Developing Asia		
	Brunei Darussalam	Kiribati
	Timor-Leste	Lao P.D.R.
		Marshall Islands
		Mongolia
		Papua New Guinea
		Solomon Islands
		Tuvalu
Latin America and the Caribbean		
	Bolivia	Argentina
	Ecuador	Chile
	Trinidad and Tobago	Guyana
	Venezuela	Paraguay
		Peru
		Suriname
		Uruguay
Middle East, North Africa, Afghanistan, and Pakistan		
	Algeria	Afghanistan
	Bahrain	Mauritania
	Iran	Somalia
	Iraq	Sudan
	Kuwait	
	Libya	
	Oman	
	Qatar	
	Saudi Arabia	
	United Arab Emirates	
	Yemen	
Sub-Saharan Africa		
	Angola	Burkina Faso
	Chad	Burundi
	Republic of Congo	Central African Republic
	Equatorial Guinea	Democratic Republic of the Congo
	Gabon	Côte d'Ivoire
	Nigeria	Eritrea
	South Sudan	Guinea
		Guinea-Bissau
		Liberia
		Malawi
		Mali
		Sierra Leone
		South Africa
		Zambia
		Zimbabwe

[1]Turkmenistan, which is not a member of the Commonwealth of Independent States, is included in this group for reasons of geography and similarity in economic structure.

Sources: IMF in its World Economic Outlook (WEO), April, 2019

Appendix K: List of Advanced Economies (AE)

Major Currency Areas		
United States		
Euro Area		
Japan		
Euro Area		
Austria	Greece	Netherlands
Belgium	Ireland	Portugal
Cyprus	Italy	Slovak Republic
Estonia	Latvia	Slovenia
Finland	Lithuania	Spain
France	Luxembourg	
Germany	Malta	
Major Advanced Economies		
Canada	Italy	United States
France	Japan	
Germany	United Kingdom	
Other Advanced Economies		
Australia	Korea	Singapore
Czech Republic	Macao SAR[2]	Sweden
Denmark	New Zealand	Switzerland
Hong Kong SAR[1]	Norway	Taiwan Province of China
Iceland	Puerto Rico	
Israel	San Marino	

[1]On July 1, 1997, Hong Kong was returned to the People's Republic of China and became a Special Administrative Region of China.

[2]On December 20, 1999, Macao was returned to the People's Republic of China and became a Special Administrative Region of China.

Sources: IMF in its World Economic Outlook (WEO), April, 2019