Bank Supervision: Appointing the Head of the Supervisory Authority

By virtue of bank failures and financial turmoil, the recent financial crisis has highlighted the importance of a well-functioning bank supervision and regulation system. Against this background the World Bank conducted its fourth survey on Bank Regulation and Supervision between 2011 and 2012. The World Bank's survey was addressed to the head of banking supervision in central banks or the head of a separate banking supervision agency. Responses were given by that person or a relevant senior-level staff member and cover the time period of 2008–2010 (Čihák et al. 2012; World Bank 2012).

In its survey the World Bank asked, among other things, about the legal framework of such appointments, the recruiting term and the removal of the head of the supervisory agency. Given that the supervisory authority is part of the central bank in some countries, this question also relates to the appointment of the head of the central bank in such cases. The independence of the central bank is central to implementing independent monetary policy and achieving low and stable inflation rates, as shown by a study of Alesina and Summers (1993). The autonomy argument also holds for the supervisory authority, which must be able to exercise its control functions independently and without state or private intervention. Otherwise, an exertion of influence can lead to a decrease in supervision and increase the risk of banks and other financial institutions engaging in deceptive or fraudulent behaviour. One important aspect of the legal framework for supervisory agencies is the design of the appointment process, the term served by a head and his/her eventual removal. A cross-country comparison is provided in Tables 1 and 2 below.

Appointment: one of the World Bank survey questions covered the power to appoint the head of the supervisory agency. In nearly all countries this post is assigned via a decision taken by one of the three following bodies: the head of government (i.e., the president or prime minister), the finance minister or some other cabinet level authority, or a legislative body (such as the parliament or congress). The decision is only taken by the supervisory authority itself in Estonia, Iceland and Malta, whereas in Belgium and Luxembourg the appointment is made by royal degree or respectively by the *Grand Duc*. The head is appointed at the recommendation or proposal of the board or council of the reserve bank in Greece, Italy and New Zealand. Only five countries (Austria, Germany, Ireland, Latvia and New Zealand) rely on the recommendations of external experts or a panel of experts in their appointment decisions.

Term: in most countries the head of the supervisory agency is appointed for a fixed term. Germany, Lithuania, Malta and Iceland are the only countries in which there is no such fixed time span. The length of the term varies, with limits of five or six years in most countries. In about one third of the countries considered the maximum number of allowed terms ranges from one to three.

Removal: The decision to remove the head of the supervisory agency is taken by the same institutional body as the appointment decision in many countries. The legal terms for removal are, however, prescribed by a number of criteria. These criteria include for example, that the head has not adequately discharged his/her responsibilities, that s/he has hindered the work of the agency or is guilty of serious misconduct. The institutional bodies responsible for taking this decision are mainly governmental and only reside in the supervisory agency in a small number of countries. In some cases, however, this decision is taken after a consultation with the board or council of the relevant supervisory authority.

The framework for the appointment of the head is only one of many aspects that determine the supervisory agency's scope of action and its work. Other important issues involve the mandate and structure, the budget and the legal responsibility and liability of the supervisory authority. The World Bank survey on bank regulation and supervision draws a detailed picture of these areas, as well as of the financial regulation system as a whole. It addresses various important questions that allow for in-depth analysis and cross-country comparisons. For other areas of interest in the field of bank regulation and supervision, please consult the related DICE topics of "*Bank Regulation and Legal Framework*", "*Bank Supervision*" and "*Deposit Insurance*", as well as the DICE Report article "*Bank Resolution: National Legislation and Frameworks*".

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References

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World Bank (2012), Bank Regulation and Supervision Survey IV, http://go.worldbank.org/SNUSW978P0.

Table 1

Supervision: appointment of the head of the supervisory authority, 2008 – 2010

	How is the head of the supervisory agency appointed? Decision of …				Appointment based on a recommendation by an external expert or a panel of experts?
	Head of government (e.g., President, Prime Minister)	Finance Minister or other cabinet level authority	Legislative body, such as Parliament or Congress	Other / explanation	
Austria	Yes	No	No	–	Yes
Belgium	No	No	No	Appointed by Royal decree.	No
Bulgaria	No	No	Yes	–	No
Croatia	No	No	Yes	–	No
Cyprus	Yes	No	No	–	No
Denmark	No	Yes	No	–	No
Estonia	No	No	No	Appointed by Supervisory council.	No
Finland	No	No	Yes	–	No
France	Yes	No	No		No
Germany	No	Yes	No	–	Yes
Greece	No	No	No	Appointed by Presidential Decree on proposal of Council of Ministers following proposal by Bank's General Council.	No
Hungary	Yes	No	No	–	No
Ireland	No	Yes	No	–	Yes
Italy	No	No	No	Appointed by Presidential Decree on proposal of Prime Minister following resolution of Council of Ministers after hearing opinion of Bank of Italy's Board of Directors.	No
Latvia	No	No	Yes	–	Yes
Lithuania	No	No	Yes	–	No
Luxembourg	No	No	No	Appointed by the Grand Duc on proposal of government.	No
Malta	No	No	No	Appointed by the Malta Financial Services Authority.	No
Netherlands	Yes	No	No	–	No
Poland	Yes	No	No	–	No
Portugal	No	Yes	No	–	No
Romania	No	No	Yes	–	Yes
Slovak	No	No	Yes	–	Yes
Slovenia	No	No	Yes	–	No
Spain	Yes	No	No	–	No
United Kingdom	No	Yes	No	–	–
Iceland	No	No	No	Hired by the Board of Directors of FME, which is appointed by the Minister of Economic Affairs.	No
Montenegro	Yes	No	Yes	–	No
Serbia	No	No	Yes	–	No
Norway	No	Yes	No	–	No
Switzerland	No	Yes	No	–	No
Turkey	No	No	No	Appointed by Council of Ministers.	No
Australia	Yes	No	No	–	No
Canada	No	Yes	No	–	No
Korea	Yes	No	No	–	No
New Zealand	No	Yes	No	On advice of the Board of the Reserve Bank.	Yes
United States	Yes	Yes	Yes	–	No

Source: World Bank (2012), Bank Regulation and Supervision Survey IV, http://go.worldbank.org/SNUSW978P0.

Table 2

Supervision: term and removal of the head of the supervisory authority, 2008 – 2010

	Term length if fixed term (years)	Maximum number of permitted terms	Can the head of the supervisory agency be removed by a decision of…? Head of government (e.g., President, Prime Minister)	Finance Minister or other cabinet level authority	Legislative body, such as Parliament or Congress	Other / explanation
Austria	5	No	No	Yes	No	–
Belgium	5	No	No	No	No	–
Bulgaria	6	No	No	No	Yes	–
Croatia	6	No	No	No	Yes	–
Cyprus	5	No	No	No	No	–
Denmark	–	No	Yes	No	No	–
Estonia	4	No	Yes	Yes	Yes	Supervisory council.
Finland	5	No	No	No	Yes	–
France	6	2	Yes	No	No	–
Germany	–	–	Yes	Yes	No	–
Greece	6	No	No	No	No	Decision by the General Meeting of Shareholders.
Hungary	6	No	Yes	No	No	–
Ireland	5	No	No	No	No	–
Italy	6	2	No	No	No	Removal only in the case provided by article 14.2 of the statute of the ESCB (incapacity or serious misconduct) through a decree issued by the President. [a]
Latvia	6	No	No	No	Yes	–
Lithuania	–	No	No	No	Yes	–
Luxembourg	5	No	No	No	No	The government after consulting the board of the CSSF may make a proposal to the Grand Duc. [b]
Malta	–	No	No	No	No	Removal in terms of the Authority's handbook.
Netherlands	7	No	Yes	No	No	–
Poland	5	No	Yes	No	No	Only under very limted circumstances.
Portugal	5	2	No	No	No	Only in the circumstances envisaged in Article 14.2 of the ESCB/ECB Statute.
Romania	5	No	No	No	Yes	–
Slovak Republic	5	2	No	No	Yes	–
Slovenia	6	No	No	No	Yes	–
Spain	6	1	No	No	No	Government
United Kingdom	–	–	–	–	–	Can be removed by the Treasury.
Iceland	–	No	No	No	No	Board of Directors of FME.
Montenegro	6	2	No	No	Yes	–
Serbia	6	No	No	No	Yes	–
Norway	6	–	No	Yes	No	–
Switzerland	4	3	No	Yes	No	–
Turkey	6	1	No	No	No	–
Australia	5	No	Yes	No	No	–
Canada	7	No	No	Yes	No	–
Korea	3	2	No	Yes	Yes	–
New Zealand	5	No	No	Yes	No	The Governor-General, on the advice of the Minister of Finance. [c]
United States	5	No	Yes	Yes	Yes	–

[a] Acting on a proposal from the Prime Minister following the adoption of a resolution by the Council of Ministers after hearing the opinion of the Bank of Italy's Board of Directors.
[b] Proposal regarding the dismissal of a member of the executive board who no longer meets the conditions stipulated for his duties or who is guilty of serious misconduct.
[c] A number of criteria would have to be met, Section 49 of the RBNZ Act 1989 applies.This has not happened before and would be highly unusual.

Source: World Bank (2012), Bank Regulation and Supervision Survey IV, http://go.worldbank.org/SNUSW978P0.