

GOVERNMENT INFLUENCE ON SELECTED ASPECTS OF MANAGEMENT

The turmoil in financial markets during the recent crisis caused financial market institutions like banks, insurance companies and pension funds to incur losses, pushing many to the brink of insolvency and forcing a few to declare bankruptcy. Depositors, insurance policy holders and other investors risked losing their financial claims against these institutions. In the wake of the crisis, schemes to protect these groups and guarantee their claims were crucial to rebuilding trust in financial market institutions and stabilising the financial system as a whole.

Deposit insurance schemes, for example, which guarantee that depositors receive at least part of their claims against a bank in the case of its default, were extended in response to the financial crisis in order to prevent bank runs. The establishment of transparency and disclosure regulations to protect investors also became a key issue for policymakers.

A crucial question concerning those guarantee and protection schemes is whether they are administrated and operated by the government or by the private sector only. Mixed forms of organisation in which both sectors are involved also exist in some countries. Table 1 classifies the organisation of guarantee and protection schemes into five categories depending on the government's role in the composition of the board of the agencies operating the respective schemes (Schich and Kim 2011). The highest level of government involvement occurs when the government actually operates the scheme directly. In less extreme cases public officials are only members of the board or have a say in the appointment of board members. At the lowest level of government involvement only private member institutions appoint board directors.

The first column of Table 1 summarises the role of governments in the board composition of the agencies that operate deposit insurance schemes. Among the 18 countries listed, only six have appointed boards for deposit guarantee schemes without any public involvement. This practice seems to be preva-

lent in central European countries. At the other end of the scale, Ireland, the Netherlands and Sweden are the only countries in which the government directly operates the deposit insurance scheme.

Another measure of government involvement in deposit guarantee schemes can be drawn from survey data. The national public authorities of the different countries reported whether their deposit insurance fund is managed solely by the private sector, jointly by private and public officials, or solely by the public sector (Schich and Kim 2011). As shown by the first measure of government involvement, the survey data supports the view that the entirely private organisation of deposit insurance schemes is only common in central European countries, whereas officials from Ireland, the Netherlands, Sweden, UK, Canada and the US report that such schemes are publicly organised.

The second column shows the role played by governments in the board composition of those agencies that are concerned with investor protection. Investor protection mainly focuses on financial regulatory measures like disclosure rules and transparency requirements. It is supposed to oblige financial institutions to offer appropriate financial products and services, and to enable investors to make informed choices (Schich and Kim 2011). Table 1 shows that investor protection is only directly controlled by the government in the Netherlands and Sweden. All other countries have implemented either a mixed or a private process for appointing the board members of investor protection agencies.

In view of the lengthy duration of life insurance contracts, it is of the utmost importance to policy holders that their interests are protected, especially if the insurance company should default. In the countries for which data is available, the number of life insurance policy holder protection schemes headed by purely private boards and by boards appointed by government involvement is roughly equal. The government does not run life insurance holder protection schemes directly in any of the countries surveyed.

Another protection scheme in Table 1 deals with non-life insurance contracts. Among the countries analysed, only Ireland has opted for a directly government-run organisation. The last column outlines government involvement in a pension guarantee scheme for seven OECD-countries. Canada is the

only country where this scheme is entirely run by the government. At the other end of the scale, Germany, Japan, and Sweden appoint board members for pension guarantee schemes on a purely private basis.

On balance, both the government and the private sector are involved in the board composition of agencies running deposit and pension guarantee schemes in most of the countries surveyed. The same holds for agencies aiming to protect investors and insurance policy holders. Guarantee and protection schemes are rarely directly run by the government.

Reference

Schich, S. and B.-H. Kim. (2011), "Guarantee Arrangements for Financial Promises: How Widely Should the Safety Net be Cast?", *OECD Journal: Financial Market Trends* 2011 (1).

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Table 1

Government influence on selected management aspects

	Deposit guarantee	Investor protection	Life insurance policyholder protection	Non-life insurance policyholder protection	Pension guarantee
Austria	▲ – Private	▲			
Belgium	□ – Mixed	□			
Denmark	□ – Mixed	○		●	
Finland	▲ – Private	▲			
France	▲ – Private	▲	▲	□	
Germany	▲ – Mixed	□	▲		▲
Ireland	■ – Public	□		■	
Italy	▲ – Private	▲			
Netherlands	■ – Public	■			
Poland	□ – Mixed	□	□		
Spain	□ – Mixed	▲	□	□	
Sweden	■ – Public	■			▲
United Kingdom	● – Public	●	●	●	●
Norway	□ – Private	□		●	
Switzerland	▲ – Private				○
Canada	□ – Public	▲	▲	▲	■
Japan	● – Mixed	▲	○	○	▲
United States	□ – Public	●	▲	▲	□

Note: The text in the column for deposit insurance indicates the assessment made in the World Bank financial structure database regarding the management of the guarantee arrangement. The symbols provide a simple assessment of government influence in the composition of the Board of the agency operating the guarantee assessment.

- – Government (including central bank) directly operates the arrangement.
- – Public officials are part of the board and/or government-owned institutions administer arrangement.
- – Board members appointed i) from non-member and member institutions and ii) the government.
- – Board members appointed i) from member institutions and ii) by the government (including central bank).
- ▲ – Board members of guarantee arrangement appointed by (private) member institutions.

Source: Schich and Kim (2011, 230).