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CONSOLIDATED SUPERVISION OF FINANCIAL INSTITUTIONS AND FINANCIAL MARKET IN THE REPUBLIC OF CROATIA[3]

ABSTRACT

The question of regulation and supervision of all parts of financial system is of major importance for any country. In order to protect the interest of the society and to accelerate the economic development, it is necessary to provide adequate legal framework as well as independent supervision institutions. The regulations refer mostly to maintenance of financial stability and consumer protection.

The article points out that the structure of the financial sector in the Republic of Croatia is underdeveloped and characterized by domination of the banking sector. Therefore, bank supervision is one of the main tasks of Croatian national bank and all other financial institutions (except banks) are regulated by other regulatory institutions. The problems of authority overlapping and insufficient regulation are becoming more complex by the development of financial sector and especially by the deregulation of financial markets. Because of that, it is reasonable to investigate the existing regulatory framework of Croatian financial system concerning its structure and development.

Key words: *financial system, financial institutions, financial market, supervision*

1. Introduction

The financial sector is of crucial importance for the country's economy. It is necessary for the economic development but it can cause instability and crises in case when resources are not used in the most economic and efficient way. To achieve effective way of mobilizing savings and allocating them in the most appropriate way public have to be informed and have to understand the financial system.

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For these reasons, the countries financial markets are regulated worldwide. The regulations refer mostly to maintenance of financial stability and consumer protection. Regulatory institutions have to be independent on politics and other interest group and responsible for their acts.

In most countries, the regulation of different parts of the financial system has been introduced gradually. Usually, the central bank was the regulatory institution which maintains the confidence in the banking system by implementing prudential supervision of the banks. As the financial system became more complex, various regulatory and supervisory institutions have been established and consequently their authorities often tended to overlap.

The problems of authority overlapping and insufficient regulation have encouraged certain countries to reconsider the organizational structure of regulation in their economies. Some countries excepted an integrated model of regulation, but there is not common opinion about this dilemma. Croatia is also on the path of restructuring its regulatory and supervisory model and considering the issue of unification of financial services regulation.

2. Croatian financial market

Financial sector in the Republic of Croatia is characterized by domination of the banking sector. Banks are the most important financial institutions and bank loans represent the most important source of exterior financing the economy. The main characteristic of the Croatian bank market are high market concentration, foreign ownership of the banks, high spread of interest margins and prevalence of universal banking. The banks are statutorily authorized to offer a wide range of financial services.

The non-deposit sector is relatively small and not enough diversified and it mainly consists of financial institutions like pension funds, insurance companies, investments funds and brokerage houses in the money and capital market. It can be seen from Table 1, presenting the shares of different financial institutions in total financial assets in Croatia.

In Table 1 it can be seen that since the end of 1999 the banks' share in the total financial assets has been quite stable. Domination of the banks has not been threatened by the rapid growth of investment funds and compulsory private pension funds to any greater extent either.

In the Croatian financial system banks possess most of the assets and have the greatest share of assets in the GDP. However, they are smaller in number than savings and credit cooperatives, and there are roughly as many banks as insurance companies and investment funds. That is, there are many non-deposit institutions that have quite a small share in the total assets of the financial system and in the country's GDP.

Table 1

Assets of Financial Institutions in the Republic of Croatia
(At the end of a period)

- in millions HRK

Assets of Financial Institutions		2000		2001		2002		2003	
Institutions		Amount	%	Amount	%	Amount	%	Amount	%
1	Banks	109,949.1	88.8	148,428.3	89.1	174,139.2	88.7	204,503.9	88.8
2	Insurance companies	8,615.5	7.0	9,670.1	5.8	11,096.8	5.7	12,688.6	5.5
3	Investment funds	685.1	0.6	2,044.8	1.2	5,120.8	2.6	3,920.0	1.7
4	Savings and credit cooperatives	793.6	0.6	982.3	0.6	1,107.9	0.6	1,112.1	0.5
5	Savings and loan associations (building societies)	513.8	0.4	2,385.3	1.4	2,371.4	1.2	3,468.6	1.5
6	Privatization investment funds	3,242.2	2.6	3,183.3	1.9	388,5	0.2		
7	Pension funds					2,036.9	1.0	4,706.9	2.0
	Total	123,799.3	100.0	166,694.1	100.0	196,261.5	100.0	230,400.1	100.0

Source: Croatian National Bank, Securities and Exchange Commission

Table 2

Shares of Financial Institutions in the GDP

- in millions HRK
- in percent

Relative relevance of financial institutions in the Republic of Croatia, 2003	Assets	% of total assets	Number of institutions	% of total number	Assets as % of GDP
Banks	204,503.9	88.8	41	17.8	105.9
Insurance companies	12,688.6	5.5	24	10.5	6.6
Investment funds	3,920.0	1.7	36	15.7	2.0
Savings and credit cooperatives	1,112.1	0.5	115	50.0	0.6
Savings and loan associations (building societies)	3,468.6	1.5	4	1.7	1.8
Pension funds	4,706.9	2.0	10	4.3	2.4
Total	230,400.1	100.0	230	100.0	119.3
GDP (HRK)	193,067	-	-	-	-

Source: Croatian National Bank, Securities and Exchange Commission

The structure of financial markets can be seen in Table 3, presenting the relative relevance of different types of financial instruments. It can be seen that the bank loans are prevalent, however not to the extent in which the banks' assets dominate the total assets of the financial system. The reason for that is that the banks in their equity portfolios also have large portfolios of shares and bonds.

Table 3

Financial Market Structure

- in millions of HRK

Financing in the Rep. of Croatia	Amount		% of total amount		% of GDP	
	2002	2003	2002	2003	2002	2003
Bank loans (cons.)	97,452.1	113,851.8	72	69	56	59
Market capitalization – shares	28,325.6	37,133.2	21	23	16	19
Market capitalization – bonds	8,996.4	14,060.3	7	8	5	7
Total	134,774.1	165,045.3	100	100	77	85

Source: Croatian National Bank, Zagreb Stock Exchange

Table 4

Relative Size of Financial Subsectors in Croatia and Transitional Countries

	Slovenia	Poland	Czech R.	Hungary	Estonia	Latvia	Lithuania	Croatia
BANKS AND OTHER CREDIT DEP. INSTITUTIONS, June 2002								
Total assets (billions of EUR)	19.4	136.0	87.0	42.0	4.4	6.2	4.4	20.3
Number of banks	21	713	38	33	7	22	13	47
Number of specialized credit institutions				8			41	
Number of savings banks	3							3
Number of savings and loan cooperatives	45			191				100
Total number of institutions	69	713	38	232	7	22	54	150
INSURANCE								
Total assets (billions of EUR)	1,8	13,3	6,4					1,5
Number of institutions	15		43	22	13	26	31	25
INVESTMENT FUNDS								
Total assets (billions of EUR)	2.5	3.5	2.5					0.7
Number of institutions	53	85	136	51		7	42	23
PENSION FUNDS								
Total assets (billions of EUR)		5.5	1.7					0.1
Number of institutions			14	190		2		7
TOTAL								
Total assets (billions of EUR)	23.7	158.3	97.6	42.0	4.4	6.2	4.4	22.6
Number of institutions	137	798	231	495	20	57	127	205

Source: National central banks and stock exchanges

Table 4 presents the relative size of the subsectors as parts of the financial sector in Croatia and several transitional countries. It is interesting that also on the financial markets of Poland and the Czech Republic, the ex-candidate countries to join the European Union, the banks control 85.9 % and 89.1 % of the total financial assets respectively. Accordingly, one can conclude that the current domination of banks in the Croatian financial system will most probably continue, regardless of further deepening of the market, new financial services and higher proficiency of investors.

Apart from the above mentioned, Table 4 also shows that the number of banks in Croatia is relatively large, larger than in the Czech Republic and Hungary, the two countries with a population almost twice bigger than the Croatian.

Taking into account only banks and not savings and loan cooperatives it can be concluded that in all countries, with the exception of Poland, more non-deposit financial institutions are established.

Finally, in terms of number of employees in supervision compared to the total number of banks, Croatia ranks between Poland and Slovenia and does not differ much from other transitional countries.

3. Supervisory institutions in the Republic of Croatia

Financial regulation and supervision in the Republic of Croatia are ensured by several independent institutions:

1. Croatian National Bank,
2. The Securities Commission of the Republic of Croatia,
3. Agency for Supervision of Pension Funds and Insurances,
4. Directorate for Supervision of Insurance Companies,
5. State Agency for Deposit Insurance and Bank Rehabilitation,
6. Ministry of Finance.

The banking sector is an important part of the national economy. Banks take deposits, support the payment system and provide the largest source of funds on the market. Therefore, stable and safe banking are of crucial importance for the development of an economy and centralized bank supervision, widely accepted throughout the world, is applied in Croatia, where bank supervision is conducted by the Croatian National Bank. Its role and importance is especially pointed out by the fact that the banks dominate the financial system in Croatia, and that the bank loans are the most important financial instruments.

The Croatian National Bank is in charge of the supervision of operations conducted by banks and savings banks. Banking supervision includes reviews whether the banks operations are in accordance with the laws and regulations, including also the assessment how a bank manages the risks to which it is exposed in its operations, for reducing the possibility of the bank's bankruptcy. The objectives of such an approach are to protect the bank's clients and deponents and to take care of stability and safety of the entire banking system.

The basic tasks of the Croatian Securities Commission are efficient regulation and supervision of the securities markets in the Republic of Croatia. Supervisory measures are used to order the elimination of illegal acts and irregularities established and to undertake activities necessary for their elimination. In that way the primary objectives of the Commission are achieved – protection of the investors, interests of the public and the capital market, and raising the confidence in the capital market. In performance of its public authorities, the Commission supervises the operations of stock exchanges, regulated public markets, authorized companies (brokerage companies and banks licensed to trade in securities), issuers of securities, investment funds, brokers, investment advisers, institutional investors and the Central Depository Agency.

The Agency for Supervision of Pension Funds and Insurances (HAGENA) was established in 2001 for the purpose of implementation of pension reform in the Republic of Croatia. In general, primarily goal of Agency is to organise, encourage and improve the development of Croatian pension market. HAGENA supervises the following financial institutions:

- companies managing compulsory pension funds and compulsory pension funds,
- company managing optional pension funds and optional pension funds,
- banks holding pension funds in trust,
- pension insurance companies,
- Central Registry of Insured Persons (REGOS).

In its operations, HAGENA supervises assets and liabilities of all pension funds on daily basis, as well as interim financial statements of pension fund management companies and pension funds. Regular direct supervision of the operations of compulsory pension fund management companies and compulsory pension funds managed by them is done on a yearly basis.

Directorate for Supervision of Insurance Companies supervises the insurance and re-insurance companies. In performance of the tasks and duties of the Directorate, a part of them is related to processing of the document required for issuance of authorizations to insurance companies and a part to supervision of companies operations.

The State Agency for Deposit Insurance and Bank Rehabilitation (DAB) is a specialized financial institution for insurance of bank and savings bank deposits and in charge of bank rehabilitation procedures. However, a part of the DAB's activities related to bank rehabilitation does not exist any more[4], but the operations that have been started will be continued until their end. The authority to supervise business

[4] Law on the Cessation of Application of the Bank Rehabilitation Act, Official Gazette of the Republic of Croatia, No. 52/00

records and accounts of banks, savings banks and subsidiaries of foreign banks, has not been used by the DAB yet.

In performance of its supervisory function pursuant to the Banking Act, the DAB shall supervise the banks in the part of operations referring to the insured deposits of retail clients. Agency's role of a "treasurer", without having any influence on the situation prior to the bank's bankruptcy, should be extended by its supervisory function. By such direct supervision, the DAB would be able to influence the prevention of some actions in banking operations on time, primarily those actions that resulted in considerable increase of the DAB's liabilities in the process of payment of insured deposits.

The Department for Supervision of Financial Institutions, as a part of internal structure of the Ministry of Finance and within the Financial System Administration, supervises the performance of savings and credit cooperatives and other financial institutions in terms of application of the laws and regulations in the field of financial operations.

Certain parts of operations of financial institutions are also supervised within the Ministry of Finance. The Tax Administration, the Customs Administration, the Foreign Exchange Inspectorate and the Office for the Prevention of Money Laundering conduct supervisions in accordance with special regulations governing their activities.

4. Supervisory models of selected countries

There is a trend towards integration of financial regulation and supervision that asserts itself especially in developed countries. The growing interdependency of the individual areas of financial services, which manifests itself in the growing role of financial groups, creates pressure on the co-ordination of financial regulation and supervision. Different countries respond to this challenge in different ways. The answer may be strenghtening of the co-operation of the exisiting supervisory authorities and their gradual or rapid integration. Neither of the two approaches mentioned dominates on the worldwide scale at the present, even though the trend towards integration is apparent in Europe and in developed overseas countries.

Two events had a particular impact on th structure of regulation in the last few years. First, the deregulation of financial markets in many countries resulted in an increased competititon, as a large number of institutions was allowed to enter the market. Second, financial conglomerates have emerged, particulary in the most developed countries, offering a wide range of financial services, from traditional banking products to insurance, leasing and stock brokerage.

Methods of supervising financial groups are:

– "solo" or "solo plus" approach – protect the customers and creditors of the regulated entity from monetary losses and delays
– "consolidated" approach – supervision is directed at the top tier of the group, cobering all members that provide financial services.

Consolidated regulation is generally accompanied by consolidated supervision, but sectoral regulation might or might not accompanied by consolidated supervision.

Integrated supervisory bodies are relatively unusual worldwide, and the existing ones are concentrated on a geographically small area. Integrated regulatory bodies exist only in these countries: Denmark, Iceland, Norway, Sweden, the United Kingdom, Ireland, Germany, Austria, Malta, Hungary, Latvia and Estonia. Even six of eleven integrated supervisory bodies are located in Nordic countries and Germany is the first member of the European Monetary Union with such an supervisory model. Changes are under consideration in some other countries, for example in Italy. Similar processes have also taken place overseas. South Korea and Japan have integrated supervision into an institution separate from the central bank; Singapore into the central bank and Australia has opted for the twin peaks functional model.

Norway was the first country to introduce the model of an integrated supervisory body in 1986. It was followed by Denmark in 1988 and Sweden in 1991. These three countries have similar reglatory models, based on the following characteristics:[5]

1. They comprise a wide range of regulation of financial services, including banking, insurance and real estate agency.
2. Supervision of banks developed separately from the central bank.
3. Independent regulatory and supervisory agencies had existed before integrated model.
4. Integrated supervision agency in these countries were established as independent, separated from the government. General supervision is conducted by the Ministry of Finance.
5. Agency employees non-political professionals to ensure independence and transparency.
6. Responsibility towards the public and transparency of relations between the government and the agency.
7. Only Norway has a single law underlaying the functioning of the inetgrated supervisory body. Denmark and Sweden have not amended their existing laws governing certain market segments.

The experience of the Nordic countries with an integrated supervisory body has been assessed as moderately positive. The economy of scale has been clearly visible, but there are some problems in the process of unification of supervisory agencies because of the irreconcilable differences in the approach and legislation.[6]

The experience of Great Britain is interesting especially because of the high level of sophistication of the financial system in Great Britain. Financial conglomerates are very active on this market and the large number of foreign owned banks for such a developed economic system. Furthermore, the decision to establish supervisory agency was made after a long discussion on the best possible regulatory system.

[5] Michael, T., Fleming, A.: "Integrated Financial Supervision: Lessons of Scandinavian Experience" *Finance and Development*, 1999.

[6] Ibidem

The single regulator for financial services in the United Kingdom from 2001 is an independent non-governmental body, Financial Services Authority (FSA).

The FSA has the following basic features:

1. Its operation is governed by a single law, Financial Services and Markets Act 2000.
2. The main aim of FSA's strategy is to identify, prioritise and adress risk to four statutory objectives. These are to maintain market confidence, promote public understanding of the financial system, secure appropriate consumer protection and reduce financial crime.[7]
3. Once a year the FSA reports to the Government on realization of its statutory objectives and implementation of its functions. Furthermore, the FSA must organize an open meeting on a yearly basis, in order to discuss the annual report.
4. The FSA Comittee is appointed and recalled by the Governement. However, the FSA must organize also the Panel of Practitioners and the Panel of Cunsumers, in order to enable the financial institutions and the consumers to give their contribution to the operation of the FSA.
5. The FSA is required to consult the public regarding proposed rules and regulatory guidelines before their issuance.
6. A completely independent Council is authorized to reeexamine disputed decisions concerninig those company whose authorization has been declined or a company which is punished.
7. The Governement is authorized to order and publish an economically cost-efficient audit of the FSA and request independent investigations in case of serious problems.
8. The FSA is authorized to cooperate with the Central Bank of Great Britain and Governement in crisis management.

The first transitional country to establish an integrated regulatory body was Hungary, which founded Hungarian Financial Supervisory Authority in 2000. The Hungarian financial system is characterized by a high concentration and superior dominance of financial groups. Therefore, the formation of an integrated regulatory body in Hungary was urged by the emergence of financial conglomerates.

The two other transitional countries which have introduced an integrated supervisory body are Estonia and Latvia. The financial markets in these countries are dominated by the banks of "Nordic" banking groups, which function as financial conglomerates. Furthermore, introduction of the integrated supervisory model brings these two countries closer to regional standard of Nordic financial markets where cross-border mergers of banks in this region has gone much further than anywhere else in Europe.

[7] www.fsa.gov.uk; 10.01.2005.

There are also indirect solutions like the Netherlands model called "two peaks" because it introduces a duopoly of two regulatory bodies. This model of regulatory consolidation is based on two separate agencies, one being entrusted with supervisory regulation of financial institutions and the other with consumer protection.

As it can been seen from the above examples, it is not an issue of deciding whether to adopt the model of a group of independent agencies for each activity or the model of an integrated regulatory body, but a rather wide range of different levels of coordination and integration.

5. The analysis of introduction of integrated supervision model

Institutional structure of supervision should be adapted to specific circumstances and the situation in each country. For that reason, it is necessary to analyse all possible arguments for and against integration of financial services supervision, in order to select a best solution for Croatian dilemmas.

Literature gives a number of reasons for the integration of financial regulation and supervision:

1. Supervision of financial conglomerates is more efficient if it is integrated. Because the financial conglomerates offer a wide range of financial products (insurance funds, pension funds), formation of integrated supervision agency would facilitate the assessment of risks by forming a team of different experts.
2. Integrated supervision can make use of the economy of scale. Supporting services like information systems, accounting, human resources that are multiplied in different supervision agencies, would be joined in case of unified supervisory body.
3. Integrated supervision can make use of the economy of scope. An integrated supervision agency might adopt consolidated rules and guidelines; a single database; deal more efficiently with problems in communication and cooperation.
4. An integrated supervisory agency could better address discrepancies between regulatory objectives or laws. For example, there can be a discrepancy between the objectives of consumer protection and banking supervisory objectives (credit rating).
5. Integrated supervision should remove overlapping or underlapping in regulating institutions.
6. Formation of a large integrated agency could increase job opportunities in terms of professional training of employees.
7. Formation of a large integrated agency could improve the political relevance and position of regulatory bodies.

Arguments against integration of financial services supervision are:

1. Integration of financial supervision, whether partial or full, is linked with both significant political and implementation risks and economic costs.
2. Integrated agencies would have multiple and unclear objectives. Because of the conflict between banking supervision and consumer protection, an integrated agency could lose its clear objectives.
3. Integrated supervisory agency presumes a single harmonized law on financial services. If the integrated regulatory body would operate based on several laws, certain discrepancies might appear.
4. Different approaches in the regulation of banking and the regulation of trading in securities.
5. The process of integration of several agencies is very complex. An integrated agency might lose some of the best personnel during the transitional period or there can be a great influence of certain interest groups in adopting new laws.
6. An integrated regulatory agency might be exposed to political pressure.
7. An integrated regulatory agency might have organisational problems. That is a question of creating the organisation based on departments (banking, insurance, capital markets) and on functions (risk management).

It can be seen that there are serious arguments both for and against the formation of an integrated agency for financial services regulation. Any integration of financial regulation and supervision, whether partial or full, is linked with both significant political and implementation risks, and economic costs. While the risks emerge from the very beginning of this process, the expected benefits of integration emerge gradually and with a significant delay.

Concerning the role of the central bank, it has to be point out that all the above-mentioned countries with integrated supervision agency, have separated supervision from activities of the central bank. In Europe, the issue is solved by formation of the European Central Bank, which performs monetary policy in Eurozone, whereas banking supervision is left to national bodies.

In case of economies in transitional countries, the issue of banking supervision should not be solved by separation of the central bank's tasks. There are three main reasons for separated supervision of banks and other financial institutions in transitional countries:[8]

– The financial structure in developing and transitional countries is simpler, and the financial conglomerates are less complex and less important.
– Developing and transitional economies are more inclined to instabilities in the system. The efficiency of the central banks is based on reliable information on banks – this can be achieved if the central bank retains supervision as one of its functions.

[8] Goodhart, C., Schoenmaker, D.: "Should the Functions of Monetary Policy and Banking Supervision be Separated?" *Oxford Economic Papers* 47.(4.), 539.-560., 1995.

– The status of human resources in central banks in developing and transitional countries is mostly much better than in other regulatory institutions. The reason is relatively high level of independence of central banks, as well as the favourable status enjoyed by the central banks that managed to achieve a low inflation rate and acceptable level of macroeconomic stability. Furthermore, they are not funded directly from the budget and therefore able to offer better salaries and better opportunities for education, professional training and capacity building.

6. Challenges of introduction of consolidated supervision in the Republic of Croatia

After the theoretical discussions and representing the existing model of Croatian supervision agencies, it is required to examine possible arguments for unification of financial services regulation. It is very important that the decision on partial or full integration of financial supervision should be supported by an objective analysis of the present regulation system and by an analysis of the trends in development of the financial system.

The Croatian financial system is underdeveloped and not enough diversified. Banks still represent the most important financial institutions and bank loans are dominant source of financing. The links between the banking and other financial sector, particularly insurance, are not very strong. The financial conglomerates are not active on the Croatian market and until they achieve better position and greater influence on the financial system, it is premature to discuss on consolidated regulatory body. In the forthcoming years, supervisory model composed of consolidated supervision of banks and improved cooperation between regulatory agencies should be sufficient for banking supervision and consumer protection.

Croatian financial system as transitional economy is still more prone to instabilities in the system. Separation of banking supervision from central bank might considerably weaken the capacities for crisis management. Furthermore, by solving the recent banking crisis Croatian National Bank proved its role through accumulated skills and knowledge about crisis management.

For integration of financial supervisory body, it will be necessary to adopt some changes in the present legislative, which might be influenced by certain interest groups. However, legal framework for banking regulation is mostly adequate regarding both independence and responsibility. It would be advisable to continue from that basis in order to improve its functioning and to adapt it for a new supervisory model. The other crucial issue related to management is the one of financing the regulatory body. It is advisable to retain the supervision within the central bank since funding of banking supervision is mostly adequate. Financing of other regulatory activities is still not so satisfactory, so this part of financial regulation should be more examined.

It is possible that the integrated agency lose a considerable number of well-educated and experienced employees. Some of them would like to stay in former institutions, while others will turn to private sector.

There is no evidence in discrepancies between banking supervision and monetary policy. For the Croatian National Bank there was no conflict of priorities. At the end of the1990's banking crises were prevented but at the same time the central bank managed to maintain the low inflation rate by strict monetary policy.

Some defaults in regulation can be overcome by further improvement of cooperation and exchange of information within the existing institutional framework.

7. The solution for Croatia

A change of the institutional structure of financial regulation and supervision in the Republic of Croatia need to be well prepared and publicly discussed. In view of the above said, realization of integration of supervisory institutions should not be carried out as a single operation, but gradually, in three stages. This phasing-in should enable more through preparation of the second stage.

The first stage is characterised by additional improvement and greater efficiency of supervision. The central bank is entrusted with the function of the lender of last resort and with the care for financial stability. Other institutions for supervision of financial system would not be integrated in this stage.

This stage was actually realized in 2003 by formation of the Committee for Coordination of Financial Services Regulation. The Committee comprise representatives of the Croatian supervisory institutions – the Croatian National Bank, The Securities Commission of the Republic of Croatia, the Agency for Supervision of Pension Funds and Insurances, the Directorate for Supervision of Insurance Companies, the State Agency for Deposit Insurance and Bank Rehabilitation and the Ministry of Finance.

The Committee has the following tasks:[9]

– to elaborate in detail the exchange of data and other information among supervisory institutions,
– to appoint the coordinator for supervision of financial institutions, which are now subject to regulation conducted by several institutions,
– to draw up the Regulations which would specify other tasks to be performed by the Committee.

Supervisory institutions, members of the Committee, are obliged to submit to the Committee, upon its request, the information concerning the financial institutions authorization, all information of relevance to policies and procedures, ownership structure, equity capital, assets quality, profitability and liquidity of financial institutions, information on possibly detected indicators of a crisis in connection with any financial institution and other requested information.

[9] Program of Consolidated Supervision of Financial Institutions and Financial Market, Ministry of Finance, Republic of Croatia, Zagreb, 2003

The information submitted to the Committee are considered confidential and used only by the Committee members in the performance of their supervisory function. Representatives of the Committee convene if needed, at least once in a trimester, in order to discuss the information submitted to them and to prevent potential problems both in supervision and in financial institution's operations.

This measure of formation such a Committee is expected to have an exceptionally positive impact on improvement and coordination between supervisory institutions, without succumbing to the risk of radical and premature institutional changes. In this way, Croatia could quickly respond to rapid changes on financial markets.

The second stage represents a higher degree of integration of supervisory institutions. Banking supervision should remain as one of the basic functions of the Croatian National Bank. For other financial institutions, it is recommended to integrate regulation in one independent institution in order to be more effective and more transparent. At the end of the second stage, two regulatory and supervisory authorities will be established.

In this stage, Croatian authorities should also discuss and examine a proposition of formation of an integrated regulatory body as a preparation for the final stage.

Finally, in the third stage, when financial market would be much more developed and dominated by financial conglomerates, it is possible to introduce a single supervising institution for all financial institutions on the market.

8. Conclusion

Growing interdependency of the individual areas of financial services, which manifests itself in the growing role of financial groups, creates pressure on the co-ordination of financial regulation and supervision. Different countries respond to this challenge in different ways.

Formations of integrated supervisory bodies are not frequent. It is a relatively new phenomenon. The number of countries with the integrated regulatory bodies rapidly increased from the last decade.

All financial supervisory bodies, regardless of their limited or broad authority, must be independent and responsible. Financial regulatory bodies must be independent of the institutions they regulate and from short-term political influences. They must act responsibly toward the public and report on the quality of their work.

The decision to establish an integrated supervisory agency has to be made after a public discussion on the best possible regulatory system.

In Croatia, consolidated supervision of the banking sector along with improved cooperation between regulatory agencies, should be sufficient for banking supervision and consumer protection issues in the forthcoming years. Banking supervision should remain under the authority of Croatian National Bank and other supervisory institutions should improve the coordination and prepare themselves for the future deepening and developing the financial market. In the next stage, the supervision of non-banking financial institutions should be integrated in one independent institution. Finally, in the third stage, when the financial market will be much more sophisticated, it would be possible to introduce a single supervising institution for all financial institutions on the market.

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INTEGRIRANI NADZOR FINANCIJSKOG SEKTORA U REPUBLICI HRVATSKOJ

SAŽETAK

Od posebne je važnosti pitanje regulacije i nadzora sastavnih dijelova financijskog sustava. Adekvatnom zakonskom regulativom i osnivanjem neovisnih regulatornih tijela i institucija zaštitit će se interesi društva u cjelini te akcelerirati razvoj gospodarstva. U većini zemalja propisi su usmjereni na očuvanje financijske stabilnosti i zaštitu potrošača. U članku se ističe da je struktura financijskog sektora Republike Hrvatske nerazvijena i određena dominacijom bankovnog sektora. Stoga je nadzor banaka jedan od temeljnih zadataka Hrvatske Narodne Banke dok je poslovanje nebankovnih financijskih institucija predmet regulacije niza drugih regulatornih tijela. Problem preklapanja nadležnosti i nedostatne regulacije postaje sve složeniji s razvojem financijskog sustava, a posebno deregulacijom financijskih tržišta. Iz tih razloga, opravdano je istražiti postojeći regulativni okvir hrvatskog financijskog sustava u zavisnosti od njegove strukture i razvijenosti.

Ključne riječi: *financijski sustav, financijske institucije, financijska tržišta, nadzor, bankarski sektor, Republika Hrvatska*

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