Introduction

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Under the combined pressure arising from the common trends of financial globalization, conglomeramation, diversification, innovation and intensification in competition, countries around the globe have been forced to refashion the way they regulate and supervise their financial services industries. Such financial reforms typically embrace central bank reform, financial liberalization, supervisory reform and enhanced consumer protection.

On the central banking front, the clear trend is towards enhancement of central bank independence – although countries differ in the precise models chosen for adoption – and the narrowing of operational responsibilities to ensure a clear focus on monetary policy. In connection with the latter, inflation targeting is in the ascendancy, with open market operations the preferred means of securing the policy objectives. As in the UK, central banks are being stripped of their supervisory roles (although the Federal Reserve Board has so far successfully fought off any moves in this direction in the USA); yet, possession of the lender of last resort facility, ensures they retain at least some responsibility for ensuring overall financial stability.

Wide-scale financial deregulation has also become a global phenomenon as countries seek to maximize economic efficiency and meet the international challenge arising from such moves overseas (the European ‘universal banking’ model eventually forced both the US and Japanese administrations to abandon their long-held segmentation barriers). Typically, such deregulation embraces the liberalization of financial markets (money, capital, foreign exchange, derivatives, commodities and so on), the abolition of interest rate controls, liberalization of the scope of business activity (involving both the dismantling of segmentation barriers and restrictions on geographical areas of operation) and the abandonment of exchange controls (as currently required, for example, of all European Economic Area member states, other than in crisis situations although, even then, prior agreement in principle has to be received before their temporary reactivation).

Financial liberalization has, in turn, created acute pressures for supervisory reform, the need for which has been accentuated by a dramatic increase in the pace of financial innovation (for example, the emergence of new
markets, financial products and corporate structures) and a fast-changing finance industry landscape, due to changes in the legal environment and market pressures for mergers, consolidation and demutualization. The supervisory reforms themselves typically embrace changes in the institutional organization of supervision – the trend is towards the integration and centralization of supervision and away from specialization, a path adopted by the present UK government when it created the Financial Services Authority – as well as changes in the style and *modus operandi* of supervision. The latter are needed to accommodate implementation of the ever-changing international ‘rules of the game’, as set out, for example (as far as banks are concerned), in the Basle Capital Accord, the Basle Concordat, the Basle Committee’s Core Principles for Effective Banking Supervision and the related European Union directives, and to raise economic efficiency and improve cost-effectiveness in a very dynamic environment.

Finally, under pressure from both governments, whose ultimate goal is financial stability, and the consumer protection lobby, various measures have been widely adopted to enhance the protection afforded the consumers of financial products. Typically, these embrace the introduction/improvement of deposit insurance and compensation schemes, the tightening of anti-money laundering measures, improved self-regulation (achieved, for example, through the introduction of industry ‘codes of conduct’) and the toughening of legal sanctions (to deter fraud, malpractice, market abuse, and insider trading, for example).

These developments, then, are the subject matter of this ‘Handbook’, which seeks to provide an up-to-date, authoritative, analytical and comprehensive account of financial reforms adopted around the globe (with an emphasis on the banking industry). The Handbook, which features both developed and developing economies, contains contributions from acknowledged area specialists covering selected countries from Western Europe, North America, South America and Australasia.