

A Comparative Study of Financial Supervision System between China and Britain from the Perspective of Macro Prudential

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ABSTRACT. *After the outbreak of the global financial crisis in 2008, countries around the world pay more attention to the prevention of systemic financial risks, and have made a lot of useful exploration in the construction of the framework of macro prudential supervision. In view of the fact that the system established on the basis of the separated supervision mode in China is not suitable for the requirements of macro prudential supervision, the British government has constructed the macro prudential supervision framework of "super central bank + double peak mode" through a series of reforms. This paper makes an in-depth analysis and comparison of the financial supervision systems of the two countries, and puts forward policy opinions on the improvement of the current "one bank, one committee, two committees" system in China.*

KEYWORDS: *macro prudential regulation; bimodal model; comparison between China and Britain*

1. Introduction

In 2008, the global systemic financial crisis evolved from the US subprime mortgage loan and the subsequent European debt crisis triggered a wide range of reflections on the excessive financial innovation and the absence of financial supervision. For a long time, the composite fallacy of micro prudential regulation has made people neglect to prevent systematic financial risks, and the macro prudential regulation focusing on the inherent Pro cyclical nature of financial industry has become the focus of financial regulatory reform in various countries after the crisis.

In 2017, China set up the financial stability and Development Committee, aiming to strengthen the coordination of financial supervision and make up for the shortcomings of supervision. In 2018, the Insurance Regulatory Commission of the Bank of China was set up, and at the same time, the responsibilities of important

draft laws and regulations of banking and insurance industry and the basic system of prudential supervision were assigned to the central bank. After the crisis, the UK built a typical "super central bank + dual peak supervision" model to strengthen the coordination of various regulatory mechanisms and prudential supervision at the macro level. An in-depth analysis and comparison of the financial supervision system between China and Britain is of great practical significance for the reform of the current financial supervision mode and the establishment of the macro prudential supervision framework in China.

2. Literature Review

2.1 Research on financial supervision from the perspective of macro Prudential

After the outbreak of the global financial crisis, many countries have strengthened the prevention of systemic financial risks. The financial supervision from the perspective of macro Prudential has aroused the widespread concern of governments and scholars. In the 1970s, Cook Committee first put forward the view of macro prudential regulation. When micro prudential regulation involves macro issues, macro prudential regulation issues arise. Liu Zhichao (2015) defined it as the supervision and management of systematic risk from a macro perspective by the regulatory authorities in consideration of the stability of the financial system and the remedy of financial regulatory loopholes [1]. With regard to the institutional setting of macro prudential regulation, Merrouche and Nier (2010) proposed that the mode of regulatory organization is an important factor affecting the financial crisis based on the investigation of the member countries of the European Economic Cooperation Organization [2]; Blanchard and others (2010) believed that the central bank with the functions of monetary policy-making and prudential regulation can achieve the goal of price stability and financial stability better [3]; Liu Zhiyang (2012) after summarizing the development history of central banks in various countries, considering China's national conditions and the needs of regulatory reform, it is considered that a macro prudential supervision committee should be established within the People's Bank of China [4].

2.2 Research on the financial supervision system of China and the UK

In recent years, many scholars have made comparative analysis on the financial supervision system from the perspective of law, organizational structure and other aspects, discussed the problems existing in China's financial supervision and put forward suggestions for improvement. Du Li and Gao Zhenyong (2007) summed up the development process of financial operation and supervision mode in Britain and Germany, and thought that mixed operation is the future development direction of China's finance, and the corresponding financial supervision mode should also be transformed from separate supervision to unified supervision [5]; Zhang Aimin (2012) discussed the reason of China's financial supervision dilemma from the legal point of view, which is the lack of special financial coordination law. The loose joint

meeting is difficult to solve the conflicts of interest between various departments and fill in the supervision loopholes [6]; Wang Jing (2015) also proposed that China should improve the relevant financial supervision laws and gradually complete the reform of mixed supervision [7]; Shi Wei (2016) analyzed the reform process of the British financial supervision mode, and believed that the dual peak unified supervision mode is not suitable for the development of China's financial industry, and the super sector full-time machine The establishment of the structure is the best choice [8]; Deng Ying (2016) studied the effectiveness of the British regulatory model before and after the subprime crisis, and concluded that strengthening the regulatory power of the central bank is conducive to reducing regulatory costs and improving regulatory efficiency [9].

3. Development and Current Situation

3.1 Development path of China's financial supervision

In the past 40 years of reform and opening up, the construction of China's financial supervision system has shown obvious gradual and phased characteristics, which can be roughly divided into three stages:

(1) The formation and development of a unified regulatory system (1978-1992). In this stage, the construction of financial supervision system is closely linked with the reform of economic system. The people's Bank, as the sole regulator, supervises the banking, insurance, stock, bond, trust and other business activities in accordance with rules and regulations and administrative means, so as to maintain the safety of financial system and the steady operation of financial institutions;

(2) The formation and development of the separated industry supervision system (1993-2016). In the 1990s, the pattern of financial system changed greatly. After a round of rapid development, the internal risk factors of China's financial system accumulated, and in the Asian financial crisis, financial supervision was paid more attention. In this stage, the financial supervision system has changed from unified supervision to separate supervision, forming a supervision pattern dominated by the people's Bank of China, China Banking Regulatory Commission, China Securities Regulatory Commission and China Insurance Regulatory Commission. The main responsibility of the people's Bank of China is to supervise the money market, trust institutions, anti-money laundering and other aspects of finance. The main responsibility of the "Three Associations" is to formulate regulations and normative documents of regulatory authorities, and to prudently supervise the corresponding industries through business review, on-site inspection and other ways;

(3) The formation and development of the comprehensive supervision system (2017 to now). In order to effectively strengthen financial supervision and improve the ability to prevent and resolve financial risks, the fifth national financial work conference in 2017 proposed the establishment of the financial stability and Development Committee, which was approved by the Party Central Committee and the State Council in November of the same year. In March 2018, in order to deepen

the reform of the financial system, conform to the trend of comprehensive operation, implement functional supervision and strengthen comprehensive supervision, the CBRC and the CIRC were merged to form the Insurance Regulatory Commission of the Bank of China. China's financial supervision system has entered a new era dominated by the "one committee, one bank and two meetings" of the financial stability Commission, the people's Bank of China, the banking and Insurance Regulatory Commission and the CSRC, and the pace of comprehensive supervision has officially begun.

3.2 Development history of financial supervision system in the UK

The British financial industry has a long history, and the regulatory model has gone through the reform from separate supervision to mixed supervision and then to some mixed supervision. As the birthplace of free marketism, the traditional British financial supervision mainly focuses on the self-discipline management of financial institutions. In 1979, the UK promulgated the banking law, which formally began the exploration of legal financial supervision. Before 1997, the UK implemented a separate supervision mode in which the Bank of England, the Ministry of Finance and other departments supervised and managed different financial business areas. However, with the continuous development and deepening of the financial industry, the constraints of the separate supervision mode gradually appear, the coordination cost between departments is high and the cooperation degree is low, and the function interlacing between institutions brings unnecessary supervision cost, and restrains the innovation in the financial field, which affects the competitiveness of local financial institutions and foreign-funded institutions in the UK. The bankruptcy and bankruptcy of the Bank of Bahrain became the direct reason for promoting the reform of mixed industry supervision in Britain. In 1997, the Bank of England law was promulgated, which separated the function of supervision from that of the Bank of England. In 2000, the Financial Services Supervision Authority was established, which was responsible for the functions of the supervision departments of the original nine departments and formally implemented mixed industry supervision. The global financial crisis in 2008 exposed the inherent defects of the British regulatory system. The British government issued a white paper on reform, proposed a plan to reform the financial regulatory system, and established the core position of the Bank of England in maintaining the stability of the financial system. The existing tripartite regulatory system will be replaced by the "quasi two peak" model. Under the new framework, the degree of macro prudential supervision is being strengthened, and the importance of coordination mechanism is becoming more prominent.

3.3 Macro Prudential framework of "super central bank + double peak supervision" in the UK

After the outbreak of the global systemic financial crisis, the UK has carried out a regulatory system reform focusing on the prevention and resolution of systemic

risks, strengthened macro prudential supervision, highlighted the core position of the Bank of England, and established a new framework of "super central bank + dual peak supervision". The specific responsibilities are as follows: first, after the legislative framework of financial supervision is formulated by the parliament, the Ministry of Finance and the Bank of England are required to set up the financial supervision framework and perform the regulatory responsibilities. The Bank of England needs to report to parliament on its performance through the Finance Committee of the house of Commons on a regular basis. The Ministry of finance is responsible for designing the overall framework of financial supervision, implementing and implementing the country's monetary and fiscal policies, and is responsible for all decisions involving public funds. Secondly, the Bank of England has a financial policy committee, which coordinates micro and macro prudential supervision and is responsible for maintaining large banks in the UK. The Bank Group operates steadily, acts as the lender of last resort, takes precautions against systemic financial risks, and maintains and enhances the stability of the UK financial system. Finally, the Bank of England's external institution, the financial conduct authority, operates in the form of a limited liability company. The chairman and President of the board of directors are appointed by the Ministry of Finance and are directly responsible to the Parliament and the Ministry of finance. It is a relatively independent institution. And to achieve consumer protection, enhance the soundness of the financial system and promote effective market competition as the operational objectives.

4. Comments on the Financial Supervision System

4.1 China's separated supervision mode is not suitable for the rapid development of finance, and the reform of comprehensive supervision system needs to be promoted

The mode of financial management and supervision has laid a good foundation for the rapid development of China's economy in the past ten years. However, with the development of financial innovation and economic globalization, the disadvantages of the mode of financial management and supervision have gradually emerged, mainly as follows: (1) supervision vacuum and repeated supervision. Under the mode of separated supervision, the actual cooperation effect between departments is not good. In the face of the changing financial market environment, it is difficult to clearly divide the regulatory scope of various institutions, and there are often regulatory gaps or repeated regulatory phenomena; (2) the legal system is not perfect. The existing law of the people's Bank of China and securities law do not cover all corners of the financial market. In the actual supervision process, more administrative means are used to regulate financial service behavior, which fails to form a good regulatory and guiding role; (3) fintech's challenge to the traditional supervision mode. The vigorous development of financial technology promotes financial innovation and improves the efficiency of the financial market, but at the same time, it also blurs the boundaries of the original financial supervision, which to

some extent brings space for some criminal acts to evade supervision; (4) the degree of macro prudential supervision is insufficient. In recent years, the frequent occurrence of local financial risks shows the inadequacy of the existing micro Prudential Management Framework in China. The financial mixed industry supervision and the macro perspective of systemic risk supervision need to be promoted.

4.2 The new framework of "super central bank + dual peak supervision" in the UK effectively realizes the simultaneous micro and macro prudential supervision

In the face of the impact of the 2008 financial crisis, the three sector regulatory system split in the UK failed to play an effective role and exposed its internal defects. The UK government began to implement a series of financial regulatory system reforms, the core of which is the Bank of England, which is responsible for both micro and macro prudential regulatory functions and maintaining the stability of large domestic banking groups. The stability of the operation and financial system strengthens its systematic risk supervision function as the central bank. At the same time, the Ministry of finance is responsible for designing the overall framework of financial supervision, making final decisions on the plans involving all public funds, and forming the dual peak macro prudential supervision framework of the super central bank and the Ministry of finance. Its advantages mainly include the following two points: (1) the effectiveness of the macro Prudential framework. The legislative power, policy-making power and supervision and law enforcement power of macro Prudential are effectively separated to form a mutual check and balance between the central bank and the Ministry of finance, which avoids the regulatory dilemma of being both "athletes" and "referees"; (2) the effective combination of macro prudential supervision and micro Prudential supervision. Strengthening the core position of the Bank of England as the central bank, coordinating the macro and micro prudential supervision, and combining the two organically, can not only effectively prevent the micro individual financial risks, but also effectively prevent the macro systemic financial risks.

5. Conclusion & Suggestion

With the continuous development of financial technology and global economic integration, China's financial supervision system based on separate supervision has not been able to meet the requirements of macro prudential supervision. As a developed economy in the world, since the global financial crisis in 2008, great achievements have been made in the reform of financial regulatory system in Britain, which is of great significance to the construction of macro Prudential macro prudential regulatory framework in China. Based on the current supervision mode of "one bank, one committee, two meetings" in China and the experience of British supervision system reform, this paper puts forward the following suggestions: (1) attach great importance to and strengthen macro prudential supervision. To establish and strengthen macro prudential supervision is the focus of the reform of financial

supervision system in the post financial crisis era. China's economic development has entered a new normal. Under the background of great downward pressure on economic development, uncertainty factors of financial operation are increasing, financial risk prevention work must be strengthened, and it is imperative to build a unified macro prudential regulatory framework; (2) accelerate the reform of the comprehensive financial regulatory system, and build a Chinese "two peak regulatory" model. Different from the micro prudential regulation aiming at the stability of a single financial institution and a single financial sector, the goal of macro prudential regulation is to achieve the stability of the whole financial system and prevent the outbreak of systemic risks in the financial system. The financial regulatory system based on the separated supervision in China is not suitable for the requirements of macro prudential regulation. In order to overcome the loss of regulatory efficiency caused by the difficulty of coordination between the "one committee, one bank, two meetings", it is necessary to strengthen the function of the newly established financial stability and Development Committee, strengthen the macro prudential regulatory function of the central bank, set up an independent financial policy and legal planning department within the central bank, effectively integrate the laws, regulations and policies of the financial industry, and establish a unified and perfect standard, Form a "one bank, one committee" double peak supervision mode; (3) strengthen the protection of investors and refresh the public's confidence in financial services. The UK's financial conduct supervision bureau, an external institution of the Bank of England, is a highly independent institution, which does not accept any funds from the government and all funds are from the fees paid by the regulated companies. It has better protected the rights and interests of consumers and improved the public's confidence in the financial services industry. However, the financial consumer protection department set up in China still belongs to the internal department and bureau of "one bank, two meetings", and the supervision lacks independence. It is considered that its independence is beneficial to solve the conflict between investor protection and prudential supervision fundamentally.

Finally, the financial supervision system is not universal. The biggest reference for China is the idea and method of supervision, not the system itself. Based on the experience of other countries, we need to introduce a financial supervision system with Chinese characteristics that is suitable for the needs of national economic and financial development in combination with the actual situation of the country.

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