



A COMPARATIVE STUDY OF THE STRUCTURE OF SUPERVISING THE FINANCIAL MARKETS IN IRAN AND THE SELECTED COUNTRIES

Elham Abasgholi Beik

Economic Master of Science, Islamic Azad University- South Tehran Branch, Iran

Zahra Zadehnsir

Economic Master of Science, Institute for Planning and Economic Research, Iran

ABSTRACT

Financial markets are the most important sectors of each country's economy. Having the desired economic growth rate will be impossible without an efficient institution. The most basic interaction efficiency and proper functioning of a country's financial regulatory system is a complete and powerful supervision authority and agencies. The results indicate that the majority of countries in addition by having separate supervisory institutions for banking, insurance and stock market, due to be a multi financial institutions are moving toward the integration Of financial supervision. On the otherwise in heading countries the body of financial supervision has been changed in recent years.

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1. INTRODUCTION

There are many questions about the financial supervision that are not still answered. It is clear that supervising the financial institutions is very important. Without supervision, the market mechanisms can not be relied; nevertheless, many aspects of the supervision of the financial institutions have remained unknown. It is not clear what the desirable role of the central bank is in the perspective of the supervision, how the relation of the central bank with other supervision institutions is, what the meaning of rescuing an institution that is going bankrupt is, what the level of the desirable intervention is, and importantly, whether supervision of the financial institutions leads to the prevention of the crisis at the level of the industry or not, whether rescuing financial institutions means rescuing the whole financial market and how the systematic risk affects on the whole market.

It is clear that legislation systems and supervision on the financial services industry are designed to achieve certain aims. These aims are: a. the safety of the financial institutions, b. reduction of the systemic risk, c. fairness and efficiency of the market, d. supporting the customers and investors. While these extensive aims are important, they ignore another factor must be noted in any supervision system, i.e. minimization of the supervision load through increasing the cost effectiveness. It is worthy to note that any financial supervision models are designed to achieve the financial supervision aims though by different ways. The differences between the supervision models become more noticeable when the supervision models are examined in terms of the supervision loads, or in other words, the cost effectiveness.

2. LITERATURE OF THE SUBJECT

2.1. Aims of the Supervision of the Financial Markets

Historically, the definition of the term "financial market" included banking, financial and insurance sectors. The border between the financial institutions, financial instruments and financial markets was clear; so that different classes of the financial intermediaries became totally distinct.

These distinctions were reflected on the legal structures of different institutions in banks (often, in the central bank), the stock exchange, and the insurance companies at the national and international levels (such as Basel Committee for the bank supervision, the International Organization of Securities Commissions (IOSCO), and the international association of insurance supervisors) (Di Giorgio and Di Noia, 2002). Since the border between different financial institutions fades gradually, the financial market can be considered as an economic space where different institutions offer financial instruments and services such as banks, financial intermediaries, insurance companies and pension funds. Overall, legislation on the financial market is a flow coming from the intervention of the society in the economic problems. This intervention is generally based on the need to remove the market's deficiencies and the unfair distribution of the resources (Di Giorgio and Di Noia, 2002). Legislation on the financial system can be considered as a clear instance of people's supervision on the economy. Since regulations of the financial market are very important for the economy and the stabilization of the global financial system (and also for the financial system of any country), their aims must be strictly noted. The first aim of legislation on the financial market is to supply the economic stabilization at micro- and macro-levels.

Protection of the stability of the financial system means to control the currency, rate of interest, and the payment system at macro-level and these tasks as well as loaning must be performed by an institution as the last authority of loaning that is responsible for the financial policy, i.e. the central bank (Emami and Naderi, 2007).

2.2. Financial Supervision Models

There is no best theoretical model and even a practical approach with the highest result under all conditions to set out regulations of the financial market and supervise it. Table 1 briefly shows the existing supervision models:

Table-1. Common models of supervision on the financial market

Institutional supervision	It is a model in which the legal position of the institution (e.g. bank, intermediaries, insurance company) determines which supervision institution must supervise the activity of the institution in terms of safety, rectitude and attitude to the market
Purpose-based supervision	It is a model in which the purposes of the supervision determine the supervising institution. Any institution is responsible for achieving certain purpose(s) of the supervision purposes.
Performance-based supervision	It is a model in which the supervision institution is determined by the type of the economic activity the institution does, regardless of its legal position. Any economic activity of an institution may have its own supervision institution.
Integrated supervision	It is a model in which a unique and universal supervising institution supervises the financial institutions' regulations related to the safety, rectitude and attitude to the market.

In sum, it must be said that there is no unique theoretical model and even no general desirable approach to regulate and supervise the financial market. The best and most desirable supervision model and approach must be selected by certain conditions. As financial institutions and markets develop, supervision systems must be also developed and changed accordingly. A strong management and competent managers can somewhat remove the barriers and deficiencies due to the undesirable supervision structures; but sometimes, it is necessary to update the supervision systems to be able to adapt themselves to the financial evolutions, the market's realities and the global integrity.

3. SYSTEM OF REGULATION AND SUPERVISION OF THE FINANCIAL SECTOR IN IRAN

The financial system of the country witnessed important evolutions in the extension of the financial markets and movement towards privatization due to the financial liberalization in the third and fourth programs of the economic, social and cultural developments of the country. In addition in recent years, a new phenomenon known as "the financial group" is observed with a very extensive field of activity in the ,financial market of the country that is due to the entrance of Iranian banks to the capital and insurance markets by establishing the associated institutions.

According to their activity in different markets and also the separation of the supervising authorities of the financial sector in Iran, companies and the institutions composing the above financial groups go under the supervision umbrella of one of the related authorities according to the services they provide, i.e. the central bank, the stock exchange organization and the central insurance; institutions each with a certain approach of regulation and supervision. Protection of the safety and stability of the financial and economic system of the country requires that the above supervising authorities interact and cooperate with each other. All of them make it necessary that the supervising authorities of the financial sector of the country cooperate with each other.

3.1. The Bank Supervision in Iran

Effective bank supervision is one of the basic prerequisites to make sure of the desirable performance of the economic system of the country. The main purpose of the bank supervision is to protect the stability of the financial system and increase its trust by reducing the risk for the depositors and other creditors. Hence, supervision is to ensure that banks and credit institutions operate safely and correctly; have adequate capital and savings to confront the risks before them.

The central bank of the Islamic Republic of Iran that is responsible for the supervision on the banks and credit institutions according to the paragraph "b" of the article 11 of the money and banking act of the country (approved in July, 1972) adopted the "risk-based supervision" approach as the main approach of supervision on banks and credit institutions of the country in the late 1990s using the latest achievements of the professional centers and communities and for this purpose, beside restructuring the field of supervision on banks, it formulated the prudential regulations and extended modern bank literature in the country.

The elements of the central bank of the Islamic Republic of Iran include the general meeting, currency and credit council, board of directors, board of supervision on the reserved bill and board of supervisors. The board of supervision on the reserved bill is responsible for supervising the way the article 5 of the money and banking act of the country is enforced through delivering and maintaining the bills printed and keeping the accounts of the assets of the article 5 of the act mentioned above and the list of the national jewelries and setting regulations of displaying them and supervising their shifting from the bank's treasury as well as supervising the removal of the bills must be removed from the stream. The board of supervisors is also responsible for dealing with the accounts and commitments of the central bank of the Islamic Republic of Iran that comments on the precision of these accounts and commitments. Dealing with the end year balance-sheet of the central bank of the Islamic Republic of Iran and providing reports for the annual general meeting, dealing with the detailed list of the assets and debts and the summary of the bank accounts and their license for publication and dealing with the bank operations according to their adaption to the legal codes are also the main tasks of the board of supervisors (Central Bank of Iran, 2013).

At present in addition to the central bank, there are various institutions to examine different dimensions of the banks' activities including the Islamic Consultative Assembly, the General Inspectorate of Iran, Ministry of Economy and Financial Affairs, Audit Office, Financial Tribunal of the country, Administrative Court of Justice and the Judicial Power.

The internal control sector in banks is also responsible for supervising and controlling the bank accounts and operations constantly and using the banks' resources optimally in the framework of the act of the non-gavel bank operations. The non-development of the inspection offices of banks in parallel with the extension of banking network has resulted in the non-inspection of some branches constantly. Inspectors and auditors of the central bank and other organizations supervising the banks face also these problems due to the high number of the bank offices and branches and in addition, their role is to supervise the enforcement of the regulations and monetary and bank

policies and the circular letters issued and examine the general status of the banks according to the values in their summary book or make decisions based on "quantitative judgments". However, a supervising organization must be also able to judge the power of the bank's management, the ability of the bank's systems and controls, the viability of the strategy and the potential incomes of the bank qualitatively. Therefore, there are many different organizations and institutions for supervising the activity of banks, and some of them may act similarly and the high number of these institutions has caused problems for the banks (Seid Nourani *et al.*, 2011).

3.2. Supervision on the Capital Market in Iran

With the development of the capital market and the performance of this market in the economy, the economic conditions and social welfare can be provided. The above roles are dependant on the supervision on this market that is the most important task of the stock exchange.

The tool that can provide the necessary supervision is affected by the rules governing the capital market. Supervision on the capital market occurs in different forms including supervision on the entrance of the companies, publication of information, market, companies and brokers (Tehrani and Mirlouhi, 2007).

The stock exchange organization is composed of different components such as the council of exchange. Two main deputies in the stock exchange organization supervise the activities of this financial institution and its subsidiaries. One is the deputy of supervision on the financial institutions of the stock exchange organization with the aim of arranging and improving the performance of the financial intermediaries and is responsible for a range of activities from issuing, suspending or canceling the license of the financial institutions to supervising the operations and inspecting their performance according to the provisions of the securities market act of the Islamic Republic of Iran. And the other is the deputy of supervision on the exchanges and issuers with the aim of organizing the activities of the issuers of securities, exchanges and markets and supervision on these activities. These activities include the activities in the primary and secondary market (Securities and Exchange Organization, 2013).

The administrative operations of the exchange are performed by the organization of brokers and this organization is composed of the board of directors and the secretary general chosen by the brokers. Brokers are the main players of the operation of this market and the main section of supervision is supervision on the behavior and actions of the brokers in this market. In the stock exchange, the supervising and administrative organizations are not also separated and often interfere with each other and this is noted by the supervisors and new rules of the exchange (Tehrani and Mirlouhi, 2007).

3.3. The Supervision Structure in the Insurance

At present, the major players of the insurance industry of the country include a supervision institution, a public insurance, sixteen private insurances and two reinsurance companies. The central insurance is the top of this industry as the supervising insurance. The supervision structure

of the central insurance of Iran is composed of four main elements including: the general meeting, the high council of the board of director's insurance and inspectors, each with its own structure and tasks. Some main tasks of the high council of insurance are as follows:

Dealing with and commenting on the issuance of the permit or the cancellation of the permit of the insurance institutions according to this act and suggesting it to the general meeting, approving the sample balance-sheet should be used by the insurance institutions, determining the types of the insurance transactions and the general conditions of the insurance policies and supervising the affairs of the reinsurances, determining the remuneration and premium of different fields of direct insurance, approving the necessary codes to direct the insurance and activity of the insurance institutions, etc. Some important tasks of the general meeting are as follows: determining the general policy, dealing with and commenting on the annual report of the director general of the central insurance of Iran, dealing with and approving the budget, the balance-sheet and the loss and profit account and the order of profit division, approving the financial and administrative codes and organization of the central insurance of Iran, choosing the inspectors, etc.

Providing the code and regulations necessary to enforce the insurance in Iran according to the provisions of this act, providing necessary information from the activities of all insurance institutions working in Iran, providing compulsory reinsurance, accepting arbitrary reinsurance from domestic and foreign institutions, assigning the reinsurances to the domestic or foreign institutions in any suitable case, administrating the fund of supplying physical losses and arranging the code of the subject of the article 10 of the compulsory insurance act, the civil liability of the owners of the land motor vehicles for the third party approved on January 1968, directing and supervising the insurance institutions and supporting them to protect the safety of the insurance market and arranging the reinsurance affairs and preventing from deceitful and immoral competitions. The central insurance of Iran must protect the secret of the institutions it must supervise according to this act and must not exploit the information obtained when enforcing this act except for the cases determined by the law (Mosadegh, 2009). Doing economic activities related to the insurance has certain features on which the financial supervision is very important. The insurer receives premium from the insured and provides the necessary cover. These premiums and the incomes of the investment must be sufficient to pay for: 1) the losses incurred during the period of the policy, 2) overhead expenses and the costs related to the distribution, and 3) suitable ROI for the stockholders, or supplying the future development of the company. Financial supervision on the insurance companies or in other words, supervision on the solvency of the insurance companies is also one of the supervisory tasks of the central insurance. In most developed countries, there are various insurance companies that are merely buyers of reinsurance. In some countries, reinsurance contracts must be inspected by the supervision institutions, especially those concluded by direct insurers. However in our country, there is also foreign reinsurance besides two reinsurance companies and the central insurance is also the largest reinsurance. As a supervising institution legally governing the insurance industry for the government, the central insurance of Iran plays also the role of a reinsurance company due to the

act of the compulsory reinsurance, that requires sharing the loss and profit of the commercial insurance companies and participation in the insurance market of the country and the world as a reinsurance insurer (Kardgar and Rasouli, 2009).

4. THE FRAMEWORKS OF THE FINANCIAL SUPERVISION IN THE SELECTED COUNTRIES

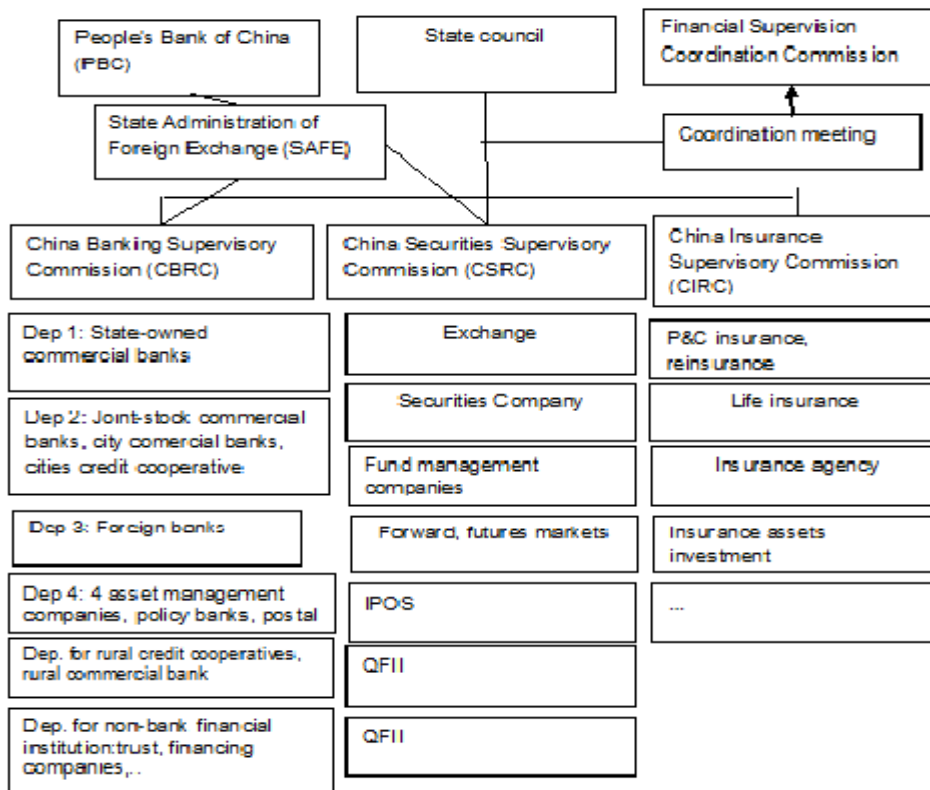
4.1. The Supervision System in China PBC

Until 1992, PBC was the only supervisor of banks, securities and insurance. Like Shanghai Stock Exchange and Shenzhen, it began working on Nov. 26th, 1990 and Dec. 1st, 1990. In Oct. 1992, Securities Regulatory Commission (SRC) worked inside the cabinet and China Securities Regulatory Commission (CSRC).

Although PBC is responsible for supervising the securities companies, in 1997, the responsibilities of supervision on the stock exchange and securities companies shifted from SRC and PBC to CSRC. In Apr. 1998, SRC was integrated with CSRC and CSRC was the only authority supervising and adjusting securities companies and markets. In Nov. 1998, China Insurance Regulatory Commission (CIRC) was established as the insurance supervisor on Apr. 28th, 2003. China Bank Regulatory Commission (CBRC) was founded to take the tasks of bank supervision from PBC. Up to the late 2003, all operational costs of CBRC were included in the state budget. On Jan. 1st, 2004, an amount of remuneration was introduced based on the financial system to CBRC. A systemic distinction was made between the remuneration of the institutional supervision of 0.08% of the bank's capital paid and the business remuneration (0.01 to 0.02% of the total assets to the asset threshold 5000 billion dollars). CSRC and CIRC were first financially supplied by the remuneration. The Chinese supervision structure is described by separation of bank from securities and insurance services. Supervision on bank, securities and insurance is the responsibility of three sector supervisors completed by the association of coordination with the cabinet as the final decision maker, and it shows an institution supervision approach in this country.

However, the development of the banking business in the pioneering experiments is more challenged by the bank's equal participation in asset management companies from 2005, in insurance companies from 2009 and the emergence of financial complexes through the Holding structure and the task of coordination. At present about the suggestion of establishment of a commission of coordination of the financial supervision for making the role of the supervision coordination more active, it is better that the financial holding companies supervise and innovation is promoted in the cross section productions (Yanli, 2009). The supervision structure of China is shown in Graph 3.

Graph-3. The supervision structure in China (source: (Leochel and Pachhan, 2010))



4.2. The Insurance Supervision Structure in the UK

4.2.1. England Financial Service Agency (EFSA)

EFSA is responsible for different financial activities of organizations and the associated companies. The most important affairs FSA can supervise are policymaking, cooperation of financial systems, international activities, performance of the financial market companies, i.e. the insurance, the exchange and banks, and the assets and financial changes of these institutions. Table 2 shows a review of the supervision structure of the countries members of the EU.

FSA was founded on Jul. 1st, 2000 due to the integration of the financial supervision agency and the organization for designing financial systems under the supervision of the ministry of finance. This action was considered as the revision of the financial executive structure for which the ministry of finance was responsible before. The supervision structure of this agency is designed as a matrix. In addition, in organizing the activities and performance of its units, it is tried to always pay attention to the needs of the insurance companies and consumers as two major beneficiaries of supervision. The macro-purposes of FSA are as follows: promoting public understanding of England's financial system, increasing trust in England's financial system, reducing financial crimes and supporting the insured. The new approach of England's Bank and FSA institution is the foundation of a new institution called the "Prudential Regulation Authority (PRA)" as a sub-institution of England's Bank that will be legal and formal up to the late 2012 and its main approach is supervision on the insurance companies.

Table-2. EU's supervision structure of the financial markets

Basic models				
Countries	(1) sectional	(2) cross-sectional: functional	(3a) cross-sectional: integrated without the role of the central bank in banking supervision	(3b) cross-sectional: integrated with the role of the central bank in banking supervision
The EU	Belgium, Cyprus, Greece, Lithuania, Luxembourg, Romania, Slovenia, Spain	Belgium (2011), France (2003), Italy (1999), Netherlands(2002), Portugal (2000), England (2011)	Denmark (1988), Estonia (2002), Hungary (2000), Latvia (2001), Malta (2002), Poland (2008), Sweden (1991)	Austria (2002), Czech Republic (2006), Finland (2009), Germany (2002), Ireland (2003), Slovakia (2006)

(Source: (Schoenmaker, 2011))

PRA is responsible for supervising the insurance companies, depositing companies and a few number of investment institutions with each being able to produce significant risks for the financial stability of the UK.

PRA's evaluations include all related individuals inside the consolidated groups for UK's firms. For supporting this role, PRA looks for effective flow of information and working relations with other related legislators, including FCA and legislators supervising the overseas business processes. PRA has tools responsible for supervisory evaluation. PRA directs the legislators based on its legal decision making and supervision methods. Achieving this purpose is dependent on making decisions being somewhat transparent and simple for firms and reflecting the nature of the judgment-based prudential supervision. To guarantee the transparency and justice, the decisions made are stated before and representations and guarantee are taken into account. The basic assumption in the formation the supervision law in the UK is that supervision on a certain firm can not alone realize the financial stability, but supervision must be under a macro-prudential organization. In the new supervision system of the UK, Financial Policy Committee (FPC) is responsible for policies and macro-prudential decision making. Since PRA and FPC are both a part of the central bank of the UK, there is a frequent and mutual flow of information and exchange of ideas between them. Although PRA is responsible for supervising a certain firm, overlap between the decisions made by PRA and FPC is unavoidable. Some common members of FPC and PRA exchange the ideas and make the decisions. In addition, PRA provides the information of a certain firm for FPC to evaluate the perspective of the macro-prudential supervision. And on the other hand, the analysis of a potential prudential risk by FPC will help PRA's judgments about certain institutions, especially about testing the future vulnerability and stress. It gives instructions and

suggestions to PRA and FCA based on the supervision tools must be used for macro-prudential supervision purposes. PRA is responsible for implementing FPC-related recommendations based on the principle "adaptation or explanation" and orders of FPC to use certain macro tools and give reports at the stipulated time (England, 2012).

4.3. Macro-Prudential Supervision in United States

FSOC is a newly founded institution of prudential supervision in the US that is responsible for protecting the economy of the US against the financial crises. On the other hand, the establishment of this institution is also an important step to develop a new political arena.

SIFIS and FMUS still need the extension of more supervision. And identification and measurement of risk are important and developing issues in this context. In an international comparison, FSOC has the highest authority and tasks. Although a similar prudential supervision structure is developing in Europe and other places, FSOC has the widest authorities as the main structure of identification of systematic risk that identifies the threats of the financial stability in the US by extending the power and authorities on SIFIS and FMUS. One of the key responsibilities of FSOC is to determine a way to treat big companies that can be a significant threat to the financial stability of the US. For this purpose, the tasks of SIFIS were proposed by presenting a final act to the Federal Reserve and FDIC at the beginning of 2012. In addition, FDIC structured OLA as an institution receiving and organizing the events due to the failure or collapse of an institution that can be a threat to the financial stability of the US.

A key challenge for FSOC as the macro-prudential supervision structure and superstructure in the US is to reduce the gap between the supervising institutions in the financial system of the country. But the supervision perspective is still complex in the US. As a general result, it is can stated that FSOC provides effective information and facilitates communication throughout the supervising institutions in the US. In a step forward, FSOC has the important responsibility of developing the macro-prudential policy to coordinate the international and domestic supervising institutions. And this cooperation seems necessary due to the close relation between the international financial institutions and the boundary systemic risk. OFR integrates data at the early stages to get organizational data for supervision and analysis. OFR can prove that it is an independent arm of analysis supervising the micro- and macro-prudential supervision. The governmental structures of macro-prudential supervision are in different forms along with the jurisdictions and domains of power at very early stages. Two newly emerged trends are produced by the new supervision committee in the central bank or the supervision structure. FSOC is in the middle of this system. This new structure that is at the heart of the legislative and supervising leadership includes all merits and competences of the previous system, but without creating a new administrative structure. In this framework, Federal Reserve and Treasury Department are at the top position. To respond to the emerging threats, FSOC must integrate the driving force of the federal institutions toward a common purpose that is the financial stability in the US. As a macro-

prudential supervisor, FSOC identifies the banking and non-banking systematic financial institutions to be under the supervision of the Federal Reserve.

DFA is an institution enforcing the act of consumerism that has handed over the authority of legislation for several articles to one of the two FSOC organs or to the related legislating institutions in which FSOC plays a consultative role. For instance, determining SIFIs and FMUs for promoting the level of supervision, authority and direct power of FSOC needs two thirds of the majority vote and also the vote of the council director (Minister of Treasury). In this regard, FSOC has wider authorities compared to many similar institutions in other countries whose authorities are only to supervise and coordinate organizations. Like any institution considered to be systematically important, FSOC must send an annual report to the congress showing its activities, significant development of the market and the threats to the financial stability of the US.

DFA has determined the primary responsibilities for FSOC as follows:

- Regulatory coordination: FSOC facilitates communication between the legislators of the financial system and is also responsible for promoting more coordination inside the supervision structure.
- Data collection and evaluation: FSOC provides data dispersed among the supervising institutions to identify the systematic risk and other emerging threats.
- Nonbank prudential regulations: FSOC determines criteria under the rules of the Federal Reserve which nonbank firms face, including the required capital, and other safety regulations.
- Power of decision making: FSOC plays a significant role in determining the way of treating the firms whose failure can be a serious threat to the financial stability of the US.
- FSOC facilitates the trend of sharing information of the macro-prudential supervision and makes policies throughout the supervising organizations of the US to prevent from the communicational failures believed that occurred before and after the economic crisis of the US.
- FSOC usually gives suggestions to the preliminary financial supervision institutions about the elements of their prudential supervision, especially when a certain institution or group activity is a serious threat to the financial stability (Steffen, 2012), reports of Deutsche Bank, US).

5. A BRIEF COMPARISON OF THE SUPERVISION SYSTEM IN IRAN AND THE SELECTED COUNTRIES

The results from reviewing the supervision methods in Iran show that first the legal nature of supervision on banks is protection of the monetary stability in the country. The common method of supervision on banks is the comparative supervision in Iran and the comparative supervision was evaluated using the bank safety measures as is followed in Iran, and the results show that this supervision method is not efficient to protect the financial safety of the banks of the country (Seid Nourani *et al.*, 2011). Supervision on the insurance markets of the country is also tariff supervision after the reforms. The central insurance is responsible for all businesses of the insurance companies on one hand and acts as a reinsurance company on the other hand. There is no special supervision structure for the stock exchange organization and this organization has a supervisory task among other tasks.

In the countries mentioned, the role of the government has changed from an institution involved in the economic activities according to the formation of a private sector-based economy. In the financial markets, governance and control of the interference of this issue with accountability that is the biggest strike on an optimal and efficient supervision is one of the most important problems of the economic authorities in the capital market, insurance and banks. This accountability method of the government still exists in Iran, while these efficiencies don't exist according to the formation of strong and authoritative institutions of supervision in developed countries. In the supervision institutions of the developed countries, the regulations, the institutions associated to the central supervision institution, the responsibilities and tasks that are accurately included in their constitutions are noticeable. An important point is that in all countries reviewed, there is only one supervision institution. This institution is very developed with supervision methods at the high risk level in the UK and US. The supervision system of the countries members of the EU is also evolving to be consistent with institutions such as FSA. International interactions between the supervision institutions of the developed countries have formed an integrated financial supervision in these countries. Not only there is not a strong integrated institution independently in Iran, but public supervision institutions have also various supervisors in their financial markets and have many deficiencies to apply a strong and perfect supervision.

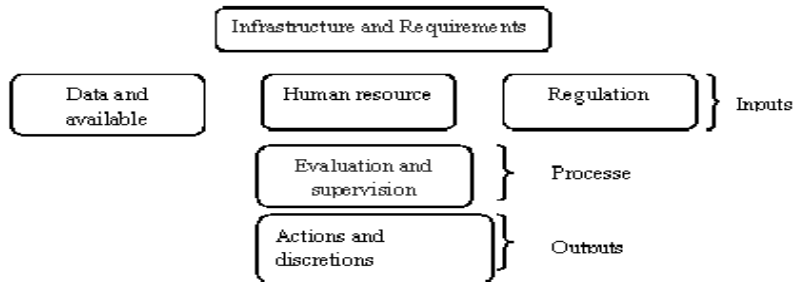
6. INTRODUCING THE SUGGESTED INTEGRATED FINANCIAL SUPERVISION MODEL IN IRAN

An integrated supervision institution can improve the process of knowledge transfer between the areas with many potential common points, facilitate using employees optimally and present better perspective of this profession. This institution imposes lower transaction costs on the society to treat and control the opposite purposes and responsibilities by resolving the conflicts internally and preventing from destructive and harmful conflicts between different institutions. This institution decreases the overhead expenses using economies of scale. For example, it decreases the costs of employing new and competent forces by assigning these forces better to different positions and the firms under control and also the concentrated supporting services. The available approach of the system of supervision on the financial service sector of Iran that can be determined for all financial service markets of Iran at a wider level is an institutional approach or model. An institutional model is a model in which the legal position of the institution (e.g. bank, intermediaries, and insurance company) determines which supervision institution must supervise the activity of that institution according to the safety and performance in the market.

Determining or suggesting the supervision model or approach at this scale is outside of the field of the present research. In the present model or approach, the stock exchange organization supervises the companies accepted in Tehran's exchange and other associated markets including the OTC. The central bank of the Islamic Republic of Iran supervises the banks and credit institutions of Iran. The central insurance of the Islamic Republic of Iran also supervises the insurance industry of Iran. Three institutions above supervise the financial service markets (although a part of the

supervision domain of the stock exchange organization extends to the fields other than the financial services, according to the available model, all institutions offering financial services are under the supervision of one of these institutions). Simply speaking, regulations must be complied by the institutions under supervision are the least standards and desirable circumstance designed and formulated by the supervising or legislating institution. The following graph simply shows the basic concepts about the process of supervision on the insurance institutions. After receiving the inputs, the financial institutions are evaluated. Then after comparing the circumstance and performance (the present circumstance) of the financial institutions with the regulations (the desirable circumstance), the supervising institution takes the necessary actions to treat the institution under supervision according to the regulations.

Graph-4. The background model of the new supervision structure (source: findings of the research)



When evaluating the circumstance of the companies and supervision on them, the supervising institution may conclude that the supervising institutions had better revise and improve the methods, standards, regulations, type of information and reports and the way of receiving them from the institutions under supervision themselves. Programs of the supervising institution may change and the supervision infrastructures may be even modified or it may be necessary to employ professionals with different quality and competence.

Finally, it must be noted that after making sure that the required conditions are provided to establish a new financial supervision system, the financial supervision system can be established using an operational program. Establishment of a financial supervision system also includes the establishment of an information system of financial supervision. Macro-programs of reforms and evolution at the level of industry must be enough consistent with the establishment of the financial supervision system and provide the necessary conditions.

7. CONCLUSIONS AND SUGGESTIONS

A constrained and controlled market does not change into an effective competitive market in a day. All actors of the market (including the supervising institution) need time to be consistent with the environment changed. Liberalizing the market and making it competitive need following a

reasonable and strict strategy including all necessary factors. As it can be concluded from the experience of other countries, changing the supervision system and moving towards a desirable supervision on the financial markets need suitable conditions, models, and general interaction of all financial institutions with each other.

The significant role of the supervising institutions in the developed financial markets and studying the experiences and achievements of these markets can help us design native optimal models. The experience of the developed countries in the financial supervision shows that the financial structure of any country must be the subset of a general integrated supervision system besides separate supervising institutions.

It is better to gradually replace the present financial supervision system and establish a new one that is prepared and modeled in the best way. Improvement of the supervision system does not occur easily and suddenly. Desirable systems are identified during the time, although they can not always be desirable. The best systems must be even improved during the time and adapted to the conditions. Systems are desirable if they are correctly established, desirably used, and correctly maintained and modified according to the conditions.

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