American International Journal of Business Management (AIJBM)
ISSN- 2379-106X, www.aijbm.com Volume 5, Issue 07 (July-2022), PP 139-145

Evolution and Enlightenment of the Global Financial Regulatory System

Lin Xiaowen

(School of Accounting & Finance,Xiamen University Tan Kah Kee College,China)

Abstract: *Financial supervision system is an institutional arrangement formed by a country under the comprehensive influence of political, economic, historical, cultural and other aspects. Through the comparative analysis of the evolution process of the global financial supervision system and the evolution of the financial supervision system of the United Kingdom and the United States, this paper draws the enlightenment of the reform and development of China's financial supervision system.*

Keywords- *Classification,development process,financial consumer protection,financial supervision system,international comparsion*

I. INTRODUCTION

The financial supervision system refers to the reasonable division and allocation of financial supervision functions in a country according to the current situation of financial development in the financial field, the characteristics, business functions and the purpose of financial supervision. It is an important content of financial supervision. Because countries have different national conditions, economic development status and historical and cultural traditions, the financial supervision systems implemented by various countries are also different and have their own characteristics. This article explores and compares the development process of financial supervision systems in different countries around the world, especially the United Kingdom and the United States, so as to draw enlightenment to China's financial supervision system.

II. CLASSIFICATION OF FINANCIAL SUPERVISION SYSTEM

2.1 Institutional Regulatory System

Meaning: Also known as the division supervision system, it starts from the type of license and legal attributes of financial institutions, establishes different regulatory entities and divides multiple regulatory departments according to the business nature of different financial institutions.

Features: Under this system, different regulators supervise their own financial institutions and exercise their own supervision functions within their own authority, without the power to supervise other financial institutions. The characteristics of this system are: more fine division of labor, clearer division of authority, "professionalization", and a more comprehensive grasp of the overall situation of the regulated objects.

Typical Countries: China, Hong Kong Special Administrative Region of China, Mexico.

2.2 Functional Regulatory System

Meaning: Functional supervision is developed based on the theory of financial supervision. Financial function theory pays more attention to the dynamic development and evolution of financial institutions. It is a further extension of divisional supervision. It focuses on the basic functions of finance rather than rigid types of institutions, and classifies the similar businesses of different financial institutions to the same regulator. Supervision.

Features: The functional supervision system can greatly save regulatory resources, avoid duplication of supervision and regulatory gaps, and have stronger flexibility and adaptability, and is suitable for mixed business models.

Typical Countries: Brazil, France, Italy, Spain.

2.3 Centralized Regulatory System

Meaning: Also known as "unified supervision system" or "mixed industry supervision system", it refers to a unified and comprehensive regulatory agency that carries out all-round supervision over financial institutions, financial products and financial markets, prevents systemic risks and protects the interests of financial consumers.

Features: The establishment of a single financial supervision entity can broaden the horizons of supervision, ensure the unity of supervision, prevent vicious competition among regulators, and effectively allocate regulatory resources.

Typical Countries: Canada, Germany, Japan, Singapore, Switzerland, United Kingdom.

2.4 Twin-peak Regulatory System

Meaning: One of the incomplete centralized supervision system, two types of regulators coexist: one is set up to prevent and control systemic risks, specializing in supervising financial institutions and financial markets; the other is to focus on the compliance management of the industry, specializing in supervising the business of financial institutions and financial business of related institutions, focusing on the industry. It also pays attention to the protection of consumer rights and interests.

Features: Adapting to the diversified development of the financial industry, two different types of regulators coexist, with a clear division of labor, concentration and efficiency, but also mutual restraint and competition.

Typical Countries: Australia, Netherlands.

III. EVOLUTION OF FINANCIAL SUPERVISION SYSTEM

3.1 The Development Process of the Financial Regulatory System From a Global Perspective

3.1.1 Mixed Operation and Centralized Supervision (before the 1930s)

Before the 1930s, the free market economy was in its most prosperous period, and financial institutions in various countries were still in the primary stage of development. The financial industry was basically a mixed business model, centered on the banking industry, the financial industry was not refined by the professional division of labor, and the securities and insurance industries were underdeveloped. Classical and neoclassical economics advocate "invisible hands". The government hardly interferes in the business behavior of financial institutions, and financial supervision is relatively relaxed.

In 1844, Britain enacted the Bill Ordinance based on the economic crisis cycle, which became an important basis for the Bank of England to perform its central bank duties. Under the mixed business supervision mode, the central bank is the only regulator. It is a typical centralized supervision system that lasts until the outbreak of the economic crisis.

3.1.2 The Stage of Separation and Supervision (1930s-1970s)

The outbreak of World War I led to high inflation worldwide and a sharp decline in the economy. The economic crisis during the Great Depression completely defeated the traditional "market omnipotence theory" and was replaced by Keynes' "government intervention". At the same time, the emergence of market failure theory and information economics was also for financial regulation. The emergence provides a theoretical basis. The introduction of the Glass-Steagall Act in the United States in 1933 separated the banking industry from the securities industry, thus realizing the financial division supervision system and greatly restoring the U.S. financial industry.

Since then, Italy, Japan, Germany and France have drawn on the division control system of the United States and regulated them. The division supervision system has gradually become the mainstream of financial supervision, and the importance of financial supervision has also been widely recognized.

3.1.3 Mixed Operation and Centralized Supervision Stage (Since the 1970s)

Excessive financial regulation makes it impossible for financial institutions to operate independently, causing huge efficiency losses, and the development of financial institutions has been limited to a certain extent. In the 1970s, Western countries experienced "stagflation" and financial liberalization, which led to the collapse of Keynesianism. The financial crisis after the 1980s made countries around the world aware of the need to reform the financial regulatory system. At the same time, regulators also began to pay attention to the balance of efficiency and security, advocating Financial stability is the core of financial supervision.

3.2 The Development Process of China's Financial Supervision System

3.2.1 The Period of the People's Bank of China as a Regulator (1949-1978)

From the early days of the founding of the People's Republic of China to the reform and opening up, the development of China's financial industry was relatively slow, and the business form of the financial industry was relatively simple and easy to understand. Therefore, the task of supervising the financial market was relatively easy, mainly the responsibility of the People's Bank of China, as China's financial regulator. However, at that time, the financial industry was under the background of a "greatly unified" centrally unified planned economic system. Under a high degree of repression, its development was restricted by a certain extent, not financial supervision in the modern sense.

3.2.2 Period of Centralized Financial Supervision (1978-1992)

In 1978, the implementation of China's strategic policy of reform and opening up has gradually established and improved China's financial system. Against this background, the independence of the People's Bank of China has been strengthened, professional banks have been separated from the central bank and gradually commercialized, and a number of joint-stock commercial banks, securities and trust companies have been established in the financial field, the business scope has been expanded, and the financial industry has developed rapidly. The People's Bank of China was the national financial regulator in the 1980s and 1990s, mainly responsible for the supervision of the banking, securities and insurance industries.

3.2.3 Period of Supervision of Separation of Business (since 1992)

In the 1990s, China's financial system was gradually established and improved, and the financial supervision system also shifted from centralized supervision to sub-segregated supervision. The establishment of the China Banking Regulatory Commission in 2003 marked the formal formation of the division supervision pattern of China's "one bank and three meetings". Since the 21st century, with the continuous acceleration of China's financial development, financial innovative products have emerged one after another, and the market environment has become increasingly complex. In order to solve the supervision overlap and supervision under the current regulatory system, the state has been solved. Blanks, vague regulatory responsibilities and other issues, the China Banking and Insurance Regulatory Commission were merged in 2018, integrating and optimizing the regulatory responsibilities of the China Banking Regulatory Commission and the Insurance Regulatory Commission, optimizing the allocation of regulatory resources, and further ensuring the country's financial security.

IV. Development and Comparative Analysis of the Anglo-AmericanFinancial Supervision System

4.1 Financial Regulatory System in the United States

4.1.1 Period of Separation Supervision

The United States has set up different regulators in the financial industry and adopted a separate regulatory system. The U.S. financial industry has a long history of development and a high level of development. At the same time, it has also been strictly regulated by the state. In the past 100 years, the financial supervision system has been gradually improved piecemeal, gradually forming a complete financial system and financial system, and gradually forming its own characteristics and advantages.

The earliest financial supervision system was born in the United States. In the initial development stage of the financial industry, the U.S. regulatory system follows the political concept of decentralization, checks and balances. It is a typical long-headed division supervision model, showing the characteristics of "double-line bulls". The federal and state governments jointly have regulatory powers and exercise regulatory functions at the same time.

After the economic crisis in the 1930s, a large number of banks in the United States fell into development difficulties. At the same time, they also exposed the disadvantages of the inefficient regulation of the regulatory system, the timely response to the crisis, and inadequate protection of consumer rights and interests. The U.S. Congress learned from the crisis to maintain financial stability and rebuild public trust, and enacted the Glass-Steagall Act in 1933, which unified the original ineffective means, focused on protecting consumer rights and strengthening restrictions on banking.

4.1.2 Combination of Institutional Supervision and Functional Supervision

In 1999, the Financial Services Modernization Act enacted in the United States clarified the principles of functional supervision, completely ended the situation of separation and regulation, and established an "umbrella" supervision model: on the basis of the Federal Reserve, as the central financial regulator, has an overall regulatory function for the country's financial institutions. Each financial regulator supervises financial institutions according to the nature of their business. Umbrella supervision essentially combines functional supervision with institutional supervision, marking a new era in the U.S. financial industry and ensuring the stable development of the U.S. financial industry for a long period of time.

"Umbrella" supervision guarantees the long-term stable development of the U.S. financial industry, and the "double-line long" supervision model has also achieved remarkable results. Until the outbreak of the subprime mortgage crisis in 2008, it exposed the drawbacks of overlapping regulations, regulatory gaps, and inadequate protection of consumer rights and interests. In response to these problems, the U.S. government carried out further reforms and expanded it in the Dodd-Frank Wall Street Reform and Consumer Protection Act launched in 2010. The Federal Reserve's regulatory authority has strengthened its regulatory function as a "super regulator", expanded the clearing power of the Federal Deposit Insurance Corporation for systemically important banks, and established a new Financial Stability Regulatory Commission and the Consumer Financial Protection Authority. This series of targeted measures has modified and supplemented the original "double-line long" model, making up for its loopholes and shortcomings.

4.2 British Financial Supervision System

4.2.1 Period of Separation Supervision

Britain has long implemented a separate regulatory system. In 1694, the British government established the Bank of England in England. As a new financial supervision system, the British financial supervision system is not legally defined. It mainly relies on the self-regulation of financial institutions and the management of the Bank of England, which forms a Traditional "separation supervision" and "self-discipline supervision". In the

1970s, a large-scale "secondary banking crisis" broke out in the UK, which put many banks at risk of bankruptcy. The British government passed the Banking Act in 1979, which strengthened the regulation of banks and legalized their regulatory functions, becoming an important milestone in the British financial management system. .

4.2.2 Period of Unified Supervision

In the 1980s, the British government gradually relaxed the management and control of the banking industry. Financial liberalization developed in depth, major financial institutions merged with each other, and the division of professional fields became blurred, highlighting the overlapping functions of regulators in the division supervision system, chaotic regulation, inefficiency and excessive regulatory costs. Other problems, a diversified financial regulatory system has also emerged in the UK, but it is not efficient and runs counter to the needs of the development of the financial industry. Therefore, the British government enacted a new banking law in 1987, officially opening the overall regulation of the financial industry, thus laying the foundation for the modern British financial system.

In the 1990s, the UK's comprehensive business experienced a stage of rapid development and became the country with the highest degree of mixed financial industry in the world, but the inappropriation of its divisional supervision system and the mixed operation of financial markets also led to increased financial risks, so the United Kingdom reformed its financial regulatory system in 1997. The reform and establishment of the Financial Supervision Bureau have entered the era of unified supervision system and promoted the development of financial business and financial markets.

4.2.3 Twin Peaks Supervision Period

The 2008 U.S. subprime mortgage crisis also affected the United Kingdom and hit large British banks, which exposed the shortcomings of the British financial regulatory system itself, and regulators also recognized the problems in the tripartite joint regulatory system of the Treasury, the Bank of England and the Financial Services Authority, so they began to supervise. The reform of the regulatory system, the promulgation of the White Paper, a comprehensive discussion on government supervision, and the establishment of the Financial Policy Committee, the Prudential Supervision Bureau and the Financial Conduct Supervision Bureau, which promoted the coordination and cooperation of the financial regulatory system in macroprudential management and microprudential supervision and consumer protection, and strengthened supervision. Coordination between departments.

4.3 Comparison of Anglo-American Financial Supervision Systems

The U.S. regulatory system has evolved from divisional supervision to "institutional + functional" supervision. Combined with a variety of management methods such as administration, central bank membership and insurance management, the Federal Reserve has an independent legal status and can control the activities of all financial institutions. The British regulatory system has undergone an evolution from divisional regulation to unified regulation to twin peak regulation. The Bank of England has no independent legal status, and the financial regulatory power is vested by the Financial Services Authority.

V. ENLIGHTENMENT OF THE ANGLO-AMERICAN FINANCIAL SUPERVISION SYSTEM FOR CHINA'S DEVELOPMENT

5.1 Correctly Understand the Role of the Financial Supervision System

The financial supervision system is formed under specific historical conditions and political system. It is a comprehensive product under the joint role of a country's politics, social economy, history and culture. Reasonable and prudent supervision of the financial industry can effectively promote social and economic development and promote the healthy development of the financial industry. On the contrary, the regulatory system is empty. White or duplication will not only cause a waste of regulatory resources and make financial institutions available, but also accumulate systemic risks and even cause crises, seriously affecting a country's economic security.

At present, China's financial system is still in the stage of development, and the financial market is not as mature and sound as developed countries such as the United Kingdom and the United States. At this stage, it is still necessary to carry out prudent and reasonable institutional arrangements according to China's basic national conditions and the development laws and characteristics of the financial industry, so that the financial supervision system can play a positive role in guiding and promoting the development of the financial industry.

5.2 Explore a New Path of Mixed-industry Supervision System

The arrangement of the financial system needs to be adapted to the development of the market, and the financial supervision system needs to be constantly innovated and reformed with the development of the financial industry. China's financial supervision system has undergone the evolution from a centralized supervision system to a division supervision system, and then we should explore the mixed supervision model.

The current financial supervision in China is still in the stage of division supervision, which is determined by the situation of China's financial industry. However, with the development of financial technology, innovative financial products have also sprung up. Financial markets are becoming more and more complex. China has not yet formed a relatively complete regulatory system. There are still regulatory overlaps and loopholes in some fields. Moreover, looking at the development and evolution of the global financial supervision system, especially in the evolution of the financial supervision systems of the United Kingdom and the United States, we can see that with the deepening of financial reform and the improvement of efficiency, the trend of comprehensive operation of the financial industry is constantly strengthening, and it is the general trend to shift from branch supervision to mixed-industry supervision. Based on its basic national conditions and the development of the financial industry, China should actively explore and promote a mixed-industry supervision system that matches it, so as to better improve regulatory efficiency and protect the rights and interests of financial consumers.

5.3 Implement the Protection of the Legitimate Rights and Interests of Consumers

The development of financial markets is inseparable from the extensive participation of financial consumers. From the design and operation of the financial systems of the United Kingdom and the United States, we can see that attaching importance to the protection of the legitimate rights and interests of consumers has become the consensus of developed countries. Among them, the United States established the Consumer Financial Protection Authority in 2010 and the United Kingdom established the Financial Conduct Authority in 2013. Financial consumers are often in a weak position in market transactions due to information asymmetry, market manipulation, moral hazard and other problems. China should introduce and improve relevant legal documents and set up corresponding protection institutions to prevent protection gaps.

VI. CONCLUSION

Financial supervision is an important measure to prevent financial crisis. The financial supervision system is an important part of a country's financial system. A mature and perfect financial supervision system can promote the operation and development of the economy and bring prosperity to the financial industry. Therefore, it is of great significance to improve the financial supervision system. China's current financial supervision system is generally suitable for national conditions, but there are still many problems, and effective measures need to be taken to continuously improve the financial supervision system.

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