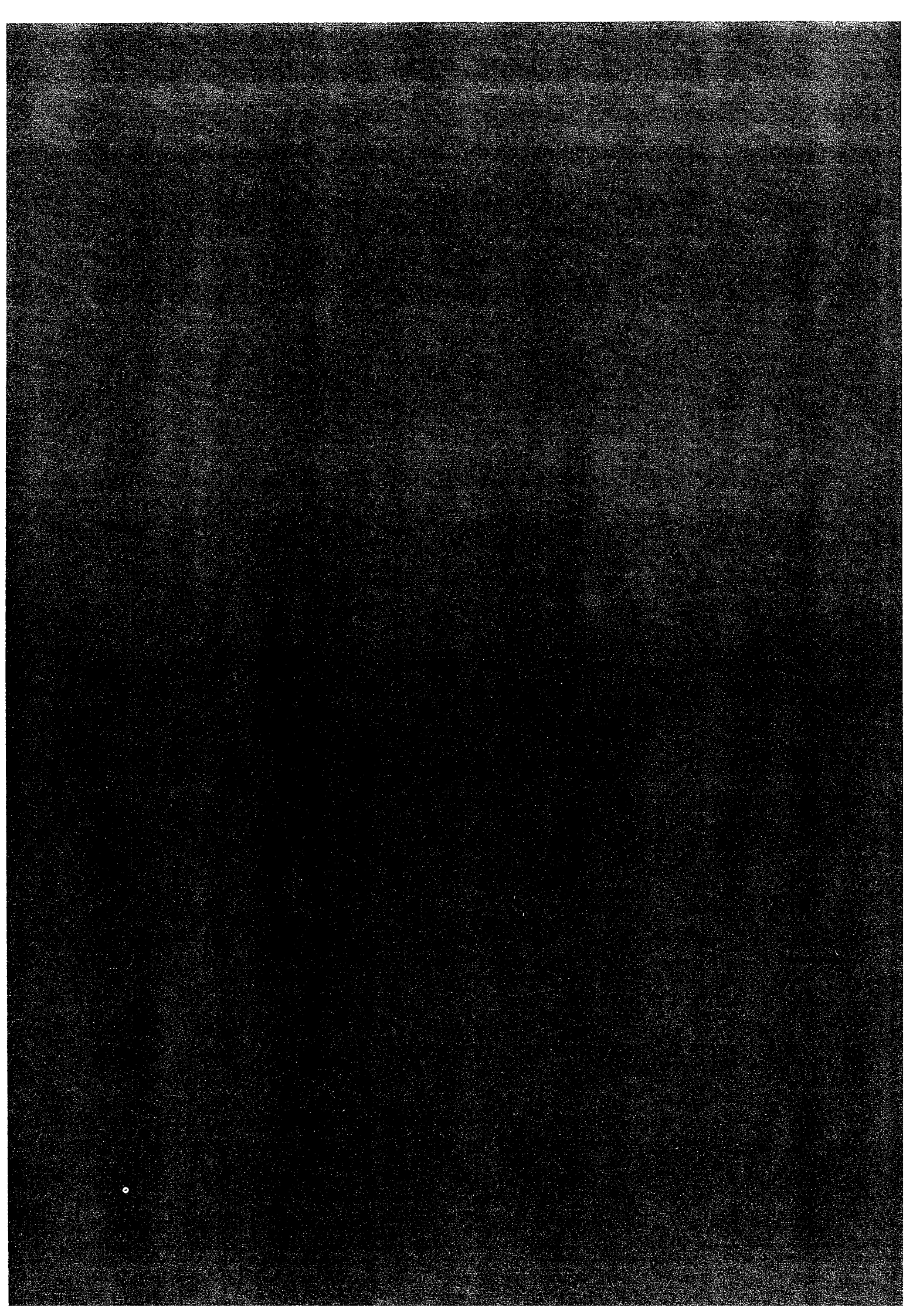




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KREDITTILSYNET

The Banking, Insurance and Securities Commission of Norway



KREDIT**T**ILSYNET

The Banking, Insurance and Securities Commission of Norway

Mailing address:
P.O. Box 100 Bryn
N-0611 OSLO

Office:
Østensjøvn. 43
N-0667 OSLO

Telephone:
International:
+47 22 93 98 00

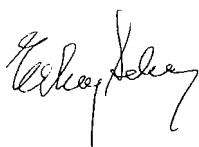
Telefax:
+ 47 22 63 02 26

Foreword

The Norwegian Banking, Insurance and Securities Commission (BISC) presents herewith the Annual Report for 1993. The Annual Report covers important developments in the various areas of supervision and gives an account of the main content of the Banking, Insurance and Securities Commission's work in 1993. Since this is the last report by the board of the Banking, Insurance and Securities Commission appointed for the period 1990-1993, and in view of the extraordinary developments in financial markets during this period, parts of the report have been extended to cover the entire period.

The Annual Report contains less numerical data than previously, for reasons of a practical nature. In order to allow the board appointed for the years 1990-1993 to complete the report, figures which are not available until 1994 have not been included.

Oslo, 31 December 1993



Erling Selvig
Chairman of the Board



Bjørn Skogstad
Director General

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The painting on the front page is "Vårløsning" (Spring thaw) by Anders Kjær

ACTIVITIES IN 1993

- MAIN FEATURES AND CHALLENGES

1.1 The banking and financial industry

The BISC's supervision of the banking and financial industry was less focused on crisis institutions than was the case in the period 1988-1992. In 1991 and 1992 a substantial share of the BISC's supervisory activity was devoted to the large banks in distress that had received capital from the Government Bank Insurance Fund. In 1993 the BISC was able to shift its focus to other institutions. The BISC was mainly concerned with determining the actual capital position of banks in the period 1988-1992, whereas on-site inspections placed greater emphasis on preventive measures by improving management and control systems.

Prudential supervision of banks and other financial institutions has been enhanced thanks to quarterly accounts and other forms of document-based supervision. Further work has been carried out to enhance the quality of on-going reporting. In connection with the development of early warning systems, a simulation model that forecasts economic developments based on certain assumptions has been developed for banks.

The BISC has emphasised that the quality of new capital raised by banks should satisfy international standards.

The Banking, Insurance and Securities Commission of Norway will place substantial emphasis on monitoring the banks' credit assessment routines and loan monitoring.

The efforts to strengthen the banks' capital position were hampered by limited access to capital in the financial sector in most of 1993. This has resulted in pressure on regulations by the institutions and lead managers with regard to the quality of the capital. The BISC has emphasised that the quality of new capital raised by banks should satisfy international standards. Towards the end of the year a significant improvement in the supply of capital was noted. An example of this was the Christiania Bank & Kreditkasse share issue of NOK 2 billion in the ordinary capital market in December. The improved situation at savings banks with regard to their capital ratio and non-performing loans in 1993 seems to indicate that these banks have overcome the crisis.

The Banking, Insurance and Securities Commission of Norway will place substantial emphasis on monitoring the banks' credit assessment routines and loan monitoring. A project has been initiated in collaboration with the banks to improve credit assessment systems. Rules applying to the banks' internal control routines and board and management responsibility in this area have been elaborated and circulated for comment.

The insurance industry

Life insurance companies' profits are closely linked to the level of interest rates. Total profits for the first three quarters of 1993 came to NOK 9.3 billion for this group, with unrealised capital gains at NOK 6.3 billion. The fall in interest rates in 1993 will provide the companies with substantial profits thanks to gains on securities holdings. However, these are one-off gains. Over a longer time horizon the low interest rates could have an adverse effect on their operating results and weaken their financial position if special measures are not implemented. One of the BISC's main areas of work in 1993 has been to secure the long-term financial position of life insurance companies. The BISC has carried out extensive analyses of the effects of the fall in interest rates on the financial position of life insurance companies and drawn up proposals as to possible measures, which were submitted to the Ministry of Finance. The measures adopted by the Ministry in November 1993 will contribute to securing life insurance companies' financial position in the long term. The most important measures are a reduction of the annual minimum guaranteed return in contracts, the introduction of an arrangement for additional provisions and allocations to policyholders' funds based on financial accounts. It is important to follow up the measures implemented in order to strengthen the solvency of life insurance companies, using the favourable results in 1993 as a basis.

A number of problems in the non-life industry were also addressed in connection with the supplementary regulations from 1992 on technical requirements. A comprehensive assessment of capital adequacy (solvency) ratios and technical reserves for the industry was carried out.

In the first half of 1993, the BISC's work relating to the insurance industry was to a large extent concerned with the placing of UNI Storebrand under public administration. Substantial resources were devoted to the recapitalisation of the company and the subsequent decision to rehabilitate the company.

In the first half of 1993, three smaller companies were also placed under public administration, Star Holding AS and its subsidiaries Strand Kredittforsikring AS and Star Forsikring AS. In the case of UNI Storebrand only the holding company was placed under public administration, whereas in the Star case two operative insurance companies were placed under public administration for the first time, one being a credit insurance company and the other a non-life insurance company. The two guarantee funds for credit and non-life insurance were capitalised. The Norwegian Banking, Insurance and Securities Commission is the secretariat to both funds.

Financial conglomerates

A legislative amendment was adopted in 1991 permitting the establishment of mixed conglomerates, i.e. banks and insurance companies may

1.2

One of the BISC's main areas of work in 1993 has been to secure the long-term financial position of life insurance companies.

The most important measures are a reduction of the annual minimum guaranteed return in contracts, the introduction of an arrangement for additional provisions and allocations to policyholders' funds based on financial accounts.

1.3

belong to one and the same group. Four such groups have been established in Norway to date, and others are expected to be formed in the future. Sparebanken NOR and Christiania Bank & Kreditkasse have each established a conglomerate with the bank as the ultimate parent company. Further, a conglomerate has been formed with Gjensidige Skadeforsikring as the ultimate parent company. David has been granted a licence to establish a group with a holding company as the ultimate parent company, but the group has not yet been established. An increasing share of administrative work and supervisory activities has been devoted to conglomerate formations.

1.4 Other areas of supervision

The securities market has been relatively volatile in recent years. This is mainly ascribable to the uncertain political and economic environment internationally, which has been at the root of the currency turbulence and the wide interest rate fluctuations.

Supervision of Norwegian securities brokers and trust companies has been substantially tightened. Emphasis has been placed on enhancing information and generally strengthening communication between the Norwegian Banking, Insurance and Securities Commission and other operators in the industry. Cooperation with the Oslo Stock Exchange and supervisory authorities in other countries has been strengthened.

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Towards the end of the period, substantial resources were devoted to updating special legislation and developing the regulatory framework for market operators. This work will also be given high priority in the period ahead. One issue that must be addressed is the banks' role in the securities market. The regulatory framework for Norwegian securities firms will require a substantial revision over the next two years.

The property market showed a higher turnover and a small increase in prices in 1993. Estate agencies have seen their position improve as a result of the introduction of unrestricted pricing of brokers' commissions. The share of estate agencies with negative equity capital has shrunk from 25 per cent in 1990 to 7 per cent at end-1993.

The Norwegian Banking, Insurance and Securities Commission is seeking to ensure that the companies now build up their equity capital to provide a sound and adequate financial basis for their activities. One measure sought is the introduction of a sufficiency requirement (positive equity capital) to replace the current solvency requirement.

In the debt collection industry, competition has squeezed profits in a number of companies. The financial position of the companies will be the object of increased focus as a result of the new solvency requirements applying to these companies.

Emphasis has been placed on establishing orderly conditions in the securities, real estate and debt collection industries. In some cases this has entailed the revocation of licences.

Acts and regulations relating to the areas of supervision of the Banking, Insurance and Securities Commission

1.5

In 1993 the Banking, Insurance and Securities Commission concentrated a large share of its work on adapting regulations to the EEA Agreement. A predominant share of the draft work was carried out by the Banking, Insurance and Securities Commission.

Laws and regulations governing various activities must still be reviewed in the light of international developments, national experience and the desire to simplify public regulations. Regulatory changes cannot always happen as quickly as the changes in the market conditions. The aim is therefore to elaborate regulations that can accommodate new situations.

Evolution of the organisation of the Banking, Insurance and Securities Commission

1.6

The BISC is working in areas that are rapidly changing. This requires a flexible organisation that is equipped to shift resources to address new challenges. In 1990 the BISC elaborated a strategic plan for the period 1990-1993. Work has been started on a new strategic plan for the next four-year period. The plan should be completed in the spring of 1994.

The BISC forwarded a proposal in December 1992 to the Ministry of Finance to increase the resources of the BISC, resulting in a supplementary allocation of NOK 3.5 million in June 1993. The number of staff increased from 102 to 113 in 1993. The BISC also proposed in the first half 1993 that an insurance unit be established to enhance the work in this area. The Ministry of Finance supported the proposal and it was established in October 1993.

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The delegation of authority by the Ministry of Finance to the BISC has been reviewed and a concrete proposal submitted to the Ministry. Cooperation between Norges Bank (the central bank) and the BISC has been widened.

1.7 Challenges ahead

Economic developments indicate a mild recovery without the inflationary pressures and high interest rates that Norway and other countries experienced in much of the 1980s. The economy may feature low inflation, moderate economic growth and lower but unstable interest rates.

Most of the post-war period up to 1980 was characterised by strong economic growth, inflation and rising property values that provided credit institutions with added loan security. With the prospect of moderate growth and low inflation, it is unlikely that financial institutions will again see such an added buffer against price rises as a form of security against losses. Therefore, a return to the low loss figures of the 1960s and 1970s cannot be expected, although losses will probably decline compared with the level of losses recorded in recent years.

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Even if a moderate economic expansion is a likely scenario, the development of the economy is uncertain. A fall in oil prices and interest rate volatility are examples of real threats to a positive path. A marked fall in oil prices could lead to instability in the Norwegian economy, accompanied by higher interest rates, declining bond and share values and lower property prices. This could lead to a recurrence of heavy losses and an insufficient capital base for banks and financial institutions. The fall in share prices and unrest in international financial markets resulting from international conflicts, or growing government debt problems in industrial countries, could have a similar impact. Other factors could also cause problems for the financial industry, such as wage inflation, a change in saving behaviour or a deterioration in competitiveness. Such exogenous factors that could jeopardise a stable trend must be closely monitored.

The wide interest rate margins at financial institutions are probably a temporary phenomenon. We must brace ourselves for rising pressures on margins.

The wide interest rate margins at financial institutions are probably a temporary phenomenon. We must brace ourselves for rising pressures on margins. There is an increasing tendency towards disintermediation. With the low deposit rates now offered, investors are likely to switch their funds to shares and bonds. Households will show a growing preference for investment funds.

The banks' weak results and shortage of equity and subordinated loan capital have led to major structural changes in the form of mergers, portfolio transfers and liquidations in recent years. In a period with better results for the banks, the pace of change may subside appreciably.

The banks' safety net established in the 1970s and 1980s must now be reinforced to avoid new crises in the banking sector in a period that may be marked by more volatile markets and stronger competition. The equity capital of each bank must be bolstered, particularly through an increased share of core capital. Until the banks' own guarantee funds are recapitalised the Government Bank Insurance Fund should remain in operation with a capacity for providing the capital necessary to have a real impact.

Distribution of resources by area of supervision. **Percent**

	1993
Banks	27
Finance companies	3
Mortgage companies	2
Loan intermediaries	1
Insurance companies	24
Pension funds	5
Securities	20
Estate agencies	5
Debt collection firms	6
Accounting and auditing activities	7
Total	100

EXPERIENCE OF THE PERIOD 1990-1993

2.1 Main developments in the period 1990-1993

In the period 1990-1993 credit institutions experienced the worst crisis of the last 60 years. The main problem was the heavy losses on loans and guarantees as a result of the cyclical downturn accompanied by business failures, high interest rates and a weak labour market and declining property values. At the end of the period, the crisis seems to have come to an end in large parts of the financial industry and is nearing its end in the remaining part of the industry as well.

The annual report for 1993 is the last report by the board that was appointed for the period 1990-1993. It is therefore natural to provide a short summary of the predominant features of this period.

In the period 1990-1993 credit institutions experienced the worst crisis of the last 60 years. The main problem was the heavy losses on loans and guarantees as a result of the cyclical downturn accompanied by business failures, high interest rates and a weak labour market and declining property values. At the end of the period, the crisis seems to have come to an end in large parts of the financial industry and is nearing its end in the remaining part of the industry as well.

The BISC's work in the period has to a large extent been marked by the need for support measures and bail-out actions in the financial sector. The main focus has been on loan losses and the erosion of the capital base in the industry. The government support measures have functioned as intended. The commercial and household sector have been affected by the crisis to a limited extent. For shareholders and employees, however, the crisis entailed losses and redundancies.

Resources have also been devoted to a sharp increase in the number of on-site inspections and measures aimed at individual institutions, accompanied by the elaboration of new rules and regulations for most areas of supervision. For example, growing internationalisation has given rise to the need for legislative amendments and new regulations adapted to international regulations.

In 1991, in response to the banking crisis, the acts establishing the Government Bank Insurance Fund and the Government Bank Investment Fund were adopted. The regulations relating to financial conglomerates, introduced in 1991, have also had a significant impact on the banking and financial industry. Furthermore, the rules relating to the conversion of mortgage companies to joint-stock companies paved the way for several conversion of companies that have also been granted a banking licence. Other important legislative changes include

common rules for loans to company officers and sanction rules for violations of the Financial Services Act.

The Financial Services Act also required the introduction of a number of new regulations. Several regulations were retained, but in 1990 a number of new regulations were adopted that affected all types of financial institutions. Some examples are the regulation on the measurement of own funds, the minimum capital adequacy requirement, mutual representation on governing bodies and the obligation to provide information to borrowers.

Insurance regulations have been substantially revised. The new Insurance Act was adopted in 1988, replacing the Act of 1911. The new act gave rise to the need for new regulations. At the end of 1993 the essential parts of the EEA regulations were in place.

Developments in the property and securities markets weakened the financial situation at insurance companies in certain periods. Groups that also operated finance companies have incurred losses on this activity. Their equity capital has thus been weakened. The insurance industry has generally been less affected than other areas of the financial industry. UNI Storebrand (parent company) and three smaller companies, Star Holding AS, Star Forsikring AS and Strand Forsikring AS, were placed under public administration mainly due to a number of adverse financial transactions by the holding company and not to poor performance in its insurance activities.

The insurance industry has generally been less affected than other areas of the financial industry.

In order to secure the solvency of insurance companies, the BISC required that the minimum guaranteed return on insurance products be limited to 4 per cent. Furthermore, the BISC called for a strengthening of the companies' capital adequacy (solvency) ratios by retaining in 1991 the maximum amount of the surplus allowed by the companies' articles of association.

The Norwegian securities market was unstable throughout the period with wide price fluctuations, partly as a result of the uncertain international political and economic environment. The banking crisis, currency turbulence and strong variations in interest rates have also affected conditions in the securities market. However, the at times substantial unrest did not in itself cause problems for the supervision of securities trading.

After several years of low supplies of private capital to the business sector, issue activity increased sharply in 1993. Substantial government deficits have increased government borrowing by a substantial margin. Towards the end of the period the Norwegian bond market had absorbed the largest share of the issue volume. However, there is a need to improve further liquidity in the bond market.

The interest in securities funds has varied somewhat, but picked up substantially in the course of 1993, particularly for bond funds.

The new act relating to estate agency business, which came into force in 1990, introduced a system of unrestricted pricing of broker services. This has led to a fairly sharp rise in brokers' fees, especially for low-value property. The act also provided for more effective control of brokers' obligations towards both parties involved in a property transaction. The guarantee requirements were also tightened, raising the normal level from NOK 5 to NOK 10 million. The new act also requires a separate guarantee for estate agency activity by lawyers in the same amount as the normal requirement mentioned above.

The real estate business has adjusted operations to a market with declining prices and turnover in the years 1990-1993. Operating expenses were cut and a commission-based compensation system became widespread in some places. A number of firms also cut back on staff.

The debt collection industry has also made adjustments and changes in the period, including adaptations to the new act on debt collection which came into force on 1 October 1989. The new regulations tightened the framework conditions applying to the industry. Furthermore, the general decline in debt-servicing capacity of recent years has resulted in a larger scale of defaults on payment obligations. The increase in demand for debt services, combined with a lower resolution rate as a result of a lower debt-servicing capacity in the private sector has led to an increase in the number of collection cases in progress. The tightening of the regulatory framework, together with the low resolution rate, have contributed to a deterioration in profitability in this industry. However, the situation seems to have improved somewhat toward the end of the period.

The Board of the Norwegian Banking, Insurance and Securities commission adopted a plan to develop the unit charged with the supervision of auditors. This work has been stepped up in recent years. The BISC has attached importance to establishing a formal statutory basis for the appointment of auditors and other experts or committees that can execute supervision-related services commissioned by the BISC. Such a statutory basis was incorporated in the Act of 1991 on the Banking, Insurance and Securities Commission .

2.2 The banking crisis

The period 1990-1993 saw the most serious financial crisis since the 1920s and 1930s.

Developments in recent years have underscored the vulnerability of the interplay between markets, financial institutions and economic activity. The period 1990-1993 saw the most serious financial crisis since the 1920s and 1930s.

Losses have been particularly heavy for institutions that were heavily involved in corporate financing, and are essentially related to problems in industries competing in the domestic market.

Similar crises in the financial industry have taken place in other coun-

tries that have experienced comparable economic developments. The financial crisis in Norway was intensified as a result of insufficient preparations for handling the liberalisation of the credit market, both on the part of the authorities and individual institutions. There are many examples of weak management and poor credit assessment routines, both at banks and other institutions. A number of banks were in the red in the period and lost all their equity capital. The traditional buffers such as annual profits, equity capital and loss provisions did not suffice to absorb the losses incurred. The established safety net, i.e. the banks' statutory guarantee funds, also proved to be insufficient. One result of the crisis has been substantial mergers in the financial industry in the four-year period.

In order to reinforce the guarantee fund system, the Government Bank Insurance Fund was established in the spring of 1991. As a further step to support the banks through supplies of equity capital, the Government Bank Investment Fund was established in the autumn of 1991.

Since 1987 to date, losses sustained by banks, mortgage and finance companies amount to a total of around NOK 90 billion. The scale of losses has been largest at commercial banks, at about NOK 50 billion. The three largest commercial banks lost their equity capital. Large-scale government support measures were necessary, and the government is now the major shareholder in these banks. The problems facing several smaller and regional commercial banks were resolved through mergers with the larger banks. Only Norion Bank has been placed under public administration pending the winding-up of the bank. Oslobanken is being wound up under the aegis of Government Bank Insurance Fund and the Commercial Banks' Guarantee Fund.

Total losses for savings banks came to about NOK 25 billion. Problems in a number of small savings banks were solved through mergers with larger banks, often in combination with contributions from the Savings Banks' Guarantee Fund. Two of the largest regional banks in southern Norway were bailed out by the guarantee funds, while Sparebanken NOR received capital from the Government Bank Investment Fund. The problems encountered at three large regional banks in northern Norway have been dealt with through mergers and support from the Savings Banks' Guarantee Fund.

In the wake of the banking crisis and rescue actions, the boards and management of the crisis institutions were replaced. The capacity in the banking sector has been substantially reduced both in terms of man years and branch network.

Finance companies and mortgage companies were also hard hit by the crisis. Many finance companies have been wound up and downsized as a result of retrenchment by the largest banks and insurance companies from this market where they participated through subsidiaries. Mortgage companies also suffered sizeable losses in the period covered and have also been faced with liquidity problems. One company is being wound up, two have been acquired by banks, one is converted

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It may appear that the crisis in the financial market is as good as over for now. Financial institutions have cut costs, interest rate margins are higher and losses lower. Combined with appreciable capital gains as a result of the fall in interest rates, the results for 1993 are positive.

into a bank and several are considering converting into banks. Loan losses for life and non-life companies have been moderate. However, losses at finance companies owned by insurance companies have been considerable, and the credit insurance industry has almost ceased to exist as a result of losses on loan guarantees. Liquidity problems were at the root of the crisis at the parent companies in the insurance industry. Failing confidence in the parent company UNI Storebrand AS and Forenedegruppen AS gave rise to the crisis situation. Forenede was acquired by Gjensidige, while the holding company UNI Storebrand AS was placed under public administration. It may appear that the crisis in the financial market is as good as over for now. Financial institutions have cut costs, interest rate margins are higher and losses lower. Combined with appreciable capital gains as a result of the fall in interest rates, the results for 1993 are positive. Bank losses are still at a high level, but seem to be on a downward trend. Confidence is being restored and it now seems possible to attract equity capital from external sources.

2.3 Experience with supervision during the crisis period

The period 1990-1993 was by and large marked by the crisis situation at credit institutions. Following a short-lived improvement in 1989, the situation took a turn for the worse in the spring of 1990. The picture of a severe banking crisis involving virtually all of the larger banks emerged at that time. An economic downturn with a far-reaching impact on the real economy led to large bank losses on the portfolios established in the 1980s. The result was often an erosion of their capital base.

The financial industry must be able to sustain considerable losses without the result being a crisis. The first-line defence is the institutions' equity and subordinated loan capital. When the problems heightened in the mid-1980s, the shortcomings of the minimum capital adequacy regulations became clear. The minimum requirement for pure equity capital was too low, subordinated debt capital qualified too easily for inclusion in the capital base, and there was a lack of rules on capital requirements on a consolidated basis. The institutions' capital adequacy ratio hovered around the minimum requirement, which in itself was low. The institutions affected by the crisis proved to be unable to weather a situation with heavy losses and falling securities and property prices.

New capital adequacy rules were introduced in 1991 based on BIS/EC rules. With the exception of the consolidation requirements, the new rules did not entail a tightening of the capital adequacy requirements. The transition to the new regulations did not, therefore, create any substantial problems for the Norwegian banks already in distress.

The experience of the last decade clearly indicates that a capital ratio in keeping with the minimum standard set out in the statutory regulations

is not sufficient to absorb losses on the scale experienced. Most of the crisis banks did indeed satisfy the minimum capital adequacy requirement, albeit by narrow margins, until shortly before the crisis manifested itself. It is also our experience that subordinated loan capital is of little significance in a crisis situation unless it leads to winding-up procedures. Effective prudential supervision thus implies that equity capital must be increased, in all cases by raising the standard for equity capital in the institutions. It is important that each institution have a sound capital base by increasing its lending or activity level. By way of example, Denmark is one Nordic country that has fared best during the recent years' difficulties in the financial market. The capital adequacy requirements and actual capital were much higher in Denmark than in other countries.

Capital adequacy must be assessed on the basis of the institutions' accounts. It will only be relevant if the accounts give an accurate picture of the institution's position. Controlling that the picture does indeed reflect the actual situation has proven to be an important and necessary part of supervision, particularly to ensure that the flexibility of accounting rules is not abused when problems arise. In the crisis period attempts have been made to circumvent and bend the accounting rules and statutory regulations. Supervision on a consolidated basis has proved to be necessary with a view to erecting fire walls and to ensuring that institutions, independent of the group structure, satisfy the capital adequacy requirements.

Prudential supervision based on capital adequacy requirements relies heavily on the assessment of portfolio quality and loss provisions. The size of loss provisions has a direct influence on the institutions' equity capital. The rules on banks' loss provisions were extended and made more explicit in recent years. Further changes must be considered once the crisis is behind us. It is important that loss provisions form an adequate buffer against a future increase in losses. The BISC has an important regulatory and on-site inspection task with regard to monitoring the practices of each institution. The level of loss provisions that will be required still largely relies on discretion. Experience shows that both in crisis and non-crisis periods a supervisory task of paramount importance is the scrutiny of the institutions' own assessments and thereby contributing to providing the institutions with a better overview of their own situation.

Laws and regulations contain few guarantee requirements or other rules that impose restrictions on credit institutions' activities. The underlying principle is that an adequate level of capital justifies freedom of action in business operations. During the banking crisis and the preceding problem years this principle was put to a harsh test. Capital ratios were already low when the problems emerged in the mid-1980s. Gradually margins were severely squeezed and operating profits substantially reduced. In this precarious situation the nature and content of supervision required change. The BISC had to ensure that operations were adjusted to reduce or counter both internal and external threats to solvency.

Effective prudential supervision thus implies that equity capital must be increased, in all cases by raising the standard for equity capital in the institutions.

Experience shows that both in crisis and non-crisis periods a supervisory task of paramount importance is the scrutiny of the institutions' own assessments and thereby contributing to providing the institutions with a better overview of their own situation.

In the broad sense, prudential supervision has had to encourage institutions to take it upon themselves to organise their activity with a view to reducing the risk of further losses, liquidity problems and failing confidence. The main concern here has been to improve the quality of credit assessment routines and the management of interest, currency, market and funding risks. Requirements must also be set out for internal management and control systems and other aspects of management quality. As the banking crisis unfolded, these supervisory tasks gained importance. During a cyclical downturn waning confidence in an institution's ability to operate on commercially viable terms and tackle problems can result in a liquidity and solvency crisis.

A higher capital adequacy requirement and adequate loss provision imply the need for higher earnings in financial institutions. This means that the BISC should in the future also monitor institutions that operate with margins and profits that are too low. However, a higher capital adequacy requirement also means that at several levels the banks will be met with higher confidence and see the required rate of return diminish somewhat.

The regulations restricting lending to individual customers have been very liberal in Norway. Most of the larger institutions have taken a more restrictive stance than allowed by the law. The new regulations based on EU standards will tighten the Norwegian regulations in this area.

The tasks, strategies and working methods of supervisory authorities have changed to a fairly large extent in the course of relatively few years.

The tasks, strategies and working methods of supervisory authorities have changed to a fairly large extent in the course of relatively few years. This process started in the last part of the 1980s and accelerated in pace with the increase in the BISC's resources, competence, and experience over the last four years. The result was that the BISC had to place added emphasis on on-site inspection, budget and accounts meetings and other concrete follow-up measures than was previously anticipated. These activities have also paved the way for fruitful dialogue between the supervisory authority and the institutions. The foundation has thus been laid for supervisory strategies and methods that are expected to be a central part of supervisory activities in the coming years.

Other aspects of supervision will be marked by the experience of recent years. The emphasis on on-site inspections, etc. has been accompanied by efforts to improve the quality of the institutions' accounting data in order to strengthen the foundation of documentary supervision. Part of this work involves the modernisation of the accounting rules applicable to most institutions. Available resources have gradually been used for analyses of institutions and industries, but this area still requires more work. The experience of the last decade shows how dependent Norwegian institutions are on macro-economic developments, both at home and abroad. Using such macro-economic information for supervisory purposes will be a challenge in the years ahead.

FINANCE AND INSURANCE

General features

The Banking, Insurance and Securities Commission's work in the area of insurance supervision has been focused on the crisis in the banking and financial sector in the last 4-5 years. The crisis reached new heights in 1992 when UNI Storebrand (parent company) was placed under public administration in August of that year.

The largest commercial banks were recapitalised by the Government Bank Insurance Fund and the Government Bank Investment Fund in the autumn of 1992 for the second consecutive year. The banks' capital ratio was thus assumed to be adequate at the beginning of 1993.

The situation in the banking and financial sector has shown a substantial improvement as a result of the decline in interest rates in 1993. Bank results have also improved significantly. This is mainly ascribable to the one-off effects of gains on their holdings of securities, shares and bonds, although losses have also declined. Bank profits have also improved thanks to cost-cutting measures. There are good prospects that the commercial banks will put the crisis behind them this year.

The transposition of EC regulations into Norwegian legislation started in 1992, in the areas of finance and insurance. Work in this area was stepped up in 1993.

A substantial amount of work was involved in solving problems at a number of large institutions in 1993 and the time spent processing cases was often excessive. The BISC gave priority to accelerating this process in the autumn. By increasing capacity it should be possible to achieve a satisfactory time frame.

Evolution and revision of laws and regulations pertaining to banking and finance

The work related to the banking industry has also been geared towards the objective of bringing the capital adequacy ratios of banks up to the international standards that are now embedded in Norwegian

3.1

There are good prospects that the commercial banks will put the crisis behind them this year.

3.2

Pressure by the institutions and lead managers on the regulations can be substantial in periods when access to capital is limited. The BISC has an adequate level of quality assurance in this area.

law. For the largest banks that rely heavily on foreign funding, this has been considered a task of overriding importance. A main task has been to ensure that the statutory quality requirements applying to core capital and supplementary capital are upheld. Pressure by the institutions and lead managers on the regulations can be substantial in periods when access to capital is limited. The BISC has an adequate level of quality assurance in this area.

In May 1993 it was announced that Oslobanken AS was running a considerable deficit. The Government Bank Insurance Fund entered into an agreement with the bank on 13 May 1993 for the injection of NOK 83 million in share capital, on the condition that the bank's share capital was written down to zero. On 28 May 1993 the insurance funds guaranteed the bank's obligations. Portions of the bank's portfolio were transferred to Handelsbanken AS. A controlled winding-up of the bank is now in progress.

Prior to the emergence of the crisis in Oslobanken, the BISC had considered an application from the bank to acquire Den Norske Hypotekforening's (DNH - the Norwegian Mortgage Association) remaining assets of NOK 3 billion. The BISC judged that the bank possessed a weak capital adequacy ratio and did not have the financial standing required for such a major expansion. The case was closed when the board of DNH decided to transfer its portfolio to Sparebanken NOR.

In August 1993 the BISC appointed a committee to examine the conditions and transactions that led to the situation at Oslobanken. On a consolidated basis, Norges Hypotekinstitutt, NHI, (the Norwegian Mortgage Institute) had a capital ratio of 4.7 per cent at the end of 1992. The BISC had disqualified two subordinated loans because the default clauses were not in keeping with applicable rules. NHI renegotiated the loan agreements in April 1993 so that the loans qualified for inclusion in the company's supplementary capital. NHI trimmed its balance sheet further in 1993 in order to satisfy the statutory capital adequacy ratio of 8 per cent. After disposing of commitments in the amount of NOK 4.2 billion, NHI was able to achieve the statutory capital ratio by a healthy margin. A/S Bergen Skillingsbank submitted an application in November 1992 to acquire up to 100 per cent of the shares in NHI. The application was still under consideration at the end of 1993.

In January 1993, the acts on the Government Bank Insurance Fund and the Government Bank Investment Fund were revised. Section 32 of the Commercial Banking Act was also amended. The purpose of the revisions was to improve the official safeguards designed to secure the banks' financial position and confidence in the Norwegian banking system.

The changes to the act on the Government Bank Insurance Fund widened the scope of the Fund's operations to include the issue of equity capital guarantees. The Government Bank Investment Fund was emp-

wered to make exemptions under special circumstances from the rule stipulating that investments shall be made on a commercial basis when the Fund takes over assets from the Government Bank Insurance Fund. Furthermore, the Government Bank Investment Fund was also given access to acquire bank assets in the form of subordinated loan capital from the Government Bank Insurance Fund.

The Commercial Banking Act was amended giving banks the right to write down equity capital within a class of shares or equity capital. If portions of the equity capital are lost, the class with the lowest priority will take the loss in its entirety before the other classes are affected or written down.

Ownership restrictions as set out in sections 2-3 and 2-4 of the Financial Services Act have been amended so that a foreign owner may by means of exemption hold more than 10 per cent of the shares in a Norwegian financial institution. The total share of foreign participation is, however, limited to 33 per cent.

Regulations and solvency measures in the insurance sector

3.3

In February 1993 the Ministry of Finance issued regulations on the application of the Insurance Act to pension funds. The regulations came into force on 1 July 1993. Under the new regulations pension funds are subject to the same capital adequacy rules and rules on asset management that apply to insurance companies.

The 1992 regulations on account-keeping and account statements in life and pension insurance were amended in July 1993. The previous rules were simplified and transitional periods were extended.

Life and pension insurance

Several measures were implemented in 1992 and 1993 to secure the solvency of Norwegian life insurance companies and pension funds. For example, the BISC imposed, by letter of 5 May 1993, an upper limit of 4 per cent as the annual guaranteed minimum return in contracts on all life insurance companies and pension funds.

The sharp fall in interest rates in the spring and summer of 1993 prompted the BISC to carry out an extensive analysis of the potential effects of this on life insurance companies. The financial results for 1993 will probably be exceptionally favourable. Nevertheless, low interest rates and varying financial income may make it difficult for compa-

The financial results for 1993 will probably be exceptionally favourable. Nevertheless, low interest rates and varying financial income may make it difficult for companies to maintain an adequate solvency ratio while meeting their obligation to policyholders in subsequent years.

nies to maintain an adequate solvency ratio while meeting their obligation to policyholders in subsequent years. The rule applicable at that time requiring the distribution of a minimum of 60 per cent of unrealised earnings with final effect for the policyholders could create a substantial burden on the equity capital of the companies.

The following measures were compulsory:

- lower limit on minimum guaranteed return and access to adjusting this level in new insurance contracts
- introduction of an arrangement for supplementary allocations to the insurance fund
- retention of profits
- new rules for the share of annual profits allocated to policyholders' funds

The BISC presented analyses and proposals to the Ministry of Finance. Combined with the Ministry's own consultations with insurance companies, this formed an important part of the basis for the letter of 25 November 1993 on measures to strengthen the financial standing of life insurance companies. The following measures were compulsory:

- lower limit on minimum guaranteed return and access to adjusting this level in new insurance contracts
- introduction of an arrangement for supplementary allocations to the insurance fund
- retention of profits
- new rules for the share of annual profits allocated to policyholders' funds

The measures implemented are largely in keeping with the BISC's stated views on this matter.

In the autumn of 1992 all life insurance companies were requested to raise their premium tariffs on the disability pension component of group pension insurance. The background for this was the negative security margins in the applicable basis of measurement as a result of the rise in the disability frequency among the insured. Premiums were raised in 1993.

In 1993 the BISC was represented on a committee that proposed changes to the rules on private occupational pension schemes under the tax laws. A working group has also been set up, with the participation of representatives of the insurance industry, to prepare standardised articles of association for all types of pension funds.

Non-life insurance

The experience with the supplementary rules from 1992 on allocations to technical reserves in non-life has raised a number of issues. In October a technical calculation committee, composed of members of the Norwegian Insurance Association, non-life insurance companies and the BISC, was set up to evaluate allocation methods. The committee will contribute to solving the problems and ensure that the regulations become flexible and dynamic.

Analyses have been carried out including an overall evaluation of the level of capital and technical reserves in non-life companies. This type of analysis will be given priority in the period ahead.

In connection with the European Conference of Insurance Supervisory Authorities in Copenhagen in June 1993, the BISC was rapporteur for one of the main topics ("Methods of solvency control based on risk-theoretical models and the use of Early Warning Systems"). The work on the report has provided invaluable insight into the methods used by the supervisory authorities in other European countries. The report was of great interest to the participants of the conference.

Unit-linked products

A working group was set up by the Ministry of Finance in May 1993 to assess the various issues related to the extended use of unit-linked products. The working group was to provide an overview of the treatment of such products in other countries, and assess the economic effects of the establishment of a unit-linked market. Furthermore, the working group was to evaluate the different aspects of an arrangement by which companies were given access to sell a broader range of unit-linked products with varying degrees of risk. The authorities, insurance industry and consumers have been represented on the committee. The chairman and one of the two secretaries were appointed by the BISC. The report of the working group, with proposals for changes to regulations, should be completed in January 1994.

Insurance companies under public administration

The largest case in 1993 involved the administration and rehabilitation of UNI Storebrand.

Strand Kredittforsikring AS was placed under public administration in January 1993 when the company was no longer able to meet its financial obligations. At the same time, the parent company, Star Holding AS, was placed under public administration. Strand Kredittforsikring was the first insurance company to be placed under administration. In April Star Forsikring AS was also placed under public administration, after a share of its portfolio had been sold to Protector Forsikring AS. An attempt was made to sell the insurance company before it was placed under public administration. The only buyer found was Protector as mentioned above.

The same administrator has been appointed for the three companies that were placed under public administration. It is the view of the administrators and the BISC that criminal offenses have occurred in the three companies. The BISC has thus submitted the reports of the administrators for the three companies to ØKOKRIM (the National Authority for Investigation and Prosecution of Economic and Environmental Crime in Norway).

The largest case in 1993 involved the administration and rehabilitation of UNI Storebrand.

Credit insurance companies and non-life insurance companies guarantee funds

The two guarantee funds were established pursuant to sections 9-1 and 9-4 of the Insurance Act. The purpose of the guarantee funds is to prevent or reduce losses for the insured under direct insurance contracts taken out in Norway. The BISC is the secretariat to both guarantee funds. Each board consists of five members, of which two members are appointed based on proposals from the industry.

The non-life companies' guarantee fund did not start its work on a concrete assessment of coverage of insureds' losses until the end of 1993 because Star Forsikring was placed under public administration somewhat later than Strand Kredittforsikring, and the activity in Star Forsikring was more comprehensive and complex.

3.4 Financial conglomerates

In the second half of 1992 several applications to establish mixed financial conglomerates were submitted. In February 1993, the Sparebanken NOR group became the first group with both banking and insurance operations. The insurance company in the group is Alfa Livsforsikring AS. Three days later the Gjensidige group was authorised to acquire Inter Nordisk Bank AS whose name was changed to Gjensidige Bank AS. Christiania Bank & Kreditkasse was authorised to establish a holding company which acquired Norske Liv. The company David was authorised to establish a holding company which will own both a bank that has not yet been established and a life insurance company. David has so far decided to wait before establishing the bank.

Administrative tasks have been increasingly concentrated on the formation of mixed groups.

Administrative tasks have been increasingly concentrated on the formation of mixed groups. An important task has been to provide advisory services in connection with structural and conversion matters in a period where the financial system has been under tremendous strain. It cannot always be taken for granted that the supervisory mechanisms developed for banks and insurance can automatically be applied to mixed financial conglomerates on a group basis. It will therefore be a challenge to elaborate supervisory mechanisms that can be applied to mixed groups, especially to the relationship between group companies.

In connection with the establishment of mixed financial conglomerates, the BISC evaluated to what extent a local insurance office can provide services on behalf of a bank. Furthermore, the question was raised as to what extent companies within the same group could exchange information or use the same customer data base. The BISC has essentially pointed to the separation principle. Even if a company belongs to the same group, it does not automatically entitle a company to broader access to information or to being represented by other group entities.

In the course of 1993 the BISC clarified a number of questions raised in

connection with the supervision of intra-group transactions. Particular emphasis was placed on clarifying the limitations on intra-group contributions, loans and guarantees, and which rules must apply in connection with the purchase and sale of shares in subsidiary companies and the transfer of company assets to other companies belonging to the same group.

In the years ahead, the BISC expects further work to be necessary on regulations applying to financial conglomerates. This is especially relevant for intra-group transactions or transfers and consolidation issues. The Ministry of Finance has been given statutory authority to issue supplementary regulations for financial conglomerates and their operations. To date the only regulation issued in this connection relates to intra-group loans. The need for additional regulations will be assessed on a continuous basis.

On-going supervision and analyses based on documents

3.5

On-going supervision based on documents comprises analyses of financial institutions and insurance companies, control of solvency, revision of accounts and solvency data, legal control, control of annual report and accounts, and enhancement of existing data bases. This work is carried out on the basis of documents submitted and documents available to the BISC. In addition, work is being carried out to enhance early warning systems, reporting systems, information collection, and analysis methods. The collection of data is mainly carried out in collaboration with Norges Bank and Statistics Norway.

In 1993 priority was given to the evaluation of the institutions' financial standing, results, and capital adequacy (solvency). The effects of the interest rate fall and the appreciation of securities on the solvency of life insurance companies was particularly emphasised.

In connection with the introduction of new rules on financial institutions' large exposures based on the EC pattern, a survey was conducted in order to establish the structure of the exposures in a selection of financial institutions.

Further work was carried out to raise the quality of reporting routines. A proposal to improve default reporting for banks was drawn up and circulated for comment to the bank associations. As a supplement to the early warning systems, a simulation model was constructed, which forecasts financial trends for banks under given assumptions. Since 1993 insurance companies are also required to report profit and loss accounts on a quarterly basis.

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3.6 On-site supervision, etc.

Recent years' experience has highlighted the importance of on-site inspections in the supervision of both the banking and insurance industry. It is impossible to determine whether the financial soundness and business practices of the institutions are satisfactory without on-site inspections.

Recent years' experience has highlighted the importance of on-site inspections in the supervision of both the banking and insurance industry. It is impossible to determine whether the financial soundness and business practices of the institutions are satisfactory without on-site inspections. The supervision of the banking sector received high priority in 1993 as well. On-site inspection of the head offices of the most relevant institutions under supervision was given slightly lower priority than in the preceding year. This was offset by frequent information meetings on essential issues. Furthermore, a number of inspections were carried out with a focus on special areas at the larger banks, such as foreign offices, property management and regional branches.

A number of smaller savings banks and commercial banks were inspected based on an overall assessment of crisis symptoms. This applies to banks with expansion aspirations, lending portfolios highly concentrated in one area, heavy losses, substantial non-performing loans, a weak capital base, etc.

A total of 52 on-site inspections were carried out in the banking and financial industry in 1993, compared with 55 in 1992.

The escalation of the supervision of insurance companies continued in 1993 although the number of inspections was slightly lower than in 1992, down from 25 in 1992 to 16 in 1993. In addition to inspections at the largest life and non-life insurance companies, a number of inspections were carried out at specialised non-life companies, such as marine insurance companies, etc. The follow-up control of the UNI Storebrand group has also been relatively comprehensive.

The inspection reports focus on profits, asset management, product profitability and risk profiles. Management and control systems were also evaluated in addition to contingency systems in the event of computer failure. Organisational aspects were also assessed, for example reinsurance cover in non-life companies and the position in the organisation of the appointed actuary, according to regulatory provisions.

In addition to the inspections carried out in 1993, a number of meetings were held at the BISC to control budgets and accounts mainly of larger institutions.

Resource constraints precluded inspections at finance companies, with the exception of those companies that belong to a banking or insurance group, whose activities were controlled through inspections at the parent company.

The shortage of resources also limited the number of on-site inspections at mortgage companies. Only a couple of mortgage companies that are not part of a group were subject to on-site inspections.

In 1993, 9 on-site inspections of pension funds were carried out. It may

prove necessary to increase supervisory activity in this area in the period ahead. It is particularly important to observe board practices and the organisation and control of asset management.

Cooperation and information

The Banking, Insurance and Securities Commission has placed emphasis on developing close contact with the interest organisation of the institutions supervised by the BISC. Meetings have been held with most associations. Seminars have been organised for securities brokers and trust companies. The BISC also participates as observer at accounting and auditing seminars and meetings.

Inspections of Norwegian financial institutions abroad are conducted as part of the home country's responsibility for consolidated supervision. In this connection, meetings were held with the supervisory authorities in the US, UK and Luxembourg. Management and control systems, including money laundering, were focused on at these meetings.

International banks and rating agencies requested when visiting Norway that meetings be held with the Banking, Insurance and Securities Commission to provide information on the situation in the financial industry. They also requested our assessment of central factors that influence developments.

The BISC's views are assigned considerable importance and regarded as highly valuable in terms of providing insight into Norwegian conditions. The circulation of recommendations among institutions has increased the demand for this type of assistance. During the year under review 28 such meetings were held.

The tasks of Norges Bank and the Banking, Insurance and Securities Commission are often closely related. Cooperation between the two institutions has evolved over several years with exchange of information, representation in the same working groups, and joint handling of crisis institutions.

The Finance Committee's recommendations to Stortinget (Norwegian parliament) on the organisation of the supervision of financial markets was based on the assumption that measures would be taken to strengthen cooperation between the Banking, Insurance and Securities Commission and Norges Bank. Against this background the BISC submitted a proposal to Norges Bank in December 1992 to establish a working group to consider forms of cooperation between the two institutions. In January 1993 a working group was set up composed of representatives of both institutions.

In March 1992 the working group presented its report outlining areas of cooperation where extended cooperation could be desirable. Concrete measures to improve cooperation in various areas were also proposed. Examples of such measures are improved routines for the

3.7

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exchange of written material and the circulation of specific matters for comment, and joint participation at conferences and seminars organised by various institutions.

After discussions on the report, a joint letter was sent from the management of Norges Bank and the BISC to the Ministry of Finance. The letter provided an account of the plans for cooperation between the two institutions. Parts of the letter were included in the Revised National Budget for 1993.

The Ministry of Finance stated in a letter written in September 1993 that the Ministry was favourable to extended cooperation between the two institutions.

Since 1989 monthly information meetings have been held between the Financial Market Department of Norges Bank and the Finance and Insurance Department of the Banking, Insurance and Securities Commission. After reviewing cooperation, quarterly meetings between senior management in the two institutions were initiated. Four such meetings took place in 1993.

There has been considerable public interest in the data relating to the crisis in the financial industry, particularly on the part of universities and other institutions of higher learning. At the request of educational institutions and supervised financial institutions, lectures have been given on the BISC's functions and activities.

ACCOUNTING AND AUDITING

Accounting

4.1

The Banking, Insurance and Securities Commission performs a number of administrative functions in the general accounting field in connection with the Accounting Act, the Act on Supervision of Credit Institutions, Insurance Companies and Securities Trading, and the chapter concerning accounting in the Companies' Act. The BISC also has a wide-ranging responsibility for formulating the legislation governing the agencies operating under the Act on Supervision of Credit Institutions, Insurance Companies and Securities Trading.

Moreover, it has been delegated responsibility for a number of general accounting provisions. In 1993 the BISC's work in this area took on an international flavour in the run-up to the Agreement on the European Economic Area. An overall review of the accounting rules applying to financial institutions was also carried out.

In the insurance sector new regulations on annual financial statements were drafted with a basis in the EU insurance directives. They represent a major improvement on the current obsolete regulations. Representatives of the industry and international experts on insurance company accounting were drawn into the drafting process. The draft was circulated for comment, and the finalised regulations are expected to come into force in 1995. Clarification of and adaptation to the new regulations will take place in 1994.

Adjustments to legislation have also been made in the banking sector, and amended provisions are expected to come into effect in 1995. The banking legislation requires less extensive amendment than the insurance legislation.

As regards legislation of a more general nature in the field of accounting, the BISC's new regulation on loose-leaf (IT) bookkeeping has been in effect since 1 January 1993. The substantial development of EDI systems in particular has raised a number of questions about interpretation and about how far electronic presentation and storage of accounts should be permitted. So far the regulation does not appear to have given rise to unresolved issues of particular importance, but it is natural to consider the matter to its full extent when elaborating a new Accounting Act.

In 1993 the BISC's work in this area took on an international flavour in the run-up to the Agreement on the European Economic Area.

The Banking, Insurance and Securities Commission also has responsibilities in the field of control, for example for framing rules for internal control. Amended regulations governing the use of IT in banking and insurance came into force on 1 January 1993, and the regulations appear to function as intended. Moreover, regulations requiring documentation of internal control in banks have been drafted. It is assumed that these regulations will be important for overseeing banks' executive boards and administrative managements when it comes to establishing, implementing and monitoring quality assurance and internal control in general. The draft regulations have been circulated for comment. The banks are assumed to have complied with the documentation requirement in the course of 1994.

The Banking, Insurance and Securities Commission also has an administrative role in the area of accounting and internal control. It includes processing applications for dispensation from the provisions of the Accounting Act, regulations on loose-leaf bookkeeping and the BISC's own accounting regulations. In 1993 the BISC also handled appeals against fines imposed for delays in submitting annual financial statements to the Register of Companies.

Informal liaison committees have been set up with the banking associations and the insurance association.

Close collaboration has been established with other agencies. Informal liaison committees have been set up with the banking associations and the insurance association. The BISC is also represented on several external committees such as the Accounting Act Committee, the subcommittee for amendments to accounting law, and the committee for revision of Norwegian Standard no. 4101 and Norwegian Standard no. 4102. The BISC has observer status on the Norwegian Accounting Standards Board and on the accounting committee of the Oslo Stock Exchange.

4.2 Auditing

Auditors in Norway maintain high professional and ethical standards compared with many countries. Nevertheless, questions are increasingly put about the content of the audit and the auditors' responsibilities.

Auditors in Norway maintain high professional and ethical standards compared with many countries. Nevertheless, questions are increasingly put about the content of the audit and the auditors' responsibilities. The general internationalisation of society and the trend towards more specialised auditing assignments will affect these factors and auditor training. The Banking, Insurance and Securities Commission plays an important role in this context by virtue of its responsibility for ensuring that the auditing system functions in an appropriate and satisfactory manner.

The Banking, Insurance and Securities Commission performs its routine administrative roles of registering/licensing auditors, updating the register of auditors and processing applications for dispensation in a satisfactory manner. In 1993 The BISC approved 126 new registered auditors and 82 new government authorised auditors. This brings the number of supervised auditors to just under 4,000. In addition there are

a number of trained but non-practising auditors who do not figure in the register of auditors. The register of companies now checks new company registrations against the register of auditors to ensure that the designated auditor is duly authorised to perform the company audit in question. A number of companies subject to the audit requirement proved not to have an auditor in conformity with the statutory requirement. The check resulted in an increase in applications from companies wanting approval for their audits to be performed by non-registered or non-government authorised auditors. The stance on this type of application is very strict. No such applications were granted in 1993.

Complaints and signs of shortcomings in auditors' exercise of their profession increased in 1993. 65 complaints were dealt with.

The largest number of sanctions were applied in response to audits in contravention of generally accepted accounting standards and to various breaches of eligibility rules. The ten auditors whose licences were revoked this year (including voluntary withdrawals from the register of auditors following inspection) had all been registered in connection with the transitional arrangement in 1965.

The Banking, Insurance and Securities Commission has worked to improve its supervisory role both in terms of efficiency of actual inspections and by preparing a document-based supervisory regime as from 1994. Document-based supervision is designed to facilitate the production of analyses and reports on private sector auditors as a whole as well as to provide better criteria for pinpointing auditors for on-site inspection.

In the area of legislation the preparation of document-based supervision has been accompanied by work on drafting of regulations governing the right to practise as an auditor under the provisions of the Companies Act and the Auditing Act. The Banking, Insurance and Securities Commission has proposed that the requirement as to periodic job experience be deleted from the regulation. Responsibility for a final decision on the regulation rests with the Ministry of Finance.

The BISC has initiated collaboration with the auditors' representative organisations. This is important in order to derive the greatest possible benefit from the BISC's supervisory activity in the auditing field.

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The Banking, Insurance and Securities Commission has worked to improve its supervisory role both in terms of efficiency of actual inspections and by preparing a document-based supervisory regime as from 1994.

Reactions in the period 1986 -1993

Year	Licence revoked/handed in	Stern reprimand	Reprimand/criticism	Total	No response	Sum total
1986		6	3	9		9
1987	2	6	5	13	1	14
1988		2	2	4	2	6
1989		2	2	4	4	8
1990	1	4	8	13	9	22
1991	3	6	13	22	7	29
1992	8	7	9	24	16	40
1993	10	12	21	43	22	65

SECURITIES TRADING

5.1 General features

Securities trading has picked up sharply after two to three years of diffidence in the market. Share issue activity rapidly expanded in the second half of 1993, a trend which can be expected to continue in 1994 unless there are substantial changes in the macroeconomic climate.

Norway experienced a sharp fall in interest rates in 1993. This spurred a marked increase in activity in certain areas of supervision.

Total assets in unit trusts and bond funds have risen substantially, and there are indications that saving in shares and bonds is becoming an attractive alternative to more traditional saving mediums. Securities trading has picked up sharply after two to three years of diffidence in the market. Share issue activity rapidly expanded in the second half of 1993, a trend which can be expected to continue in 1994 unless there are substantial changes in the macroeconomic climate. This marks a radical change from recent years when the issue market had largely been characterised by private placings - often with government support.

5.2 Special features

Brokerage firms

Very good results are expected at brokerage firms for 1993.

Very good results are expected at brokerage firms for 1993. In January 1993 aggregate total assets in the industry amounted to NOK 1.21 billion, rising to NOK 1.83 billion at end-November.

On-site inspections were performed at all 27 brokerage firms in 1993. As in previous years the Banking, Insurance and Securities Commission focused on brokerage firms' overall financial exposure, and assessed the risk attached to each and every enterprise that a brokerage firm was involved with. Emphasis was also placed on checking specific parts of the daily broking to ascertain whether the Securities Trading Act's requirements as to sound broking and business practices were complied with. Moreover, during the on-site inspections a check was made to ensure that brokerage firms handled customer funds as prescribed by the Securities Trading Act, i.e. that they kept customer funds physically separate from the brokerage firm's own funds. Several brokerage firms were ordered to establish separate client accounts.

Substantial resources went to following up earlier warnings. A check was made of each enterprise's compliance with all orders and warnings issued in the preceding 12-18 months.

Trust companies

At the start of the year trust companies managed resources totalling about NOK 15 billion, increasing to twice this figure at year-end. Part of the reason for the increase was that the market value of securities fund portfolios rose in pace with the trend in the securities market. Moreover, fresh capital was brought into the funds. This was particularly true of bond funds and indicates that securities funds have become the general investment medium for small investors in the securities market. Securities funds appear to a larger degree than earlier to be an attractive alternative to bank saving.

Nevertheless there is reason to believe that competition for depositors' capital will stiffen in the future, concurrent with an expected decline in the household saving ratio. How far Norwegian trust companies will manage to increase securities funds' total assets will largely depend on their success in achieving a reasonably stable risk-adjusted return on unit holders' capital. It will also depend on how they handle the competition from foreign trust companies which will make itself felt with the coming into force of the EEA agreement. A new act on securities funds is expected to come into force on 1 January 1994. The Banking, Insurance and Securities Commission prepared a consultative draft of this act in 1992, and also devoted resources to fleshing out some of its provisions in 1993. The main difference between the existing law and the new draft law concerns constraints on securities funds' investments.

In 1993 the Banking, Insurance and Securities Commission carried out 13 on-site inspections of trust companies. During the inspections the BISC checked that unit holders' funds were managed in conformity with the Unit Trust Act. The BISC focused on checking trust companies' compliance with investment restrictions, and that the companies were the bona fide managers of the capital of the unit holders' in question. As in the case of brokerage firms, the BISC checked trust companies for compliance with previous warnings and orders.

In the second half of 1993 a regulation was adopted on unit trusts' and bond funds' trade in options and futures. The Banking, Insurance and Securities Commission devoted resources to providing guidance and answering subsequent enquiries on the regulation.

The BISC focused on checking trust companies' compliance with investment restrictions, and that the companies were the bona fide managers of the capital of the unit holders' in question.

Derivatives market

As from 1993 pension funds and trust companies for unit trusts were authorised to trade in options and futures; see reference in the foregoing. It is currently too early to say what effect this will have on market activity; so far market players have shown a cautious, wait-and-see attitude. Trade in futures in government bond issue no. 463 started in the summer of 1993. The Banking, Insurance and Securities Commission noted an appreciable increase in the turnover of unlisted options particularly towards the end of 1993, and it is in the process of pinpointing the consequences for brokerage firms, and how this market should in the event be regulated.

Supervision of transactions

This is a priority area of supervision for the Banking, Insurance and Securities Commission, and a designated group has been established to supervise transactions. Emphasis is placed on monitoring insider trading as well as price and market manipulation. Three such cases were referred to ØKOKRIM (the National Authority for Investigation and Prosecution of Economic and Environmental Crime in Norway) in 1993. A great deal of resources were devoted to explaining the applicable rules to market players, in particular the provisions on prohibition of securities trading and on the clearance procedure for purchase and sale of securities.

The Banking, Insurance and Securities Commission considers it important to exert a preventive and instructional influence by meticulously following up on individual cases, providing information and by means of random checks.

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ESTATE AGENCY AND DEBT COLLECTION

Estate agency

Turnover in the property market is picking up and prices are clearly on a rising trend, primarily in parts of the housing market. This has boosted activity among estate agents, particularly in the second half-year. Together with the new rule permitting free negotiation of estate agents' fees, this has led to a substantial improvement in estate agents' earnings.

Forty five on-site inspections were carried out in 1993. Since a number of agencies have negative equity capital, the Banking, Insurance and Securities Commission focused heavily on their funding and financial position in 1993, as previously. The number of agencies with negative equity capital fell over the year to about 7 per cent from some 15 per cent one year previously. In keeping with its intention to continually review existing legislation with a view to safeguarding estate agents' financial strength and public confidence, the BISC started drafting requirements that enterprises engaged in estate agency business must maintain a positive equity capital position.

Investigation of cases of possible unlawful estate agency took up much time and resources. Most of the cases referred to commercial properties, but some referred to the housing market. The Norwegian Estate Agents Association forwarded to the BISC a number of cases of possible unlawful estate agency, and the BISC responded by contacting the enterprises in question. In a number of cases the BISC's investigations led enterprises to apply for authorisation to engage in estate agency business. In other cases the business was remodelled. One licence was withdrawn during the year.

Debt collection

The ratio of collected debts to total debts improved somewhat in the second half of 1993. It is natural to see this as a consequence of the fall in interest rates. In the short term the result is a higher resolution rate and improved earnings for debt collecting agencies.

6.1

The number of agencies with negative equity capital fell over the year to about 7 per cent from some 15 per cent one year previously.

6.2

The trade is marked by relatively hard and growing competition among agencies in the larger towns, and by greater cost and quality awareness on the part of customers.

The trade is marked by relatively hard and growing competition among agencies in the larger towns, and by greater cost and quality awareness on the part of customers. There has been a strong focus on reducing costs and improving efficiency, for instance through new and more highly automated computer facilities.

At the end of 1993, 147 debt collecting agencies were under supervision. Three new agencies were supervised during the year, while 17 agencies discontinued debt collecting or otherwise ceased being supervised for other reasons. The slow growth in the number of agencies appears to be due to growing competition and relatively low earnings in the business in recent years. The drop-outs are mainly small businesses that closed down for financial reasons, although some have been taken over by or merged with other agencies in the trade.

Thirty six on-site inspections were carried out at debt collecting agencies in 1993. Supervision of debt collecting focused on the treatment of recovered funds, the financial position of agencies and procedures applied at debtors. In some cases agencies were ordered to change their practices. One debt collecting licence was handed in voluntarily in the period, while another was revoked.

Greater emphasis will be placed on agencies' financial strength.

Greater emphasis will be placed on agencies' financial strength. The equity capital requirement proposed by the Banking, Insurance and Securities Commission's was adopted as a condition for engaging in debt collecting by Act of 11 June 1993. Concurrently it was decided that deposition of all funds belonging to customers in a designated customer account should become mandatory.

The amendments to the debt collection act were followed by amendments to the debt collection regulations. The main change in this connection is a 50 per cent reduction in security furnished by agencies. Furnished security is now more in line with potential liability.

The amendments to the debt collection act and regulations came into force on 1 January 1994. Where the requirement as to positive equity capital is concerned, a transitional period ending on 1 January 1995 has been laid down for agencies established by 1 January 1994.

A study of the need for closer regulation of agencies' bookkeeping was started in 1993 with a view to ensuring appropriate and sufficient information on which to assess the position and development of debt collecting agencies. The study is expected to be completed in the first quarter of 1994.

WORK OF THE INVESTIGATING COMMITTEE

Work of the investigating committee

7.1

In September 1990 the Banking, Insurance and Securities Commission appointed chief local judge Håkon Wiker to head a committee charged with investigating a number of financial institutions that had incurred heavy losses with a view to bringing to light possible criminal acts in these institutions. The committee's mandate was to "ascertain whether the management or those responsible for the control of financial institutions that have incurred substantial loss of capital may have perpetrated grave criminal acts or crimes of omissions that may have contributed to the adverse train of events in the institutions".

The committee was established to strengthen the Banking, Insurance and Securities Commission's capacity to conduct investigations in severely afflicted institutions, and it operates within the same scope and regulatory framework as the BISC. The Committee reports to the board of the Banking, Insurance and Securities Commission which decides whether there is a basis for informing the prosecuting authority of the Committee's recommendations.

The management of the Banking, Insurance and Securities Commission indicated which financial institutions should be investigated by the Committee. The Committee's investigations were confined to the administrative management and directors of the institutions in question.

The Committee's original assignment was to conduct criminal investigations into Sunnmørsbanken, Tromsø Sparebank, Spareskillingsbanken Trøndelag, Sparebanken Nord, Sparebanken Romsdal, Spareskillingsbanken Oslo, Vesta Hygea and Den norske Hypotekforening. In the autumn of 1991 the Committee's mandate was extended to include Fokus Bank/Rogalandsbanken and Christiania Bank & Kreditkasse. The Committee was subsequently asked to investigate Hemnes Sparebank.

The Committee has submitted seven recommendations. The last, regarding Vesta Hygea, was delivered to the board of the Banking, Insurance and Securities Commission on 31 March 1993.

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The Committee's conclusion was that there were indications of criminal acts or negligence in four of the institutions investigated so far.

The Committee's conclusion was that there were indications of criminal acts or negligence in four of the institutions investigated so far. These were: Sunnmørsbanken, Spareskillingsbanken Trøndelag, Spareskillingsbanken Oslo and Vesta Hygea. The Committee's recommendation regarding Spareskillingsbanken Trøndelag was forwarded to the board of Sparebanken Midt-Norge for administrative action to be taken if required.

The board of the Banking, Insurance and Securities Commission forwarded the other three recommendations to the Director General of Public Prosecutions. The charges against directors at Sunnmørsbanken were later dropped by ØKOKRIM (the National Authority for Investigation and Prosecution of Economic and Environmental Crime in Norway). The management of Vesta Hygea and former managing director of Spareskillingsbanken Oslo were, in keeping with Committee's recommendation, charged with contravention of the bookkeeping provisions of the Accounting Act and the Criminal Code.

The Committee's activity in 1993 otherwise focused on scrutiny of Hemnes Sparebank, Christiania Bank & Kreditkasse, Fokus Bank and Den Norske Hypotekforening (the Norwegian Mortgage Association). The Committee will complete its recommendation regarding Hemnes Sparebank early in 1994. The auditors' examination of the other three institutions will probably be completed at around the turn of the year 1993/94. The Committee expects to submit its final report on Christiania Bank by the autumn of 1994.

INTERNATIONAL COOPERATION

International cooperation

8.1

The internationalisation of financial markets increases the need for international cooperation on supervision. The EEA Agreement will entail some changes, but not major ones, in the financial industry's regulatory framework. One reason for this is that the changes made in the Norwegian rules in the 1980s and 1990s already entailed a gradual adaptation to EC rules.

The Banking, Insurance and Securities Commission considers it important to keep abreast of developments in the international economy and international financial markets. By participating in the OECD capital markets committee, congresses and seminars in other countries, the BISC has obtained valuable information that could well have a bearing on the challenges facing Norwegian financial institutions in the period ahead. The BISC has continued to represent Norway at meetings of the OECD insurance committee, as well as the insurance committee's sub-committees.

Economic crime and money laundering are a steadily growing problem in a period marked by greater internationalisation of financial markets. In 1993 the Banking, Insurance and Securities Commission attended meetings of the Financial Action Task Force on Money Laundering together with representatives of ØKOKRIM (the National Authority for Investigation and Prosecution of Economic and Environmental Crime in Norway) and the Ministry of Finance.

Economic crime and money laundering are a steadily growing problem in a period marked by greater internationalisation of financial markets.

In order to obtain rapid access to information about economic developments in countries of significance for the Norwegian economy, the BISC has established an arrangement involving regular meetings with Norges Bank, the central bank, which has better access to such information. For its part, the BISC provides Norges Bank with information about meetings with and visits to other countries' supervisory authorities.

The bilateral cooperation with supervisory authorities in other countries is being carried further and strengthened. In 1993, the Banking, Insurance and Securities Commission worked together with its sister organisations in the other EFTA countries to bring about permanent collaborative arrangements with supervisory agencies in EC countries

The bilateral cooperation with supervisory authorities in other countries is being carried further and strengthened.

for supervision of banking and insurance and also the securities market. So far the collaboration appears to be fairly informal. In the BISC's view, it is important to develop a close and well-organised working partnership among supervisory authorities in all EEA countries with a view to monitoring the common financial market that will come into being on 1 January 1994. Another important challenge will be to improve international supervisory collaboration across sectoral boundaries. Today, such collaboration is hindered outside the Nordic area by the high degree of compartmentalisation of supervision with each segment of the financial market subject to supervision by a specific body.

Nordic cooperation has been carried further through meetings devoted to the various areas of supervision and through frequent ad hoc contacts as and when required.

THE BANKING, INSURANCE AND SECURITIES COMMISSION'S ORGANISATIONAL SET-UP

The board

The Act on Supervision of Credit Institutions, Insurance Companies and Securities Trading, etc., requires the BISC to be headed by a board of five members and two alternates, appointed by the King for a term of four years. Matters of principle and other matters of importance are submitted to the board of the BISC.

The board appointed for the period 1990-93 was as follows:

Mr. Erling Chr. Selvig, Professor, Chairman
Ms. Inger Louise Valle, Director General, Deputy Chairman
Mr. Kjell Storvik, Deputy Central Bank Governor
Mr. Finn B. Henriksen, Managing Director
Ms. Kristin H. E. Moe, Managing Director

Alternates:

Mr. Asbjørn Rødseth, Professor
Mr. Jan Halvorsen, Director

On 9 October 1992, Deputy Central Bank Governor Kjell Storvik asked to be relieved of his position on the board of the BISC. Professor Asbjørn Rødseth attended meetings of the board as from that date. By letter of 29 January 1993 from the Ministry of Finance, Assistant Director Harald Bøhn of Norges Bank was designated Norges Bank's observer on the board of the Banking, Insurance and Securities Commission with effect from 1 January 1993 until further notice, with Assistant Director Trond Eklund as his alternate.

Two members elected by and from among the employees supplement the board when administrative matter are dealt with. Employee representative in 1993 were:

Members:

Mr. Harald A. Hammer, Adviser
Mr. Lars Johnsen, Adviser, (stepped down on 30 April 1993)

Alternate:

Mr. Ole-Jørgen Karlsen, Inspector

9.1

The board appointed for the period 1990-93 was as follows:

**Mr. Erling Chr. Selvig, Professor, Chairman
Ms. Inger Louise Valle, Director General, Deputy Chairman
Mr. Kjell Storvik, Deputy Central Bank Governor
Mr. Finn B. Henriksen, Managing Director
Ms. Kristin H. E. Moe, Managing Director**

The board held 16 meetings in 1993. A number of resolutions were adopted based on circulation to board members. The board dealt with altogether 113 supervisory and administrative matters. A large number of cases were submitted to the board for their information.

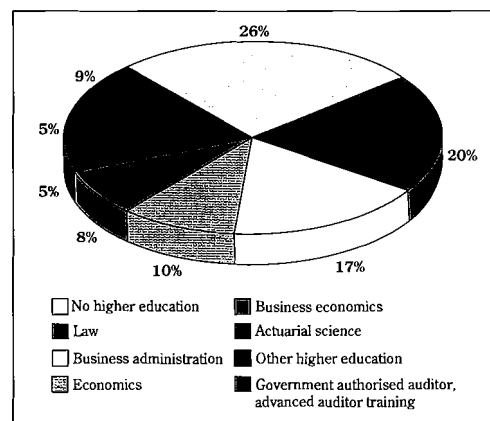
9.2 Administration and personnel

Mr. Bjørn Skogstad Aamo took up duties as Director General of the Banking, Insurance and Securities Commission in April 1993. Mr. Sven-Henning Kjelsrud, Deputy Director General, was acting director from May 1992 to April 1993.

Fourteen new positions were added to the BISC in 1993, bringing the number of positions in 1993 to 117. At year-end 109 persons were on the permanent payroll compared with 99 at the end of 1992. Adjusted for leaves of absence, stand-ins and short-term contracts, 113 persons were employed by the BISC at year-end.

Forty two vacancies were advertised in 1993, four internally. A total of 941 persons applied for these positions. There was in general a satisfactory flow of young high-quality applicants graduating from a university or the equivalent. The BISC also considers it important to recruit staff with substantial experience from its areas of supervision. At end-1993, 21 staff members had such experience, of which six were on short-term contracts compared with 18 one year previously.

Staff education background, 31 December 1992



As a step in strengthening the supervision of insurance, an insurance section was established on 1 October 1993 covering the following main areas: life and pension insurance, non-life insurance and insurance broking. Up to that point, these areas had been covered by the licensing and legislation section and the section for document-based supervision and analysis. In addition to improving the coordination of insurance functions, the BISC strengthened the resources devoted to supervision of insurance. The new section will possess multidisciplinary expertise in actuarial science, law and economics. Twelve positions were assign-

ned to the section when it was established. As at year-end, ten positions were filled, and appointments to the remainder were in process.

Finances

The BISC's total expenditure for 1993 came to NOK 59.2 million. Remuneration, national insurance and superannuation amounted to NOK 35.2 million, i.e. an increase of 4 per cent on 1992. NOK 24 million went to operating expenses, upgrading expertise, consultancy services and organisational development. Investment on EDP facilities totalled just over NOK 1.7 million.

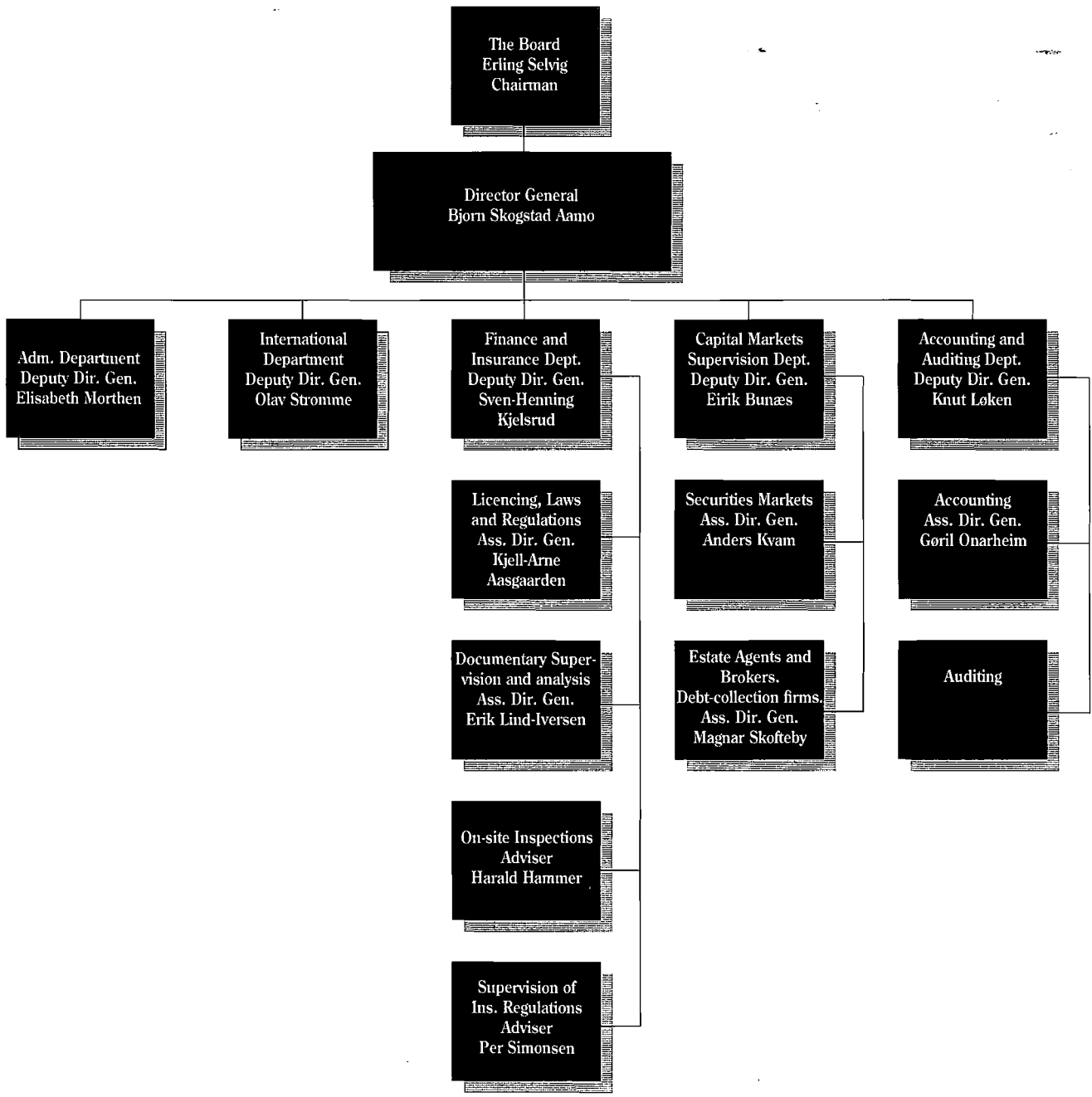
NOK 4.6 million was devoted to the work of the Investigating Committee. This expenditure is included in the above-mentioned amounts spent on remuneration, purchase of consultancy services, travel and so forth.

Under section 9 of the Act on Supervision of Credit Institutions, Insurance Companies and Securities Trading, etc., the costs of supervision incurred by the BISC are distributed on those institutions that are supervised by the BISC at the start of the financial year. Distribution on the various categories of institution is based on the extent of supervision in each category. Total expenditure on supervision in 1992 came to NOK 44.8 million, and the BISC's proposal for distribution was approved by the Ministry of Finance on 7 September 1993. The number of supervised entities involved in 1992 was 5,185 - i.e. 180 fewer than in 1991 - of which auditors numbered 3,838.

9.3

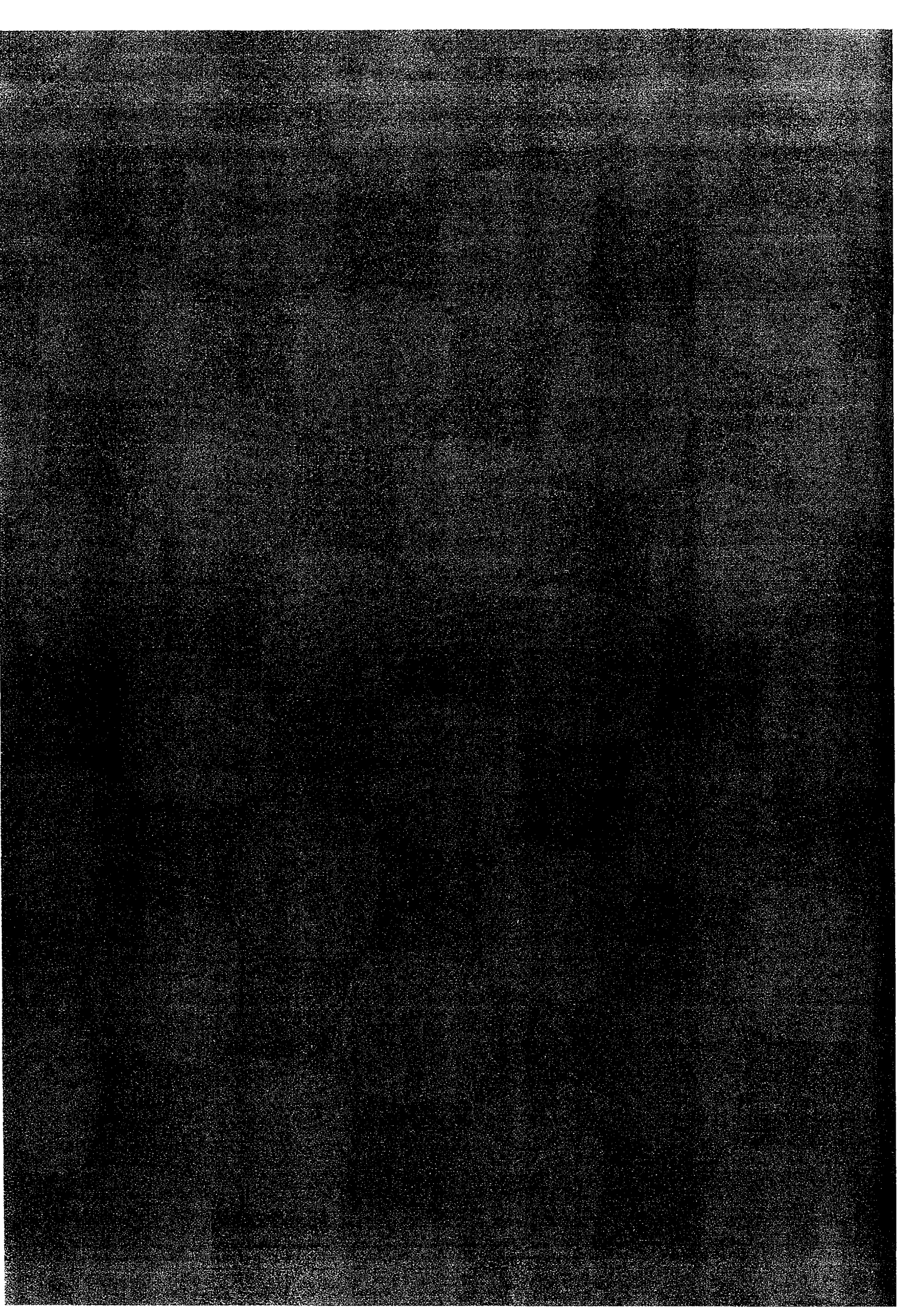
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THE BANKING, INSURANCE AND SECURITIES COMMISSION OF NORWAY









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