
December 1992

Financial Regulation: Changing the Rules of the Game

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Summary

The 1980s have witnessed major and fundamental changes in the scope and orientation of financial regulation. Governments in both developed and developing countries have engaged in an extensive rewriting of the rules of the game that govern the operations of financial institutions and markets. Credit and interest rate controls as well as restrictions on new entry and on the permissible activities of financial institutions have been removed or substantially relaxed. In their place, governments have established prudential and investor protection regulations that aim at safeguarding the soundness of the financial system and protecting the interests of users of financial services, especially the nonprofessional investors. Regulatory reform has been associated with-in many cases it has been prompted by-major structural changes and innovations in financial markets. In many high income countries, there is a clear trend toward universal banking and a growing integration of banking and securities business. Integrated financial systems raise issues in financial regulation that cut across banking and nonbanking markets. Two Major issues regard the structure of regulation and the role of market forces in monitoring and controlling the performance of individual institutions

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Recommended Citation:

Vittas, Dimitri. *Financial Regulation: Changing the Rules of the Game*. World Bank, 1992.
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