



International Association for the
Study of Insurance Economics

Études et Dossiers

Extract from

Études et Dossiers No. 294

**The 20th PROGRES International Seminar
“New Developments in the Regulation and
Supervision of Financial Services”**

4 – 5 November 2004
Hotel President Wilson, Geneva

April 2005

Working Paper Series of The Geneva Association

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The Geneva Association Working Paper Series “Études et Dossiers” appear at irregular intervals about 10 - 12 times per year. Distribution is limited.

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Layout & Distribution: Valéria Kozakova & Bernadette Curty

Joining the EU: The effect on insurance regulation and supervision in Poland

Jan Monkiewicz



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SUPERVISORY COMMISSION


Prof. dr hab. Jan Monkiewicz
Chairman

Joining the EU: the effect on insurance regulation and supervision in Poland

Geneva, 4 November 2004

New Developments in the Regulation and Supervision of Financial
Services, The 20th Progress International Seminar

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Plan of the presentation

- 1. Polish insurance sector in the EU context.**
- 2. Supervisory architecture of the market.**
- 3. Supervisory policies and issues.**
- 4. Impact of EU accession on Polish regulation and supervision.**

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1. Polish insurance sector in the EU context

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Characteristics of the Polish financial market 2003

A. Assets

1. Banking	143,0 bn USD
2. Insurance	18,0 bn USD
3. Pension funds	13,0 bn USD
4. Mutual funds	7,0 bn USD


B. Warsaw Stock Exchange

1. Market capitalisation	61,0 bn USD
2. Annual turnover	48,0 bn USD
3. No of mutual funds	117
4. No of listed companies	263

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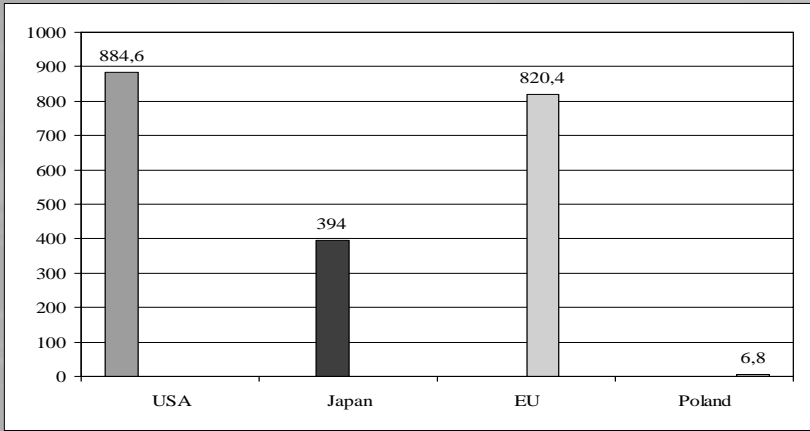
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Premium income in Poland and selected countries 2002 (bn Euro)

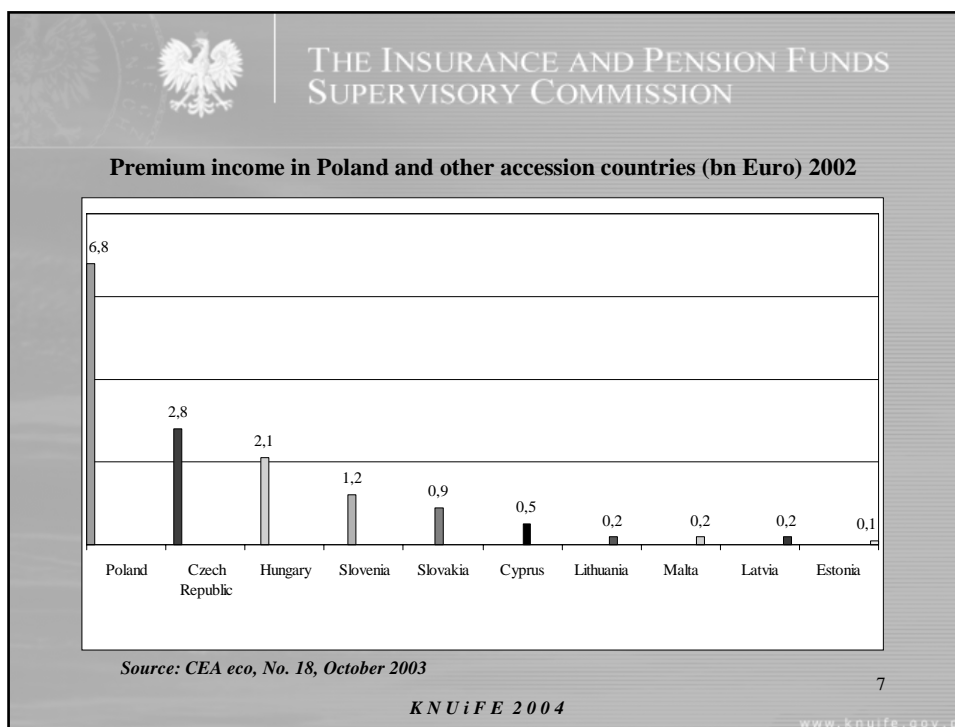


Country	Premium Income (bn Euro)
USA	884,6
Japan	394
EU	820,4
Poland	6,8

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Premium income per capita (Euro)


Country	1992	1997	2001	2002
Cyprus	269	486	643	680
Czech Republic	57	122	246	280
Estonia		46	84	102
Hungary	57	85	168	207
Lithuania		23	36	62
Latvia		42	74	73
Malta	148	304	483	480
POLAND	29	81	165	176
Slovenia	110	355	527	622
Slovakia	33	82	138	162
TOTAL	42	92	175	196
EU 15	977	1437	2028	2168

Source: CEA eco, No. 18, October 2003

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Premium income/ GDP (penetration rate) in %


Country	1992	1997	2001	2002
Cyprus	3,2%	4,3%	4,9%	5,1%
Czech Republic	2,6%	2,9%	3,7%	3,9%
Estonia		1,6%	1,8%	2,1%
Hungary	2,0%	2,3%	2,8%	2,9%
Lithuania		1,0%	0,9%	1,5%
Latvia		2,0%	2,0%	2,0%
POLAND	1,8%	2,5%	3,1%	3,1%
Slovenia	3,2%	4,5%	5,0%	5,1%
Slovakia	1,9%	2,5%	3,2%	3,4%
TOTAL	2,1%	2,6%	3,2%	3,3%
EU 15	6,2%	7,4%	8,6%	9,1%

Source: CEA eco, No. 18, October 2003

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Structure of premium income in Poland and accession countries

Country	1992		2002	
	Life	Non Life	Life	Non Life
Cyprus	46,9%	53,1%	53,6%	46,4%
Czech Republic	25,3%	74,7%	38,2%	61,8%
Estonia		100,0%	20,6%	79,4%
Hungary	20,7%	79,3%	41,0%	59,0%
Lithuania		100,0%	18,8%	81,2%
Latvia		100,0%	4,1%	95,9%
Malta	22,7%	77,3%	45,9%	54,1%
POLAND	26,0%	74,0%	42,6%	57,4%
Slovenia	7,5%	92,5%	22,7%	77,3%
Slovakia	27,1%	72,9%	43,2%	56,8%
TOTAL	24,6%	75,4%	39,3%	60,7%
EU 15	54,6%	45,4%	62,7%	37,3%

Source: CEA

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Insurance undertakings in Poland and EU

	1992	1996	2002	2003
EU				
1. Companies	4 090	4 032	3 675	
2. Branches from EU	690	644	728	
3. Branches non EU	194	188	147	
TOTAL	4 974	4 864	4 550	
POLAND				
1. Companies	27	42	72	74
2. Branches from EU	0	0	2	4
3. Branches from non EU	0	0	0	0
TOTAL	27	42	74	78

Source: CEA

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Market concentration in Poland and EU 2002

(%) of premium income

	Life		Non Life	
	First 5	First 10	First 5	First 10
Poland	88,6	94,6	82,0	92,0
EU				
- UK	50,9	71,8	47,8	64,0
- Germany	32,4	48,5	49,9	69,0
- France	57,1	81,5	55,5	73,5
- Italy	52,9	74,8	65,8	85,3

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Conclusions:

1. **Low penetration level of the economy by insurance sector.**
2. **Marginal importance for the EU market volume.**
3. **Underdeveloped life sector.**
4. **High level of market concentration.**
5. **Underbranched institutional set up.**


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**2. Supervisory architecture
of the insurance market in
Poland**

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The shape of the supervision is defined by decisions related to:

- the character of supervisory institutions,
- supervision objectives and instruments,
- the relation between the supervisory body and the government administration, as well as other supervisors,
- the depth and width of the supervisory intervention.

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Polish supervision over the insurance market has been shaped by:

- insurance core principles of the International Association of Insurance Supervisors,
- recommendations of the EU in the course of the accession process,
- supervisory standards applied in other sectors of the Polish financial market,
- specificity of the Polish insurance market.

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Possible organisational models of the financial market supervision.

- fragmented,
- integrated,
- coordinated.

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Specific organisational features of the financial market supervision in Poland.

- three separate sectoral supervisory bodies:
 - banking sector – The Commission for Banking Supervision /KNB/,
 - securities sector – The Polish Securities and Exchange Commission /KPWiG/,
 - insurance and pension funds sector – The Insurance and Pension Funds Supervisory Commission /KNUiFE/.

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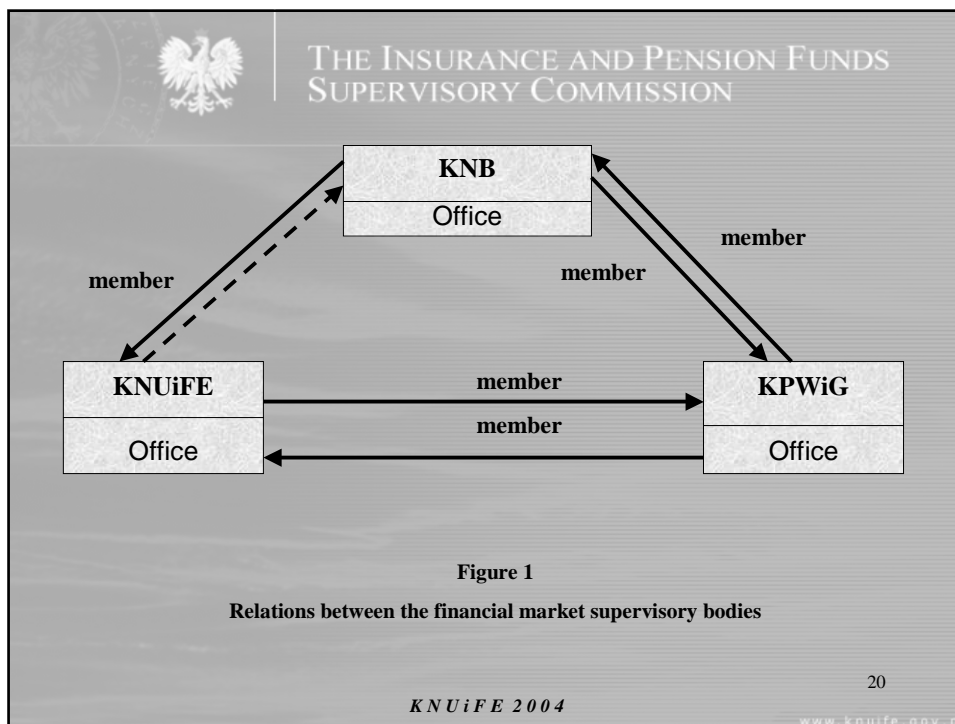
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- collective character of the supervisory bodies
/KNUiFE – 8 members, KPWiG – 10 members,
KNB – 7 members/,
- compound structure of the bodies: commission
and office,
- supervision coordination through crosssharing
system of representation.

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**The Insurance and Pension Funds Supervisory
Commission /KNUiFE/:**

- established on 1 April 2002 as a result of merger of two institutions:
 - a/ State Office for Insurance Supervision,
 - b/ Office for Pension Funds Supervision.

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• Major objectives:

- a/ to safeguard the interests of the insureds and pension fund members,
- b/ to ensure the security of the insurance system and pension savings,

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THE INSURANCE AND PENSION FUNDS
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Members of KNUiFE

- **voting members:**
 - Chairman** – appointed by the Prime Minister,
 - Vice-Chairman** - appointed by the Minister of Finance,
 - Vice- Chairman** - appointed by the Minister of Economy, Labour and Social Affairs,
 - Members** - Chairman of the Securities and Exchange Commission /KPWiG/, Representative of the Office for Competition and Consumer Protection /UOKiK/

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- **non-voting members:**
 - Insurance Ombudsman,
 - Representative appointed by the President of the Republic of Poland
 - Inspector General of Banking Supervision.

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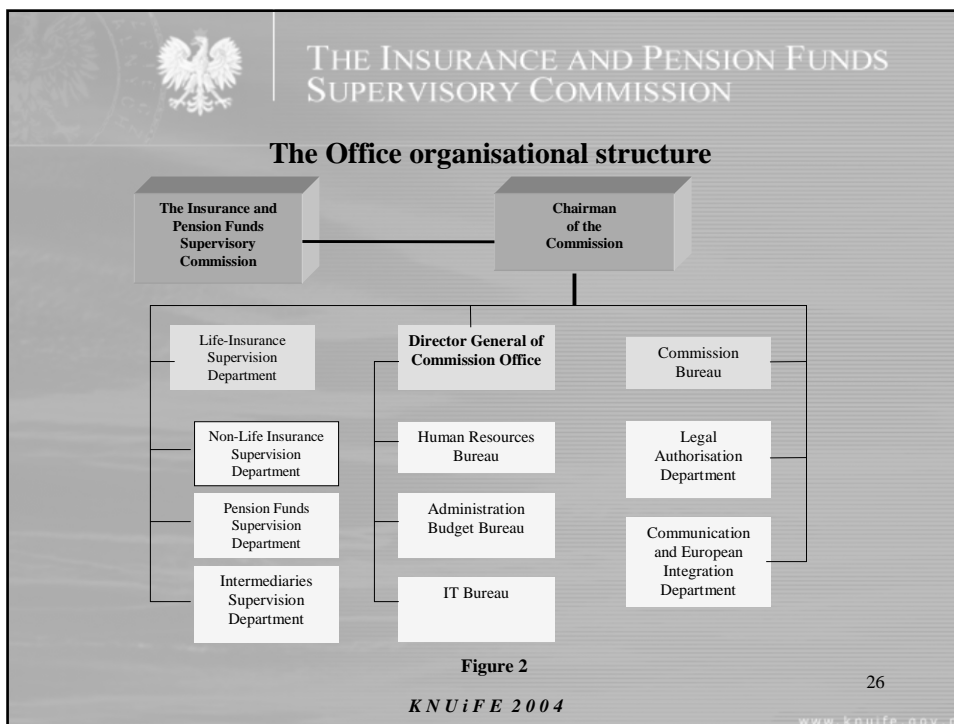
**THE INSURANCE AND PENSION FUNDS
SUPERVISORY COMMISSION**


The Commission and the Chairman execute the statutory tasks with the aid of the Office

The Office is managed by the Chairman of the Commission

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Supervisory process framework:

- supervision methods and instruments,
- corporate governance,
- capital adequacy,
- market environment.

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Basic elements of the supervision process

Supervisory authority

Authorization Inspection Off site supervision Enforcement and sanctions

Supervised entity

Corporate governance

Investors Supervisory Boards Management Boards Organization Standards Procedures

insurer finances

Asset-related

risk

→

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Asset and liability

Management risks

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Liability-related

risk

↓ ↑ ↓ ↑ ↓ ↑ ↓ ↑


Insureds Agents and brokers Other contractors Market conduct

Figure 3

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3. Supervisory policies and issues

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Regulatory and Supervisory Role of KNUiFE for the Insurance Companies

- issuance of licences to pursue insurance activity,
- licensing insurance brokers and registering agents,
- controlling insurance companies operations,
- protection of the security of insureds interests.

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Supervision of the Financial Standing of the Insurance Companies:

- analyses of the annual and quarterly financial statements (in the extraordinary terms – also monthly or weekly),
- evaluation of the technical insurance provisions,
- analyses of the equity links and ownership structure,
- solvency and control monitoring.

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Supervision of the Investment Activities of the Insurance Companies:

- supervising the security, profitability and investment liquidity,
- assessment of the investments` valuation,
- analyses of the investment coverage of the technical provisions.

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Controlling Operations of the Insurance Companies:

Principal areas covered:

- corporate governance,
- technical provisions and liabilities,
- management of the financial assets,
- internal transactions,
- group transactions,
- remuneration schemes,
- sales force management and motivation schemes.

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Supervision of the Insurance Inter-Mediation

- registration of the insurance agents,
- licensing insurance brokers,
- organisation of the insurance and reinsurance brokers`examinations,
- on – going controll and supervision of the insurance brokers` activity.

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Undertaking actions on behalf of Insureds

- Compliance analysis of the General Insurance Conditions.
- Complaints in-take, assessments and transfer.
- Educational activity.
- Co-operation with the Insurance Ombudsman,
- Co-operation with the Office of Competition and Consumer Protection and other relevant institutions.

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Enforcement instruments

- Financial fines for breaches of the law.
- Suspension or recalling of the Board members.
- Withdrawal of the licence.
- Withdrawal of the licences for brokers and agents.
- Establishment of the receivership, board of trustees and board custodian.
- Winding up initiative.
- Right to participate and initiative shareholders meeting.

The Commission has the statutory right to confirm its decision in the way of immediately feasibility regime.

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**EU accession and insurance regulations in
Poland. Impact assessment**

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Regulatory development of the Polish insurance market

**28 July 1990 first modern insurance law based on Ist
and IInd EU coordination directives:**

- licensing,
- minimum guarantee capital,
- solvency margin,
- technical provisions,
- freedom of establishment,
- separation of life and non-life.

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8 June 1995 major amendment of the insurance law:

- institutional restructuring,
- enhanced prudential provisions,
- new supervisory powers (fit and proper, actuary licensing of agents and brokers, on going supervision of brokers).

22 May 2003 major EU sponsored overhaul of the insurance law.

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Supervisory milestones of the Polish insurance market

1990 - supervisory functions deposited in the Department of Financial Institutions within the Ministry of Finance (MF).

1995 - On going prudential supervision transferred to specialized agency PUNU (Polish Insurance Supervisory Authority)


- Licensing and ownership control maintained in the Ministry of Finance.

2002 - PUNU merged with UNFE (pension fund supervisor) to become KNUiFE.

2004 - All supervisory functions transferred from the MF to KNUiFE.

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EU accession and insurance regulation. Institutional management.

1. Introduction of compliance procedures.

Since start up of the accession negotiations in 1988 all legislation initiatives tested on compliance with EU law.

2. Transposition of the existing acquis.

EC peer reviews of the Polish regulatory solutions and recommendations

15-19 Oct 2001,

5-7 May 2003


EC major recommendations:

1. increased supervisory independence in particular from political influence,
2. empowering supervisory organ in new instruments and powers in particular in international activities, fitness and properness, corporate governance,
3. implementation of EU Insurance Group,
4. giving supervisory organ more preventive powers,
5. reinforcement and clarification of life regulations,
6. more regulation of the technical parameters used in life assurance.

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New regulations of the insurance sector as of January 1st 2004

- law on insurance activity
- law on compulsory insurance,
- law on insurance mediation,
- law on supervision.

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Principal goals of new regulations

1. Opening of the insurance market for EU undertakings
2. Strengthening of the prudential requirement.
3. Reinforcement of the direct consumers protection.
4. Strengthening of the supervisory powers.
5. Improvement of the corporate governance of the insurance system.

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Opening of the insurance market for EU undertakings

- Transposition of acquis for freedom of establishment and freedom of services.
- Empowering supervisory organ in cooperation tools including exchange of information rights.

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Strengthening of the prudential requirements

- increased minimum guaranty capital /3 mio Euro life; 2-3 mio Euro for non-life),
- increased solvency standards (double gearing, future profits, solvency calculations),
- increased fit and proper coverage and qualification requirements,
- introduction of good corporate governance principles /internal audit, risk management, organisational regime, asset management procedures/,
- compulsory employment of certified asset managers,
- increased use of actuaries.

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Enhancement of direct protection of consumers

- regulation of the sales process in life business,
- access to claims files in non-life business,
- new role of Ombudsman in non-judicial conflict resolution.

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Strengthening of the supervisory powers

- new supervisory instruments /reliance watchdogs, chief officers approval, financial plans, stress models/,
- early prevention rights /endangered versus likely endangering of policyholders` interest/,
- improved rehabilitation powers /board custodian, early prevention, flexibility of supervisory actions/.

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**Improvement of the corporate governance
of the insurance sector**

- Restructuring of the role of major insurance sector institutions.
- Streamlined mutual relationships.

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