



International Association for the
Study of Insurance Economics

Études et Dossiers

Etudes et Dossiers No. 313

**The 22nd PROGRES International Seminar
“The Changing World of Insurance Regulation
and Supervision”**

Geneva, 30 - 31 March 2006

May 2006

Working Paper Series of The Geneva Association

© Association Internationale pour l'Etude de l'Economie de l'Assurance

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

The “Études et Dossiers” are the working paper series of The Geneva Association. These documents present intermediary or final results of conference proceedings, special reports and research done by The Geneva Association. As they contain work in progress or summaries of conference presentations, the material must not be cited without the express consent of the author in question.

Layout & Distribution: Valéria Kozakova

Integrated or Specialized Financial Markets Supervisory Authorities – is there a dilemma?

Jan Monkiewicz



THE INSURANCE AND PENSION FUNDS
SUPERVISORY COMMISSION

1. Market trends

- concentration,
- conglomeration,
- internationalisation,
- product hybridisation.

KNUiFE 2006 www.knuife.gov.pl



THE INSURANCE AND PENSION FUNDS
SUPERVISORY COMMISSION

2. Regulatory trends

- integrated financial sector regulators,
- convergence of regulatory standards (cross sectoral and accross the countries),
- expansion of financial safety nets,
- enhanced coverage (reinsurance, intermediation, corporate governance, suitability of persons, groups, etc).

KNuIFE 2006 www.knuife.gov.pl




THE INSURANCE AND PENSION FUNDS
SUPERVISORY COMMISSION

3. Supervisory trends

- separation of regulatory and supervisory authorities,
- convergence of supervisory models (NAIC model, Solvency II, IAIS framework),
- risk orientation,
- increased application of dynamic preventive tools,
- integrated financial sector supervision.

KNuIFE 2006 www.knuife.gov.pl




THE INSURANCE AND PENSION FUNDS
SUPERVISORY COMMISSION

Establishment of Integrated Agencies

| Year | Country | Year | Country |
|------|------------|------|----------------|
| 1978 | Singapore | 1999 | Iceland |
| 1981 | Maldives | 2001 | Latvia |
| 1983 | Norway | 2002 | Austria |
| 1987 | Canada | 2002 | Estonia |
| 1988 | Denmark | 2002 | Germany |
| 1991 | Sweden | 2002 | Hungary |
| 1997 | Korea | 2002 | Malta |
| 1998 | Australia | 2003 | Ireland |
| 1998 | Japan | 2004 | Belgium |
| 1998 | U. Kingdom | 2004 | Netherlands |
| | | 2006 | Czech Republic |

Based on Demaestri E., Sourrouille D., Integrated Financial Supervision: Experiences in Selected countries, Inter-American Development Bank, Washington D. C., 2003 p. 2

KNUIFE 2006 www.knuife.gov.pl



THE INSURANCE AND PENSION FUNDS
SUPERVISORY COMMISSION

4. What is an integrated supervisor? The concept of an integration ladder

a) breadth

- cross-sectoral – covering various sectors and institutions,
- cross-functional – covering various supervisory functions and elements (licensing, on-going, prudential, market conduct).

KNUIFE 2006 www.knuife.gov.pl



THE INSURANCE AND PENSION FUNDS
SUPERVISORY COMMISSION

5. What are the drivers of supervisory integration?

- unsatisfactory performance of the fragmented supervision (crisis experience – Korea, Japan),
- excessive supervisory fragmentation (UK example),
- political considerations (Polish example),
- market developments (Dutch example),
- increased pressure on the supervisory resources,
- regulatory integration,
- fashion (imitation effect).

KNuIFE 2006 www.knuife.gov.pl




THE INSURANCE AND PENSION FUNDS
SUPERVISORY COMMISSION

6. What are the constraining factors?

- traditional separation of supervisory competences,
- sectoral structure of international standards setters,
- different business and risk profiles of the supervised institutions,
- different supervisory goals of sectoral supervisors.

KNuIFE 2006 www.knuife.gov.pl



THE INSURANCE AND PENSION FUNDS
SUPERVISORY COMMISSION


Basel Committee core principles: “ensure that banks operate in a safe and sound manner and that they hold capital and reserves sufficient to support the risks that arise in their business”.

IAIS core principles: “maintain efficient, fair, safe and stable insurance market for the benefit and protection of policyholders”.

IOSCO core principles: investors protection, ensuring fair, efficient and transparent markets, reduction of systemic risk.

KNuIFE 2006

www.knuife.gov.pl



THE INSURANCE AND PENSION FUNDS
SUPERVISORY COMMISSION

7. What are the potential rewards of the integrated supervision?

- better understanding of cross-sectoral risks and issues,
- improved comprehensiveness of oversight of complex financial institutions,
- economies of scale (development of joint administrative, information technologies and support functions),
- improved utilization of human and other rare resources,
- avoidance of the accountability diffusion in cases of regulatory failure.

KNuIFE 2006

www.knuife.gov.pl



THE INSURANCE AND PENSION FUNDS
SUPERVISORY COMMISSION

8. What is a potential price to be paid?

- the risk of long term deterioration of market supervision if integrated sectoral supervisors inadequately developed or improperly merged,
- the risk of temporal deterioration of market supervision at the time of transition from multiple supervisory agencies to a single one,
- the risk of bureaucratic inefficiency of the single institution unable to differentiate its tools and approaches and to rapidly respond to market developments,
- the risk of elimination of the system of checks and balances in the supervisory system and excessive concentration of power.

KNUiFE 2006 www.knuife.gov.pl




THE INSURANCE AND PENSION FUNDS
SUPERVISORY COMMISSION

9. Fundamental characteristics of the Polish financial sector

- small size,
- bank driven,
- heavily concentrated,
- foreign owned,
- prudently regulated.

KNUiFE 2006 www.knuife.gov.pl



THE INSURANCE AND PENSION FUNDS
SUPERVISORY COMMISSION

Polish financial sector 2002-2004 (assets in million PLN and %)

| Year | Banks | Credit Unions | Investments Funds | Insurance companies | Pension Funds | Total millions | |
|------|--------------------|-----------------|-------------------|---------------------|------------------|---------------------|---------|
| | | | | | | PLN | USD |
| 2002 | 468.400 (80,4%) | 2.455 (0,4%) | 2.455 (0,4%) | 57.562 (9,9%) | 31.752 (5,4%) | 582.935 (100,0%) | 166.552 |
| 2003 | 488.962 (76,7%) | 3.343 (0,5%) | 33.229 (5,2%) | 65.7232 (10,3%) | 45.439 (7,1%) | 636.969 (100,0%) | 181.913 |
| 2004 | 537.788 (74,7%) | 4.234 (0,6%) | 37.723 (5,2%) | 77.499 (10,8%) | 63.040 (8,8%) | 720.284 (100,0%) | 205.795 |

Memo: 1 PLN – 0,3 USD – 0,25 Euro
Source: NBP, KNUiFE, KPWiG.

KNUiFE 2006 www.knuife.gov.pl

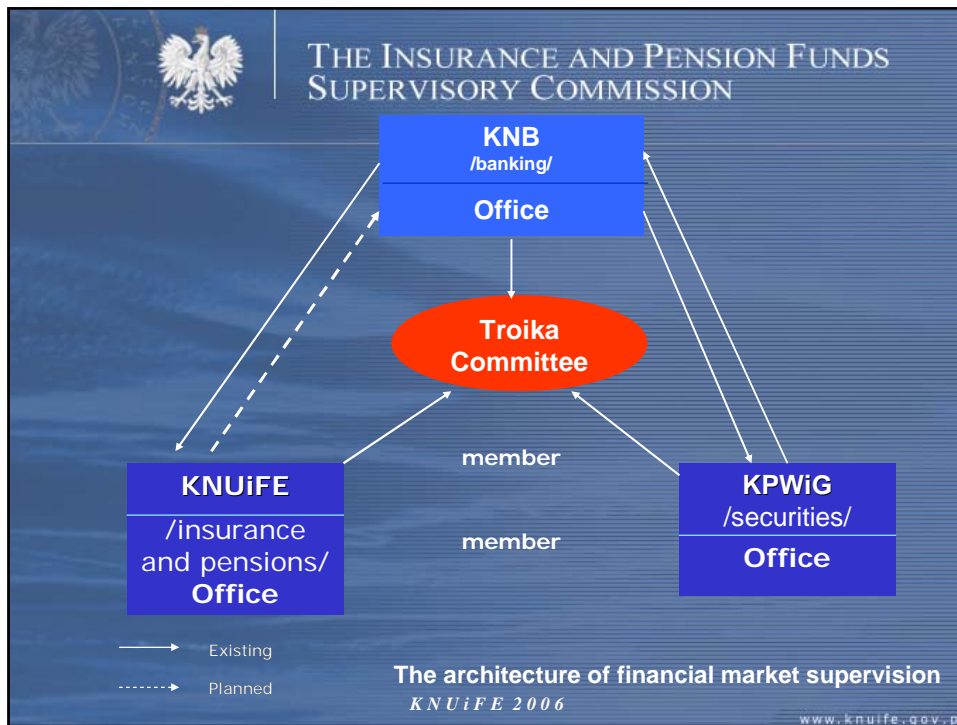


THE INSURANCE AND PENSION FUNDS
SUPERVISORY COMMISSION

10. Financial market supervision in Poland

- young,
- fragmented,
- competent,
- politically independent,
- personally and institutionally coordinated,
- matching market characteristics.

KNUiFE 2006 www.knuife.gov.pl




THE INSURANCE AND PENSION FUNDS SUPERVISORY COMMISSION

11. New financial market supervision

- organizationally integrated,
- bank dominated,
- politically dependant,
- politically powerful.

KNUiFE 2006

www.knuife.gov.pl



THE INSURANCE AND PENSION FUNDS
SUPERVISORY COMMISSION

12. Is there a dilemma? Some conclusions

- there are many alternative supervisory models working effectively,
- organic integration is only one possible measure to improve the market supervision,
- existing models reflect local circumstances and cannot be implanted elsewhere without amendments,
- when undertaken integration project should properly take account of timing, duration, integration process and governance aspects of the new institution.

KNUiFE 2006 www.knuife.gov.pl