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

Jan Monkiewicz



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1. Market trends

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

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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).

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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.

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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

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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).

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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).

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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.

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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.

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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.

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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.

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9. Fundamental characteristics of the Polish financial sector

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

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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.

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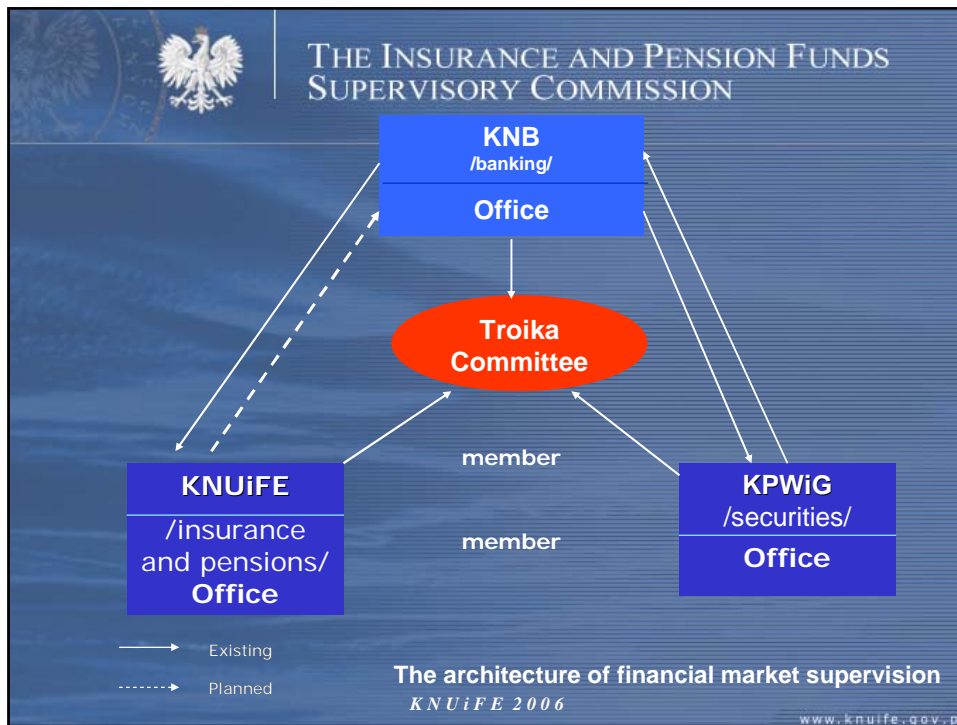


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10. Financial market supervision in Poland

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

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11. New financial market supervision

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

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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.

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