

# ISSUES IN FINANCIAL SUPERVISORY STRUCTURES FROM INSURANCE SUPERVISION PERSPECTIVE

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# WHAT IS GOOD SUPERVISION?

- Good supervision is supervision (including regulation) that allows financial markets to operate more smoothly and that reduces the risk of market disturbance by countering the inherent market failures, notably external effects and information asymmetries.
- Good supervision holds a close watch on the soundness of financial enterprises, hence protecting the financial interests of financial services customers, while at the same time contributing to the stability and integrity of the financial system.

# RISK BASED SUPERVISION

- Supervision and regulation is focused on risk
- Forward looking
- Principle based
- Proportionality

# SUBJECT OF FINANCIAL SUPERVISION

- By sector:
  - Banking
  - Securities
  - Insurance
- By risk:
  - Systemic
  - Prudential
  - Market Conduct

# EU Supervisory Architecture

- EBA
- ESMA
- EIOPA
- ESRB
- ECB

# IAIS ICP1

- **ICP 1** Objective, Powers and Responsibilities of the Supervisor

The **authority** (or authorities) **responsible for** insurance supervision and the objectives of insurance supervision are clearly defined.

# ICP 2

- ICP 2 Supervisor

The supervisor, **in the exercise** of its functions and powers:

- is operationally independent, accountable and transparent
- protects confidential information
- has appropriate legal protection
- has adequate resources
- meets high adequate resources

# EU DEVELOPMENTS AFTER 2008

- I. Changes adopted before or immediately after the crisis.
- II. Wide ranging institutional changes adopted from 2009 onwards.
- III. Changes implementing Macro-Prudential supervision in national context.

# INTERCONNECTEDNESS

Between:

➤ Market Conduct

➤ Prudential

➤ Systemic risks

# MAIN establish MODELS

1. Sectorial model
2. Single supervisor
  - a) Within Central Bank
  - b) Within Separate Authority
3. Twin Peaks
4. Combinations of the above

# Sectorial model

Separate supervisors for:

- Insurance
- Securities
- Banking

# Sectorial model +/-

## PROS:

- SpecialisationNo conflict of interest
- In line with EU architecture

## CONS:

- Risk of bad cooperation and poor information exchange
- Potential conflict of interest between prudential and market conduct supervision
- No cost synergies

# SINGLE SUPERVISORS MODEL

- All sectorial supervisors are within one institution
- Central Bank or separate institution

# Single Supervisor model +/-

## PROS:

- Better cooperation and coordination between sectorial supervision
- Better use of supervision for macroeconomic policies
- Costs synergies

## CONS:

- „Bank centrism “ and lack of specialisation
- Conflict of interest between:
  - Prudential and Market Conduct supervision
  - Micro and Macro Supervision

# TWIN PEAKS

Separate:

- Prudential Supervisor
- Market Conduct Supervisor

Additional layer of Supervision.

Do Consumers need additional level of Protection?

# TWIN PEAKS +/-

## PROS:

- Probably most effective for protecting separate interests of policyholders
- No conflict of interest

## CONS:

- An additional layer of supervision
- Doubling of work
- Jurisdictional issues

# CONCLUSIONS

- No single best or worst solution
  - Importance of:
    - Independence
    - Managing conflict of interest
    - Cooperation
    - Separation of:
      - \* Systemic
      - \* Prudential
      - \* Market Conduct
- ISSUES
- RISK BASED APPROACH!

Thank you!