



Financial convergence and supervision

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Overview

- Insurance market trends
- Systemic concerns?
- Optimal structure of supervision



Market trends

- Product structure:
 - More composite products
 - Shifting of investment risk to consumer
 - Many traditional ‘pure‘ insurance products remain
 - Pension provision: several options



Market trends

- Supplier structure
 - Divergent strategic options
 - Presently ongoing consolidation, cross sector, cross border
 - Still many ‘pure’ stand alone insurers
 - Pension provision: several options



Market trends

- Distribution structure
 - Intermediaries (‘independent’) still dominant
 - Tied agents
 - Direct writing
 - Internet: still limited but increasing



Market trends

- Consumer and political expectations:
 - More aware consumers
 - Better ex ante product information
 - More ongoing information
 - Share of the positive investment returns
 - No failures accepted



Market trends

- A continuing important role for insurance
- Traditional banking (transformation function) under more threat?



Systemic concerns?

- Increasing interest by:
 - IMF, FSF etc.
 - Central banks
 - Banking supervisors
- Financial Sector Assessment Programs



Systemic concerns?

- Limited relevance for the primary insurance sector
 - Liabilities:
 - No ‘run on the bank’
 - Very limited intra-group guarantees
 - Assets:
 - Very liquid exchange traded assets
 - Government bonds, large cap equities
 - Very little direct claims on other insurers or on banks



Systemic concerns?

- Some relevance for the reinsurance sector
 - Liquidity risk
 - Retrocession (less than previously)



Systemic concerns?

- Within financial conglomerates
 - In the European Union also of limited relevance:
 - For insurers: assets covering the technical provisions must be unencumbered
 - Insurance Groups Directive, Helsinki Protocol
 - Intra-group transactions and positions are supervised
 - Post BCCI Directive: transparency
 - Draft Financial Conglomerates Directive
 - In NL: group wide supplementary supervision, including solvency assessment



Optimal structure of supervision

- Historically, in the insurance sector:
 - The insurance entity is holder of liabilities and assets vis-a-vis the policyholders
 - Solo supervision of the insurance company
 - Solo-plus
 - Financial solidity
 - Specialised supervision



Optimal structure of supervision

- Current arrangements in the Netherlands:
 - Pension & Insurance Supervisory Authority
 - Pension funds
 - Insurance companies
 - De Nederlandsche Bank, i.a.
 - Credit institutions
 - Collective investment funds
 - Central bank
 - Securities Supervisory Authority
 - Securities firms
 - Stock exchange



Optimal structure of supervision

- Current arrangements in the Netherlands:
 - Tripartite Council of Financial Supervisory Authorities(1999)
 - Various bilateral Protocols (since 1990)
 - Co-operation is increasing
- International co-operation agreements:
 - Mainly EU wide
 - Also on individual groups (Fortis)



Optimal structure of supervision

- Increasing question marks:
 - Increasing convergence
 - Dual purposes of supervision
 - Financial solidity
 - Consumer information
 - International changes in legislation
 - US (Gramm-Leach-Bliley Act)
 - EU Conglomerates
 - International changes in structure
 - EU (UK, Germany towards integrated supervision)
 - US (FHC, role FED)



Optimal structure of supervision

- Complications:
 - For insurance ‘bottom up’ solo plus is preferable
 - For banking ‘top down’ consolidated is preferable
 - Role of cross-border competences (very relevant in the EU)
 - Dual supervisory aims are sometimes mutually reinforcing, sometimes potentially conflicting
- Studies (OECD, IMF, G10) indicate that no single supervisory structure is optimal for all jurisdictions at all times
- Priorities will partly be incident driven



Optimal structure of supervision

- Renewed discussion in the Netherlands
- Proposals by the Ministry of Finance:
 - Separation between prudential and market conduct supervision
 - Closer co-operation between the two prudential supervisors (Pension & Insurance Supervisory Authority and the Nederlandsche Bank)
 - No separation between banking supervision and the central bank functions



Optimal structure of supervision

- View of the Pension & Insurance Supervisory Authority:
 - Proposals reflect:
 - Widely felt need for closer co-operation on prudential aspects
 - Understandable political priority for consumer information and protection
 - However:
 - Deviate from other choices in the EU
 - Introduce more than one supervisor for each financial firm
 - Reflect the current situation at the larger players, but not that at the many smaller insurance companies
 - Thus implicitly reflect a market view by Ministry of Finance



Optimal structure of supervision

- No such thing as specialised versus integrated supervision
- Market structure and consumer expectations dominate the optimal balance
- Keep ‘checks and balances’ in the overall infrastructure