FINANCIAL SUPERVISION ASPECTS REGARDING SURVEILLANCE OF THE INSURANCE MARKET

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Abstract

As long as the volatile economic terms blend with a constantly changing competitive environment, the financial services will be at a crossroads and the future of a large number of companies will be uncertain. The lack of an adequate financial supervision can lead to a financial disaster, as the one from 2007 till 2008 which started a global, unprecedented, systematic, profound, lasting crisis and nevertheless it has revealed significant gaps inside the control and supervision of the financial services on national and international level.

This article wishes to present the financial supervision terms and the systemic risk through a systematic integration analysis of the scientific specialized literature without forgetting the latest information provided by the supervisors.

Keywords: non-banking, risk management, solvency, financial supervision, systemic risk

JEL classification: G22

Introduction

The European Insurance and Occupational Pensions Authority (EIOPA) has recently issued a report, regarding the year 2017, in order to support the stability of the financial system which shows an increase of the economical perspectives and also a sustainable growth of the investments or the boom demand of the European countries.

Moreover, the same report underlines the opposite economical perspectives regarding the political uncertainty due to the renegotiation with the Great Britain and about the terrorist attacks, or nonetheless the recent studies show a down falling of the performance, a decrease of the compulsory spread, high prices of the assets, and all these issues have a dramatically decrease of the market.

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1. Review of the scientific literature

While doing a close research on this topic, I considered proper not only taking into account analyzing the current reports issued by the insurance authority but also the scientific part of it.

Furthermore, as a working style, I took into consideration the scientific bibliography and followed some stages (González Loureiro, 2016, p.3):

- I have selected the important articles from ISI when searching the Web of Science data (Table no. 1)

Table no. 1. A list regarding some important scientific papers

2152 scientific papers divided in:	
Non-banking	31 papers
Risk-management	1479 papers
Solvency	201 papers
Financial supervision	407 papers
Regulation	2 papers
MIFID	9 papers
MIFIR	2 papers

- From my data base, I have left aside those articles which even if they deal with the topic; they are irrelevant somehow in this case. To sum up, after leaving out at least 21 papers, my newly data base had 2131 papers written from 1975 till 2018 which it was analyzed according to the bibliography (Table no. 2).

Table no. 2. Case Processing Summary

Valid Active Cases	2131
Active Cases with Missing Values	0
Supplementary Cases	0
Total	2131
Cases Used in Analysis	2131

Source: Taken from the IBM SPSS application data

2. Research methodology

It is highlighted that the data base has an important number of works which were evaluated and classified by ISI and it shows that there is a great interest on the matter.

However, I have done a list with all codes which have the four essential criteria according this topic. The four criteria are as following: non-banking, risk-management, solvency, financial supervision. I should note also that I have chosen the English language in order to give a proper meaning.

The large number of criteria and concepts will definitely show you my interest towards this topic and my concern about: the financial surveillance, systematic risk, economical or financial crisis. (Figure no. 1).

I have taken out some relevant information from the articles, starting with all the keywords and expressions for the contents;

I have built a data base with all the criteria (cases and the analyzed opportunities);

I have operated a data base in the IBM SPSS application using two different ways: the multiple mailing analyses and the categorical principal components analysis (CATPCA), for all the analyzed variables.
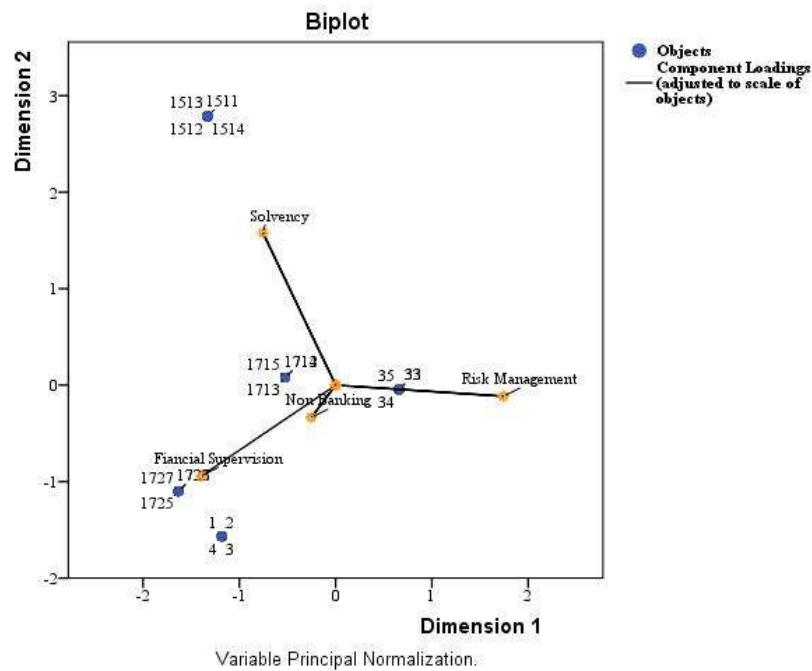

Figure no. 1. The titles of the scientific papers which were mentioned in the article
Source: Taken from the IBM SPSS application data

3. Interpretation of the results

I considered expressive to show this interpretation of the results as in Figure no.2 in order to be more precise.

As shown in the figure, it is clearly noticeable the classification of the scientific works regarding the solvency, the non-banking and the financial surveillance on the vertical axis whereas those works concerning the risk-management are classified on the horizontal axis.

A second classification of these papers is subsequent to the chart in other four different positions. I have analyzed the "map" taking into account that version which each category of the criteria is presenting: a low level of it made me think that each criterion is a possible "candidate" regarding the gaps shown by the scientific bibliography. While analyzing it in this way, I have managed to identify those topics in process of development and dropping out the others which are decreasing.
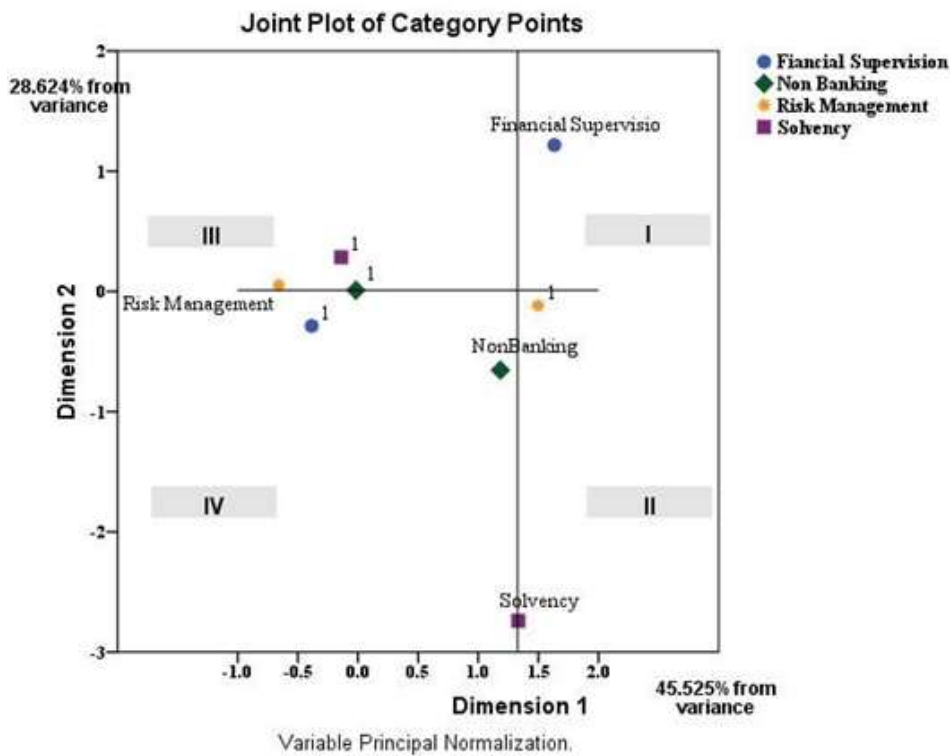

Figure no. 2. The analyzed scientific works are classified in two different limits

Source: Taken from the IBM SPSS application data

The first part of the chart (I) is characterized through a positive part for each limit which includes issues regarding the financial surveillance. Moreover, this part of the figure is considered by the specialists' one with "hot" topics.

I find important to indentify the financial surveillance through the hot topics not only as a general term but also the great concern of building a unique European market of the financial services. Although we shouldn't forget the latest financial crisis which could make us realize the importance of this topic (the financial surveillance) because those structures which controlled had passed through significant changes, for instance that transition of the systems from unchanged rules to structures based on principles, as seen in Solvency II vs. Solvency I modifications (Dirk, Schoenmaker, Jan, Sass, 2016).

Therefore, the economical-financial crisis from 2007 to 2008 had a great impact on the European financial surveillance when president's European Board José Manuel Barroso demands Jaques de Larosière, the French Central Bank former president and former member of Delors Committee, to chair a high board (High-Level Group on Supervision) made up of eight well-known independent specialists in order to recommend future rules concerning the financial supervision of the future European financial markets. The report well set by the Larosiere team identified the main starting reasons of the financial crisis, certain lacks of managing the risks, the poor management, or the failure of implementing the regulatory framework and the supervision of the management risk (Ágnes NAGY et al.,2010).

There is still a main deficiency stressed by the specialists and also the Larosiere Group which was the lack of European macro-prudential supervision and regulatory tools. Macro-prudential supervision is that approach which ensures the systematic insurance, minimizing the risks from the high level and the micro-prudential supervision is minimizing those risks from the financial institutions as individual.

The macro prudential approach at a financial system level stresses the idea that it depends on the collective attitude of the institutions (Caroline, Siegel,2012).

The second scale (II) is characterized positively for the first limit but negatively for the second one and there are some works which stress the non-banking and solvency issue. This chart shows several issues regarding the future quality studies about the correct or incorrect settlements, or if they can or can't meet the financial market necessities according to the participants' solvency.

For instance, VaR (Value-at-Risk) isn't a new concept in the risk management. The recommendations in the banking legislation and those issued by the Basel Committee for the banking supervision have been applied in the banking sector. For Basel I and II, the VaR methodology is used in order to face the market and credit risk. As a similarity, in Solvency II for the insurance sector, the capital demand could be figured out using an internal VaR. Although, there is unknown matter if managing the VaR risks could also improve the performance and stability of the market. Global financial crisis from 2007 to 2008 led to serious concerning of the VaR methodology in order to face the credit risk.

 It is known that the management authorities require a certain administration of risks such as VaR in order to reduce the insurance insolvency or improve the stability of the market insurances. VaR demands could protected more the insured and it could also grow the economic efficiency, but with negative effects on the insurance market. The specialists

analysis point out the fact that the insured people are better protected in case of higher losses no matter the perspective between the insured and the insurer. However, facing the demands of the VaR the insolvency risk of the insurer could be higher and certain problems could appear on the market (Carole Bernard,Weidong Tian,2010).

The insurance companies' insolvency (an important part of the non-banking sector) could have too higher prices not only for their clients but also for the whole society which we could compare with the insolvency of other industries. Nonetheless it is something which happens when the insurants are buying their insurances in order to protected them in case of a loss or when the insurance company becomes insolvent and cannot pay its debt which could jeopardize the economical part of the insurant. The insolvency of an insurance company could affect also a third party for instance, the insurance in case of liability. The wrong information regarding the insolvency status of the companies which have severe issues, could lead to a correct settlement of the insurance industry in order to decrease the insolvency though this settlement has a price. Although, a good regulation project could decrease the insolvency risk of the insurant, it could also change the decisions of some wealthy financial insurants. Thus, these markets' poverty could lead to a lower level of safety and bigger prices (Ines Holzmuller,2009).

The third chart (III) characterized first by a negative limit then a positive one; it has scientific works regarding the risk management. This part of the chart shows us an ongoing content which is developing step by step (far-off from the central axis) but having also some gaps considering the scope of study (close to the central axis).

Among the identified gaps from the bibliography concerning the risk management issue, I would like to drop your attention with a question regarding the top management teams from the companies: Why haven't most CEOs, before the financial crisis, opened yet the black box? Based on the psychological economy, it is possible to increase the number of future studies, and how the experience and genre (female or male) could lead to a partial feedback.

In order to give the answer to my former question, the scientific papers suggest a methodology sustained by two studies and they consider the financial crisis a natural experimental landscape. Through one of the study, it is analyzed the individual phenomena and it is proved that during uncertain conditions, the male financial expertise is more serious than the one made by women non-financial expertise. Thus, the second study is testing the findings of the organizational phenomena. It is mentioned the fact that the institutions with a higher number of financial experts of top management have a higher level of performance in the constant environment but are negatively affected by the crisis. For a lasting performance, the administration board should set up a bigger diversity of a top management in the company (Katja Rost, Margit Osterloh, 2010).

The fourth chart(IV) is characterized negatively for both of the limits and we can find scientific papers concerning the financial supervision issue. Due to its position, this chart area is less taken into consideration regarding the quality of the matter.

The group of works around the vertical axis which have small values (close to zero or even negative, of the first and third charts) draws the fact that there are clear gaps regarding the concept-methodology of this bibliography.

Conclusions

The low rate of interest, the demographic and climate changes, the new technologies and the digital process demand a constant development of business models. It is for sure the EIOPA data stress out that the unit-linked businesses have increased for the insurance companies for the last year. Although there weren't major changes in the investments portfolios once introducing the Solvency II regime, the recent EIOPA survey had showed some directions of the investments behavior as an answer to this low rate interest. A lot more investments in untraditional active groups, such as infrastructure, could increase the actives' diversity and require new managing risks' abilities by the insurers or a vigilant surveillance. (Foreword by the Chairman, Financial Stability Report, December 2017).

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