1. Basic information

1.1. Désirée Number: PL01.01.05  
Twinning number: PL/IB/2001/EC/01

1.2. Title: Insurance supervision

1.3. Sector: Public administration

1.4. Location: Poland

2. Objectives

2.1. Wider objectives

The general objective is to strengthen the supervision of the insurance system in Poland.

2.2. Immediate objectives

Establishment of operational and technical tools for supervision on insurance companies and brokers. Strengthening co-operation between supervision bodies with reference to introducing freedom of providing services and establishment of enterprises in the EU. Elaboration of standards concerning conducting supervision and control. Raising supervision quality through the possibility of solutions verification that are used in Poland. Further legal transposition in scope of specified in project areas.

2.3. Accession Partnership

The project is consistent with the AP and has been classified as medium-term priority. Part 3.2 Medium-term Priorities, section Internal Market, point Free movement of services of the AP speaks of: the creation of supervising and regulating bodies.

2.4. Contribution to the Preliminary NDP: Not applicable.

3. Description.

3.1. Background and justification.

Pursuant to the amended Insurance Act of 28 July 1990 (Journal of Laws 1996, No.11, item 62,) the State Office of Insurance Supervision (PUNU) was established (1/2/1996). PUNU took over the functions of supervision and inspection of insurance companies and insurance intermediaries from the Minister of Finance. The supervision of the activities of insurance companies and intermediaries consists in particular in the following: Undertaking appropriate activities to ensure the proper functioning of the insurance market and the protection of the insured; Issuing permits for brokers and agents; Controlling the activities of insurance companies and brokers; and Undertaking other activities stipulated in the Insurance Act. However, the section responsible for authorisation of insurance companies and branches of foreign companies and for legal regulations of insurance market remained in the Ministry of Finance structures. The insurance market in Poland is young as it operates only 10 years within the free open market economy. The number of insurance companies is systematically rising from 12 in 1990 to 69 in 2000. The State Office for Insurance Supervision staff is also relatively young with practice in supervision and in insurance industry often less than 5 years. The number of staff increased from about 30 persons in 1996 (people who worked before in Ministry of Finance) to 99 persons at present. The number of managerial staff in insurance companies considerably grew, e.g. actuaries (from 6 in 1996 to 84 at present) as well as insurance intermediaries (brokers—approximately 900 persons, agents—over 200,000 persons). In case of the actuaries it should be pointed out that 80% of these persons have recently finished mathematical high schools and they have insufficient experience especially in insurance. In particular this staff requires achieving professional experience in the field of development of the insurance market. The supervision body elaborated some standards which involve further development and turning to more comprehensive methods. Recently the supervision body has faced some barriers and limits that should be eliminated and some solutions should be suggested or modified. The dynamics of insurance market development in Poland as well as the globalisation process in the financial sector, development of products, services and capital, involve creation of adequate tools of supervision. In the future, created tools and automation of some processes will simplify the phase of supervision consolidation. All supervisory bodies on the market must aim at increasing their efficiency. The main objectives of the project should be achieved through: Investment in development of tools (automatisation of some processes), Investment in development of people through training, study visits in supervision organs, etc (the State Office for Insurance Supervision and Ministry of Finance personnel, people connected with insurance sector who have influence on quality and correctness of data submitted to supervision body); Equipment for improvement of work: programmes, books and manuals; and Co-operation between involved bodies. The new and dynamically developing insurance market in Poland, with a great potential ahead, exerts significant influence on the whole of the country’s economy. The supervising authority needs research tools which would show the interdependence between the
insurance sector and the whole economy, as well as the internal dynamics of the insurance market. The
drawn up forecast-simulation model for the insurance sector should provide for making forecasts of the
insurance market's development, examining the scenarios of its development, and carrying out
verifications of the strategic plans of insurance agencies against this background. Besides, elaborated
tools (models) should enable to make various tests of life or non-life insurance companies activity
(scenario investigations and simulation results). These tests will help towards making analyses in a
dynamic way which will complete the fundamental analyses based on the solvency margin (static
analyses). In order to make the supervision effective, it is necessary to equip the supervising office with
suitable computer software on reporting insurance companies and on creating a brokers' database.

3.2. Activities linked to the project

The supervisory body realised the following projects under the Phare program:

**Project PL9404-30** “Principles of Setting up Technical Provision in Insurance Companies” (in the years
1997 and 1998) which was aimed at drawing up a description of the risk groups together with principles
of creating technical provisions in insurance companies. This project was not finalised because of
insufficient funds on such high class of experts required in this work.

**Project PL9404-60** “Unification of Insurance System for Needs of the State Office for Insurance
Supervision” (in the years 1997 and 1998) which included: Model Chart of Account, Manual concerning
indication financial analysis of insurance companies, and Training for PUNU staff and employees of
accountancy sections in insurance companies (more than 50 people trained). Model Chart of Account
was submitted to the Ministry of Finance as a model recommended by PUNU. As regards a manual
concerning indication financial analysis of insurance companies, PUNU prepared the modified version of
this manual and sent it to all insurance companies for use. Additionally, this project was used while
creation rules and reporting scope for supervision body and preparing preliminary version of software of
financial reporting. The further step consists in adjusting the implemented solutions to the change in
accounting law. The elaboration of final software will be financed by PUNU.

**Project PL9404-32** “Training Scheme for the Employees of the State Office for Insurance Supervision
the Members of the Management and Personnel of Insurance Companies” (in the years 1997 and 1998)
which included training sessions for PUNU employees, representatives of management and insurance
agencies' clerks, brokers and agents (about 200 people was trained). There were also study visits in
selected countries of the EU financed under the same program (in 8 supervisory authorities).
Unfortunately, these lasted only 2-3 days each, though they did give us a general picture of the
functioning of the supervision system. The purchase of a small number of reference books has also been
financed under the same program.

3.3. Results of the project

The implementation of the project will contribute to the establishment of a fully functioning administrative
capacity of the supervising authority pursuant to the insurance standards of EU member states as well
as co-operation between supervisory bodies on the open market. This should be the main result of the
twinning.

In addition, the project will include: Elaborated automatic tools for supervision work which will simplify
making analyses and forecasts of insurance companies activity and insurance market in Poland as well
as generation of reports for reporting within the EU, for EUROSTAT and domestic authorities; Developed
and strengthened co-operation between supervision bodies on the open market; Elaborated manual for
supervision and the procedures of on site or in site inspection; Verified solutions used by supervision in
Poland with methods used by other countries; Trained staff of the State Office for Insurance Supervision,
Ministry of Finance and managerial staff or actuaries employed in insurance companies; Elaborated
proposals of changes in insurance and accounting law in the field of technical provisions in particular:
amendment to Insurance Act and draft of ordinance on detailed accounting rules for insurance
companies according to experience and solutions used in European countries.

Activities.

**Contract 1: Twinning Covenant**

The PAA will follow development of *acquis communautaire* and he will undertake steps aimed at
adjusting Polish law into changes; Prepared draft of ordinance on the calculation method and amount of
solvency margin and minimum amount of guarantee capital for each class of insurance, as well as
for the reinsurance business according to the future amendment of directives (79/267/EEC and the third
generation of life 92/96/EEC and non-life 92/49/EEC insurance directives) on solvency margin
requirements for life and non life insurance undertakings.

Preparation, supervision and editing & publishing of a practical reference book on the description of risk
groups together with the principles of creating technical provisions in insurance companies; A close
examination of the adequacy of the technical provisions of two or three insurance companies in Poland appointed by PUNU. Training the insurance supervision officers, the managerial staff, the clerks employed in the financial and economic departments in insurance agencies and actuaries licensed by PUNU and also representatives from other supervisory bodies in respect of the rules of creating technical provisions; Review of jurisdiction in scope of technical provisions including proposals of the proper changes in the Polish law and also assessment of the degree of compliance of the Polish insurance law with the EU standards. The PAA will assist in the transposition of the EU legislation into the Polish law according to the development of acquis communautaire. Adviser should prepare draft ordinance in the view of the future solvency margin directives (79/267/EEC and the third generation of life 92/96/EEC and non-life 92/49/EEC insurance directives). The PAA should be experienced with the specialisation in actuarial sciences. He/she is expected to stay in Poland for at least twelve months.

Contract 2: investment
The purchase of computer software for actuaries for modelling insurance products in life and non-life (e.g. special software PROPHET). This software allows making analyses and examinations concerning assumptions used in particular insurance products as well as monitoring of profitability and loss of these products. It can help towards verification of similar analyses conducted by insurance companies. The program can be used by the employees from the start. The implementation of this software is not connected with the activities included in the sub-project. Preparing new more reliable concept of computer software for the insurance companies supervised by our body and adequate complete program. This program has to enable insurance companies to generate and transmit quarterly and annual reports to the insurance supervision authority on electronic carriers. This new proposed concept has to be adjusted to the PUNU’s data-base. Besides, the program has to take into consideration the scope of report on the brokers activity for the purpose of insurance supervision. The new concept has to include: Elaboration of assumptions of informatical system; Elaboration of model assumptions concerning software; Elaboration of software (for over 70 insurance companies and about 1000 brokers); Purchase of proper tools for the service of this software and exchange of data between insurance companies, brokers and PUNU; and Training of software users (over 300 people). Additionally, due the fact that supervisory body is responsible for collecting statistical data this software should be attached by statistical questionnaires required by public statistics and scope of data resulting from publication duties of insurance companies. The best solution would be including this part of the reporting to the software. Elaboration of such software will enable both the unification of standards (collecting, transforming,) and the automating calculation of many files and automatic verification of correctness of whole report. Supervisory body has prepared and implemented an initial version of the software which ensured unification of standards of financial reports without any financial support from outside. Frequent and forecasted changes in legal regulations in the nearest 2 years will result in modifications in the initial software. After this time a new reliable concept of computer software will have to be prepared. Final support project will consist in the choice of the contractor who will realise the project according to PUNU concept taking into consideration the possibilities of other software, i. e. Access, Visual Basic, C++, SQL Server. While valuation of the concept PUNU will take into account: elasticity, automatic installation of the software, speeding, reliability and easiness of modification and compatibility of PUNU’s database.

Contract 3: Technical Assistance (simulation model for insurance sector)
According to the Insurance Act the State Office for Insurance Supervision is obliged to undertake actions in order to ensure correct functioning of the insurance market. Due to the above, supervisory body has to have analytic tools (model) aimed at analysing insurance sector (e.g. defining and forecasting the phase of insurance cycle which have direct influence on financial standing of insurance companies). Draft of Insurance Act amendment, which adjusts Polish insurance law to the EU regulations, frequently appeals to definitions of schedules of insurance activity. This matter is also included in Art. 19 (3) of Directive 73/239/EEC (amended by Directive 92/49/EEC) and Art. 23 (3) of Directive 79/267/EEC (amended by Directive 92/96/EEC). In the view of this the State Office for Insurance Supervision has to have tools which give possibility of consistence verification of insurance companies activity with their activity schedules. The elaboration of mentioned models involves undertaking the following work: Elaboration of forecast and simulation tools; Creation of data base for the model of insurance sector and submodels of insurance companies’ activity; Elaboration of the model of insurance sector; Elaboration of estimation and verification tools of the model of insurance sector; Reporting basing of the model of insurance sector; Elaboration of econometrical models of insurance companies operation (Life and Non-Life); Elaboration of estimation and verification tools of the model of Life and Non-life insurance companies; Reporting basing of the model of Life and Non-life insurance companies insurance; Training for the users of the forecast-simulation model; 1-day seminar on the forecast-simulation model. This contract should
be realised by the support of foreign experts with the specialisation in econometrical modelling of micro- and macroeconomics. The contractor should ensure the proper knowledge of the Polish economic situation and be able to collect the needed statistical data. The contract does not involve the purchase of hardware.

The project will be implemented to the benefit of the State Office of Insurance Supervision, a central organ of state administration and Financial Institutions Department of the Ministry of Finance. The aim of the supervision is to control the interests of the insured and to prevent situations in which the insurance agency would not be able to pay the insured person the due benefit. State Office for Insurance Supervision will be responsible for all contracts. For Contract 1 will be responsible jointly the State Office for Insurance Supervision and the Financial Institutions Department of the Ministry of Finance. The beneficiaries will be indirectly Ministry of Finance, Central Statistical Office and Governmental Centre of Strategical Studies to whom State Office for Insurance Supervision will send reports. The list of beneficiaries is connected with the articles of Insurance Act which specifies that insurance body should co-operate with state administrative bodies and other institutions within the scope of shaping national economic policy concerning insurance. The results of the project will not change the institutional framework, but will contribute to strengthening the supervision and increasing its efficacy.

5. Detailed budget (M€)

<table>
<thead>
<tr>
<th>PHARE SUPPORT</th>
<th>Investment</th>
<th>IB</th>
<th>PHARE</th>
<th>National co-financing</th>
<th>IFIs</th>
<th>Total</th>
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<td>Contract 1 (twinning)</td>
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<td>Contract 2 (technical equipment)</td>
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<td>Contract 3 (technical assistance)</td>
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<tr>
<td>TOTAL</td>
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<td>3.5</td>
<td>0.315</td>
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<td>3.815</td>
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</table>

The co-financing funds for the project implementation will be available.

6. Implementation arrangements

6.1. Implementing agency
PAO: Pawel Samecki, Under-Secretary of State, Office of the Committee for European Integration, Al. Ujazdowskie 9, 00-918 Warsaw, tel. 48(22) 455 52 41, fax: 48(22) 455 52 43.
CFCU: Co-operation Fund, Wojciech Paciorkiewicz, Director, 6/12 Nowy Swiat St, 00-497 Warsaw, tel. 48(22) 661 76 33, fax: 48(22) 661 76 13

6.2. Twinning
Contact person: Dorota Habich, Director of Human Resources, Training and Organisation Bureau, State Office for Insurance Supervision, 6E Niedzwiedzka St., 02-737 Warsaw, tel. 48 (22) 54 47 416, 85 38 726, fax:48 (22) 54 87 415.
Bartosz Drabikowski, Deputy Director of Financial Institutions Department, Ministry of Finance, 12 Swietokrzyska St., 00-960 Warsaw, tel. 48 (22) 694 33 38, fax: 48 (22) 694 39 50.

6.3. Non-standard aspects
The project will be implemented in compliance with the DIS Manual and the Twinning Manual.

6.4. Contracts
Three contracts are foreseen:
1. Twinning Covenant (2.05M€)
2. Technical equipment–investment (0.815M€)
3. Technical Assistance (0.95M€)

7. Implementation schedule
7.1. Start of tendering: IV Q / 2001
7.2. Start of the project activity: I Q / 2002
7.3. Project completion: IV Q / 2004

8. Equal opportunity
Pursuant to the principles of equal treatment of the bidders, equal access will be ensured to men and women. The participation of women will be quantified.

9. Environment: Not applicable.
10. Rates of return: Not applicable.
11. Investment criteria: Not applicable.
12. Conditions and sequence of the most important activities:
I. Acceptance of the project by the Phare
II. Drawing up TOR by PUNU according to the point 7 of the schedule
III. Appointment of the CFCU
IV. Preparation of tenders
V. Contract signing
VI. Implementation of contracts
VII. Acceptance of reports prepared by the CFCU
VIII. Closing of project
Annex 1: LogFrame – Insurance Supervision

<table>
<thead>
<tr>
<th>Project number</th>
<th>Project title</th>
<th>Budget of the project Total EUR</th>
<th>Phare EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td>3.815 mln EUR</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Wider objective</th>
<th>Indicators of Achievement</th>
<th>Sources of information</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthening insurance supervision in Poland</td>
<td>Assured institutional capability of insurance supervision.</td>
<td>Insurance foreign and domestic law; The State Office for Insurance Supervision; Ministry of Finance; CSO</td>
<td>Frequent changes of law and institutional and personal resources changes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Immediate Objectives</th>
<th>Indicators of Achievement</th>
<th>Sources of Information</th>
<th>Assumptions and Risks</th>
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<tr>
<td>Establishment of operational and technical tools for supervision on insurance companies and brokers. Strengthening co-operation between supervision bodies with reference to introducing freedom of providing services and establishment of enterprises in EU. Elaboration of standards concerning conducting supervision and control. Raising supervision quality through the possibility of solutions verification which are used in Poland. Further legal transposition in scope of specified project areas.</td>
<td>Shorted period of generating, transformation and collecting data. Shorted period of verification data and elaboration of reports for internal and external use. Checked correctness current and strategical planes. Shorted period of making decisions process. Improved co-operation with supervisory bodies in UE. Standardised procedures of supervision.</td>
<td>Reports and opinions of governmental bodies and research centres, the State Office for Insurance Supervision</td>
<td>Risk: Fluctuation of PUNU's employees trained in the project. Efficient co-operation of all institutions responsible for the implementation of the project. Problem with acquisition of micro and macroeconomic data</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Results/Outputs</th>
<th>Indicators of Achievement</th>
<th>Sources of Information</th>
<th>Assumptions and Risks</th>
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<tbody>
<tr>
<td>The implementation of the project will contribute to the improvement of the administrative capacity of the supervising authority pursuant to the insurance standards of EU member states. Practical reference book on the description of risk groups together with the principles of creating technical and insurance provisions in insurance agencies. Trained insurance supervision officers, managerial staff, clerks employed in the financial and economic departments in the insurance agencies and actuaries licensed by the State Office for Insurance Supervision (PUNU) in respect of the rules of creating technical and insurance provisions. Examined of 2, 3 insurance companies as regard adequacy of technical provisions. Computer software for modelling of insurance products in life and non-life. Computer software for modelling of insurance products in life and non-life. Computer software enabling the insurance companies to transmit their reports to the insurance supervision authority by means of electronic carriers and system of collecting and processing data on brokers for the purpose of insurance supervision. Forecast-simulation models of the insurance sector and life and non-life insurance companies. Trained employees of PUNU and others in insurance sector.</td>
<td>The reference book reference book on the description of risk groups together with the principles of creating technical and insurance provisions in insurance companies. Number of trained people – over 800 persons. Number of seminars connected with the project – 2. Number of training courses – 15. Number of examined companies – 2, 3. Purchased computer software – 1. Elaborated computer software for supervision – 2. Number of study visits and two abroad visits for actuaries. Number of books purchased - about 500 copies (including about 300 as training materials).</td>
<td>Documents and report of governmental bodies and the State Office for Insurance Supervision</td>
<td>Risk: Quality of training sessions, high value of knowledge acquired during sessions. Continued employment of trained personnel in the structures linked to project implementation.</td>
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</table>

Inputs: Contract No 1 – 1.95 million EURO; Contract No 2 – 0.65 million EURO; Contract No 3 – 0.9 million EURO; (training, seminars, study visits, software, human resources)
## Annex 2: Implementation, contracting and disbursement schedules

<table>
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<th>Date of Drafting</th>
<th>Planning Period</th>
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<td>Insurance Supervision</td>
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<td>Dec 2001-Dec 2004</td>
<td>PHARE 3.5 mln EURO</td>
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D – design of sub-projects / C – tendering and contracting / I – implementation and payment