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Shaping Integrated Financial Market Supervision in Poland

Abstract

Supervision of the financial market in Poland began with the start of systemic transformation and the development of a market-based system of financial institutions. In its initial phase, it was sector-specific in nature. It then evolved and gained further powers with the development of financial institutions, economic growth and the need to adapt Polish law to EU standards. In 2006, integrated supervision of the entire financial market was established and entrusted to the Financial Supervision Authority.

Integrated supervision of the financial market in Poland is the result of efforts to increase the consistency and effectiveness of supervision by consolidating competences within a single institution – the Financial Supervision Authority. This process reflects international trends and the need to adapt the national regulatory system to European Union standards and the challenges of contemporary and global financial markets. At the same time, it poses challenges for the state in terms of institutional coordination, ensuring the independence of supervision and effective enforcement of regulations, as well as crisis management.

Keywords: financial market supervision, banking sector, financial stability, Financial Supervision Authority, financial crisis

JEL Codes: G28, G21, K23, H81, G18, G38, K22, K24, K42, F36, D73, H11

Introduction

The establishment of the Polish Financial Supervision Authority (KNF) in 2006 was one of the most important events in the development of financial supervision and the financial market in Poland in the period of transformation and, alongside the establishment of the Warsaw Stock Exchange (1991) and the Monetary Policy

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Council (1998). The development of integrated supervision was, among other things, a response to changes in the Polish financial market, including Poland's accession to the European Union and progress in European integration, as well as international trends in financial regulation. The establishment of the KNF created a new infrastructure for financial market supervision and brought Poland closer to the globally preferred model of supervision in developed financial markets. At the same time, the first test for integrated supervision came unexpectedly quickly, with the outbreak of the global financial crisis of 2007–2009. Poland coped with it extremely well.

1. Premises and characteristics of the beginnings of integrated supervision in Poland

The origins of financial market supervision in Poland date back to the beginning of the systemic transformation process, in particular the separation of nine independent commercial banks from the National Bank of Poland (NBP) in 1989. They were created on the basis of NBP branches and given the status of independent economic entities. It also became possible to create completely new entities on the financial market. This applied not only to the banking sector, but also to the insurance and capital markets. A symbolic proof of this was the inauguration of the Warsaw Stock Exchange (WSE) in the spring of 1991.

The emergence of a new category of entities on the financial market required the creation of a regulatory framework for their safe operation, including the protection of customer interests. At that time, the first supervisory authorities were established: the State Insurance Supervision Office[1] (PUNU), the Securities and Exchange Commission (KPWiG)[2] and the Banking Supervision Commission (KNB)[3]. For the banking sector, a deposit guarantee scheme was also established,

[1] PUNU existed between 1995 and 2002. It was established by the Act of 28 July 1990 (in practice, it began operating several years later). Until 1995, direct supervision of the insurance market was exercised by the Ministry of Finance.

[2] The KPWiG was established in 1991. It was the first independent Polish capital market supervisory authority after the political transformation. Its task was to supervise the stock exchange, brokerage activities and other entities operating on the capital market. The predecessor of the KPWiG was the KPW (Securities Commission), which operated only in the period 1989–1991 as an institution established to supervise securities trading and protect investors at the beginning of the formation of the capital market in Poland.

[3] The KNB began operating in 1998 as a banking supervisory authority within the National Bank of Poland. Previously, since 1989, supervision of banks had been exercised by the Minister of Finance. At the same time, in 1994, the General Inspectorate of Banking Supervision (GINB) was established, which was the executive body for banking supervision, operating within the structures of the NBP, under the leadership of the President of the NBP.

implemented by the Bank Guarantee Fund (BFG)[4]. In 1998, the Pension Fund Supervisory Authority (UNFE)[5] joined this group of supervisory institutions.

The first supervisory institutions were sectoral in nature. They were dedicated directly to entities operating in selected segments of the financial market: banking, insurance, capital and pensions. However, after several years, insurance and pension supervision were merged to form a joint office, the Insurance and Pension Funds Supervisory Commission (KNUiFE)[6].

The further development of the financial market in Poland, Poland's accession to the EU and the successes of more than a decade of systemic transformation raised questions about the infrastructure of a modern and target model of financial market supervision. In 2006, the Financial Market Supervision Act[7] was passed, with the aim of integrating the supervision of various market segments (banks, insurance, capital market) and expanding the competences of this institution with the emergence of new financial services. This led to the creation of the Financial Supervision Authority (KNF)[8] and the Financial Supervision Authority Office (UKNF) which supports it. The debate accompanying the integration of supervision raised the issue of its independence from monetary and fiscal policy and the benefits of creating a single institution combining the competences of sectoral supervisory authorities. The key benefits are:

- standardisation of supervisory practices across sectors (including in the areas of licensing, sanctions, capital requirements and security);
- prevention of cross-sector regulatory arbitrage (both in terms of entities and product types);
- consistency of the supervisory position in the legislative process;
- transparency and clarity of the regulator's position in the dialogue with market entities;
- representing Polish regulatory policy on the international stage;
- crisis management;
- responding to globalisation processes and the emergence of large international financial groups operating in all segments of the financial market;
- stronger institutional and socio-political position in important public debates (than in the case of dispersed institutions).

[4] The BFG was established by the Act of 14 December 1994 on the Bank Guarantee Fund and began its operations in 1995. In 2016, the role of the BFG was significantly expanded to include the compulsory restructuring of banks/SKOKs (*resolution*), including the possibility of taking over institutions, writing off liabilities (*bail-in*), and recovery plans (it analyses and evaluates banks' plans and creates its own resolution plans, i.e. "contingency plans" in the event of a bank's insolvency).

[5] The UNFE was established in 1998, but actually began operating in 1999 with the reform of the pension system in Poland, which introduced Open Pension Funds (OFE).

[6] KNUiFE was established in 2002 from the merger of PUNU and UNFE.

[7] Act of 21 July 2006 on financial market supervision, Journal of Laws 2006 No. 157, item 1119.

[8] The integration process was two-stage: in 2006, the KNF merged the KPWiG and KNUiFE, and at the beginning of 2008, it also took over supervision of the banking sector.

The creation of a single supervisory institution was further justified by the rationalisation of supervisory costs.

The organisation of the integrated supervisory institution provided an opportunity to reflect on its core mission. Attention was drawn, among other things, to:

- a change in the supervisory approach from "literal compliance with *regulations*" to *risk-based* monitoring;
- analysis of supervisory processes in functional vs. sectoral terms, as exemplified by the subsequent creation of teams, departments and divisions dedicated to the entire financial market rather than to individual sectors;
- the exercise of micro- and macro-prudential supervision[9];
- the need to strengthen regional international cooperation in order to represent the position of a wider group of countries (in particular Central and Eastern European countries that are members of the EU) in EU and global institutions bringing together supervisors;
- moving away from reporting and analytical supervision of the financial sector in favour of enforcement of compliance with regulations.

2. Three models of supervision

A milestone in the development of the concept of integrated supervision in Poland was its accession to the European Union in 2004. Membership in European structures forced the harmonisation of Polish regulations with EU directives, which contributed to the modernisation of the supervisory system. In addition, the growing complexity of financial products and the emergence of financial conglomerates operating in various market segments required a new regulatory approach.

In theory and international practice, three main models of financial supervision have emerged: sectoral, integrated and *twin peaks*. The sectoral model assumed the existence of separate institutions supervising individual financial segments – the banking sector, the insurance sector and the capital market, with the central bank usually performing the function of banking supervision. The integrated model involved the complete or partial consolidation of supervisory functions over all segments of the financial market into a single "mega-supervisor" institution. The *twin peaks* model provided for the division of competences between two institutions – e.g. one responsible for prudential supervision and the other for consumer protection.

[9] The terms "macroprudential supervision" and "microprudential supervision" were popularised and appeared in supervisory terminology after the financial crisis that began in 2008. Previously, the same concepts were used to describe supervision from a systemic perspective versus a single entity or group of entities. However, these terms and the principles of micro- and macroprudential supervision appeared in materials and debates of the Bank for International Settlements (BIS) and the International Monetary Fund (IMF)

In Poland, the concept of integrated supervision was seen as a response to the emergence of increasingly complex financial products and services and financial conglomerates, and the blurring of boundaries between individual segments of the financial market and their products. Integrated financial market supervision was to have a stronger position in the country's institutional structure than sectoral supervision and, moreover, it allowed to avoid duplication and overlap of competences of individual supervisory institutions and to increase the transparency of the objectives of their activities, responsibilities and application of regulations. This was associated with rationalisation of expenditure and economies of scale in supervisory activities.

Proponents of sectoral supervision argued that the specific nature of financial institutions in particular sectors militated against integration, especially given the different risk profiles and reporting requirements, which made it very difficult to supervise on a uniform basis. However, with the right approach to the legal basis and organisation of supervision, these contraindications could be treated as ambitious goals, the achievement of which would fully confirm the legitimacy of building integrated supervision.

3. Legislative process and political disputes

Against the backdrop of disputes over the superiority of one of the supervisory models, political processes and the strength of the dominant political option were of significant importance[10]. The main focus of political disputes was the organisational structure of the new supervisory authority and its powers. The disputes mainly concerned whether integrated supervision should also cover the banking sector or whether it should remain with the National Bank of Poland. There were also supporters of placing integrated supervision within the NBP and opponents of this solution. Ultimately, it was decided to gradually integrate all segments of the financial market. The KNUiFE and KPWiG were merged into the KNF immediately, while the process of incorporating the KNB was postponed until 1 January 2008. As part of the discussion on integrated supervision, the need to establish an arbitration court[11] at

10 The process of creating integrated supervision was initiated by the parliamentary elections in autumn 2005. The management of the Ministry of Finance was ready with a draft bill in mid-2006. The draft law on financial market supervision was submitted to the Sejm in 2006 during the government of Kazimierz Marcinkiewicz, but was finally adopted during the premiership of Jarosław Kaczyński.

11 The Financial Market Supervision Act, finally adopted in 2006, provided for the establishment of an arbitration court at the Polish Financial Supervision Authority.

the KNF, to supervise the system of cooperative savings and credit unions (SKOK)[12] and to incorporate the office of the Insurance Ombudsman[13] was also raised.

The legislative process for the Financial Market Supervision Act proceeded very smoothly[14].

4. The concept of integrated supervision in Poland

The main assumptions of the 2006 Act on Integrated Financial Market Supervision in Poland were based on an analysis of international experience and took into account the specific nature of the Polish market. In particular, the Polish Financial Supervision Authority was to ensure the proper functioning, stability, security and transparency of the financial market in order to protect the interests of its entities and customers. The Act was concise and contained mainly general provisions with the possibility of their specification in other normative acts, which on the one hand made the KNF management responsible for them and on the other allowed for operational flexibility of the office in special or crisis situations.

The KNF was to supervise the banking sector, the capital market, the insurance and pension markets, as well as payment institutions and payment service offices. To this end, it was equipped with broad powers, including issuing licences for financial institutions to operate, imposing penalties for violations of the law and issuing recommendations to supervised entities.

The organisational structure of the KNF is based on a collegial model, with a chairperson – who has strong powers in the appointment and dismissal process – deputies, and representatives of public institutions specified in the Act.

[12] For many years, SKOKs were supervised mainly internally by the SKOK National Union. The National Union performed a coordinating and supervisory function within the sector. On 5 November 2009, the Act on Cooperative Savings and Credit Unions (the "SKOK Act") was passed as a framework regulation for the operation of credit unions. However, at the initial stage, this Act did not mean full supervision of SKOKs by the KNF. In October 2012, an amendment to the SKOK Act came into force, which formally placed SKOKs under the supervision of the KNF. Date: 27 October 2012 — from this date, SKOKs were placed under the supervision of the KNF.

[13] The institution of the Insurance Ombudsman was established in 1995 with the amendment to the Insurance Activity Act of 8 June 1995. At that time, a chapter entitled "Insurance Ombudsman" was added to the Act, which formally defined its tasks and competences. On 11 October 2015, the Act of 5 August 2015 on the handling of complaints by financial market entities and on the Financial Ombudsman came into force. It was this Act that transformed the office of the Insurance Ombudsman into a broader institution — the Financial Ombudsman.

[14] The draft act was submitted to the Public Finance Committee on 13 July, and the act entered into force on 4 September 2006, which enabled the appointment of the first chair of the Polish Financial Supervision Authority (KNF) on 29 September 2006, and the first meeting of the KNF was held on 9 October 2006.

5. Organisational challenges

The first challenge for the newly created UKNF was to ensure continuity of supervision during the merger of the institutions. The change in regulations and procedures was accompanied by a change in organisational structures aimed at achieving synergies within a comprehensive approach to the financial market and reducing operating costs (e.g. cross-sectoral policy division, legal division, accounting, human resources), taking into account the subsequent incorporation of banking supervision.

These measures made it possible to develop a uniform reporting and supervision system for the entire financial market, which resulted in better monitoring of links between individual market segments and identification of systemic risk.

6. The KNF in the face of the challenges of the global financial crisis

Shortly after its establishment, the KNF and UKNF were confronted with the challenges of the global financial crisis (GFD) of 2007–2009, which began with the subprime mortgage crisis in the United States and quickly spread to other markets. The effects of the GFC began to be felt in Poland in the second half of 2008, among other things through the activities of subsidiaries of international financial groups on the domestic market. Hence the priority action of the national supervisor was to prevent the subsidiaries from being infected by the problems of their foreign parent companies[15].

The KNF required banks to report daily on transactions concluded with foreign institutions, including parent banks, in order to prevent the outflow of funds from subsidiary banks to their foreign owners. These regulations and supervisory measures, together with other public policies, contributed to Poland being the only country in the European Union to avoid recession in 2008–2009 and, on the contrary, to achieve economic growth. Moreover, the banking sector did not require public assistance, and the average solvency ratio increased by more than a quarter[16].

Assessing the success of crisis management in Poland in 2007–2009 in summary, the following can be attributed to it:

- integration of supervisory processes (institutional dimension);
- the introduction of liquidity standards for the banking sector (supervisory tools dimension);
- powers in the area of the obligation to apply supervisory standards (enforcement effectiveness dimension).

[15] From July 2008, Resolution No. 9/2007 of the KNB was in force, imposing on banks the obligation to maintain and report quantitative liquidity standards to the supervisory authority, which improved the liquidity of banks and reduced the risk of a crisis of confidence on the part of customers.

[16] During the GKF years in the G20 countries, public aid to the financial sector reached 3.7% of GDP.

7. Integrated supervision in an international perspective

Poland's experience with integrated supervision was part of a broader trend observed in Europe. The concept of integrated supervision combined elements of microprudential and macroprudential supervision, which resulted from a comprehensive view of the financial market. The integration of financial markets, both in terms of products and institutions, on an almost global scale led to appropriate responses from the regulatory and supervisory infrastructure, with particular emphasis on the European Union. A classic example of integrated financial supervision was the British solution, where the Financial Services Authority (FSA) was established. However, the GFC revealed certain weaknesses in this model, which led to its reform in the United Kingdom and the restoration of some supervisory powers to the Bank of England. Integrated supervision was introduced following the GFC in Finland (2009) and Lithuania (2012). During this period, a Single Supervisory Mechanism (SSM) was established in the euro area, under which the European Central Bank began to exercise direct supervision over the largest banks[17].

8. Evolution of the role and tasks of the KNF

The role and tasks of the KNF have evolved in response to changing market and regulatory challenges. Following a period of consolidation of supervisory institutions, the KNF focused on strengthening its position as a modern regulator and supervisor. The organisational structure of the KNF was expanded to include new departments responding to emerging challenges. This is illustrated, for example, by the creation of the Cybersecurity Department, the FinTech Financial Innovation Department and the Anti-Money Laundering Department.

From the very beginning, the KNF has also developed its activities in the field of financial education and communication with market participants. A "public warning list" (commonly known as the "blacklist") was introduced, containing entities whose activities raise doubts. An arbitration court was also established at the KNF to hear disputes between financial institutions and their clients.

9. Independence of financial supervision in Poland

The issue of the independence of the KNF is one of the key aspects of the functioning of Polish financial supervision. The Chairman of the KNF is appointed by the Prime Minister and his dismissal is subject to statutory conditions, which may entail political risk. However, the Chairman's term of office is five years, which ensures a significant level of stability and operational independence. It is also worth noting that the

[17] Currently, 113 entities are subject to direct supervision by the ECB.

activities of the KNF are determined by its status as a public administration body with the necessary autonomy in terms of supervisory and regulatory decision-making.

In recent years, the risk of politicisation of supervision has manifested itself, among other things, in attempts to involve the KNF in stimulating the implementation of government programmes or initiatives of specific customer groups (e.g. credit holidays), which can be considered a worrying symptom and, at the same time, a temptation to abuse such influence in the future.

10. The KNF as regulator and supervisor

The dual role of the KNF as a regulator and supervisor means that this institution not only supervises compliance with regulations, but also actively participates in the creation of new regulations, particularly through the participation of the Minister of Finance in the Commission and at the same time using his right of legislative initiative. Furthermore, the resolutions and recommendations of the KNF play an important role. The dual role of the KNF as regulator and supervisor carries with it the risk of a conflict of interest when regulations are subject to its assessment in terms of effectiveness. An example of this is the Corporate Governance Rules issued by the KNF, whose legal status has been controversial in legal circles.

11. Crisis management process

The bankruptcy of financial institutions can have a variety of consequences depending on the size and importance of the entity in the financial system. In Poland, the protection system has been organised in such a way as to minimise the negative effects of such events.

In the event of a bank's bankruptcy, the most important protection for customers is the deposit guarantee scheme. The Bank Guarantee Fund guarantees the return of funds deposited in bank accounts up to the equivalent of EUR 100,000. This system has proven effective in practice – in recent years, all bank bankruptcies have been handled without any losses for depositors covered by the guarantee.

For borrowers, the effects of a bank's bankruptcy are usually limited, as the rights and obligations under loan agreements are usually taken over by other financial institutions. In the case of insurance companies, a similar protection system is in place, managed by the Insurance Guarantee Fund.

The Polish crisis management system has proven to be effective. Between 1989 and 2024, a total of 137 cooperative banks and SKOKs, as well as six commercial banks, went bankrupt in Poland. In most cases, these bankruptcies were handled efficiently, without significant losses for depositors or destabilisation of the financial system.

During this time, the Polish financial crisis management system has evolved significantly since the establishment of the Polish Financial Supervision Authority (KNF). Currently, the Financial Stability Committee, composed of representatives of the National Bank of Poland, the Ministry of Finance, the KNF and the Bank Guarantee Fund, plays a key role.

The crisis management system in Poland is based on several pillars. The first is the deposit guarantee scheme managed by the Bank Guarantee Fund, which protects deposits up to EUR 100,000 per depositor in a single bank. The second pillar is the compulsory bank restructuring system, which allows for the orderly liquidation of failing institutions without jeopardising the stability of the financial system.

Challenges related to the future evolution of the financial market supervision model:

A. Financial stability is a public good

Financial stability is recognised as a public good because its benefits are available to all participants in the economy, regardless of their direct contribution to its maintenance. The financial system plays a key role in capital allocation and risk management, which is why its stability is fundamental to the functioning of the entire economy.

Nowadays, it is unreasonable to exclude economic entities and the population from using the services of the financial sector. In particular, basic payment, settlement and deposit and credit product services should be accessible and secure for all customers of financial institutions, regardless of their level of economic and digital knowledge, and at the same time, due to the importance of financial intermediation for the efficient functioning of the socio-economic system, they should be provided by professional entities and supervised by the state.

This nature of public good justifies state intervention in the form of financial regulation and supervision. As a public institution, the Polish Financial Supervision Authority (KNF) is tasked with protecting the stability of the financial system against actions of entities that could threaten the stability of the system by maximising only short-term profits, disregarding the potential long-term negative consequences of their actions. This applies both to compliance with prudential standards and other conditions required by law, as well as to the reputation of market entities, which allows customer confidence in the financial system *as a whole* to be maintained.

The principle that "financial stability is a public good"[18] was one of the guiding principles behind the creation of integrated supervision and the mission of the first term of office in 2006-11. This statement shaped the sense of purpose and meaning of the work of those employed in financial market supervision.

[18] The phrase "Financial stability is a public good" was also commemorated as an inscription in the main hall of the new KNF building at Moniuszki and Jasna Streets, which was put into use in 2011. This accompanied the 5th anniversary of the establishment of the KNF.

B. The utopia of self-regulation

The concept of self-regulation of financial markets assumes that market mechanisms are sufficient to ensure the stability and efficiency of the financial system, in particular the banking sector, which for a long time aspired to treat banks as institutions of public trust. Bankers concluded from this that the entire sector, especially large banks classified as TBTF, SIFI and TITF, are capable of self-regulation and compliance with the highest ethical and prudential standards, and that their activities are primarily aimed at serving the interests of their customers and, in macroeconomic terms, the interests of society and the economy. This thesis fell into the trap of several types of conflicts of interest. For example, the management of a bank (or any commercial company) should first and foremost act in the interests of its shareholders (without violating the law, of course). Secondly, any disputes between entities from a given sector and their customers (including non-professional ones) should be resolved outside the chambers of commerce that bring these entities together.

The concept of self-regulation was popular in the public domain of many developed countries, among other things legitimising trust in financial market entities by state institutions. The 2007–2009 financial crisis dramatically highlighted the weaknesses and even flaws of this approach, revealing that financial markets are vulnerable to, among other things, speculative bubbles, excessive risk concentration and herd behaviour. These risks can and should be monitored and managed by a professional supervisory authority, rather than left to the entities or the financial sector themselves. This does not preclude cooperation and dialogue between the supervisor and the financial sector, albeit in a hierarchical rather than a partnership-based relationship.

C. Medium-term conflict between macroprudential policy and monetary policy in Poland after 2015

The monetary policy pursued by the NBP focuses primarily on maintaining price stability, while the prudential policy pursued by the KNF aims to ensure financial stability. These objectives may be separate and even contradictory, especially in the medium term. This raises the question of the legitimacy of placing macroprudential policy powers with the KSF, entrusting the NBP with the management of macroprudential policy and the Minister of Finance with crisis management[19]. This concerns, for example, the conflict of interest between stimulating low interest rates as a factor of economic growth (if it is consistent with the inflation target) and, on the other hand, the possibility of excessive credit growth and a deterioration in bank safety indicators. In crisis situations, monetary policy preferences may be to ease it, while prudential supervision policy requires it to be tightened. The

[19] The Act on Macroprudential Supervision of the Financial System and Crisis Management in the Financial System of 5 August 2015 transferred macroprudential supervision powers from the KNF to the Financial Stability Committee (KSF), which is chaired by the President of the NBP and serviced by the NBP. Under this formula, the Chairman of the KNF became one of the four members of the KSF.

examples of conflicts of interest outlined above highlight the need for substantive cooperation between the NBP and the KNF in marginalising, and preferably eliminating, political influence. The issue of the responsibility of KSF members also needs to be addressed, especially in cases of risk materialisation and crisis events.

D. Risk-based supervision vs. classic supervision

Changes in practice require that traditional supervisory policy, which focuses on *compliance-based supervision*, be replaced by *risk-based supervision*, in which the intensity and scope of supervisory activities are adjusted to the risk profile of the supervised institution. The KNF's policy and the UKNF's activities consistently develop the risk-based supervision model in practice. More advanced risk assessment methods, stress tests and individual supervisory plans for the largest institutions are being introduced. However, this process is still evolving and requires further refinement of methodologies and analytical tools.

E. Privatisation of profits and publicisation of losses

In their core business, banks act as financial intermediaries, transforming maturity (short-term deposits into much longer-term loans) and risk (diversification of capital providers and professionalisation of credit assessment). In this sense, banks can be seen as "risk merchants" who earn money by transforming various types of risk (resource, term, quality).

This approach emphasises that risk-taking is a natural function of banks, but at the same time requires appropriate risk management. The role of the Polish Financial Supervision Authority (KNF) is to ensure that banks have competent staff, appropriate methods and powers to manage the risks they take.

On the other hand, an increasing number of EU and national supervisory regulations significantly limit the level and manner of risk-taking, particularly by the banking sector. Exceeding these limits, as in the case of financial institutions during the GKF, leads to costly consequences that cannot always be absorbed by the entity that generates them. The scale or prevalence of a crisis in financial sector entities undermines the market essence of their operations and can transform micro-crises into macro-crises. The materialisation of a macro crisis requires state intervention, although after the GKF measures were taken to limit the risk of such intervention, both through appropriate buffering instruments (e.g. MREL) and *institutional protection schemes* – IPS) and the implementation of the concept of compulsory restructuring (resolution), which involves the capital of owners and selected categories of creditors in covering the losses of an insolvent bank. This is a solution that limits the average taxpayer's share in the costs of compulsory restructuring.

In addition, an appropriate prudential supervisory policy can significantly reduce the risk that entities would be willing to take under market conditions. However, the supervisor cannot force financial entities to take on more risk than they themselves are able to accept. This principle has an impact on the asymmetry of the possibilities for conducting a counter-cyclical policy by financial market supervision.

The principle of "private profits – public losses" applies to situations where profits from the economic activities of entities are due to shareholders, while in the event of losses, various efforts are made to obtain state intervention – using taxpayers' money – to rescue bankrupt entities. This applies in particular to banks, whose assets are usually many times higher than the capital of shareholders in joint-stock companies or shareholders in cooperative banks and are financed from external funds, mainly deposits. The banking sector, whose capital (shareholders' money) is disproportionately smaller than the level of deposits it manages. In a hypothetical situation of significant losses and the threat of bankruptcy, the state must intervene to prevent such an entity from going bankrupt. This applies not only to deposit payments, but also to the risk of contagion to the entire financial system through interconnections. As a result, the costs and economic consequences of such an event would be far more painful than one-off public aid. While it is not possible to fully protect against the risk of bank failure, the state is entitled, in the interests of taxpayers, to take measures to reduce such risks and to transfer the costs of possible crisis events to the financial sector. Examples of such additional charges include the bank tax or contributions to the Bank Guarantee Fund (BFG). The Polish Financial Supervision Authority (KNF) is also trying to counteract this problem through appropriate regulations on bank capitalisation, remuneration systems and risk management. There are also ex-post mechanisms. The introduction of bail-in tools as part of the bank resolution and orderly liquidation system is intended to shift part of the costs of the crisis to bank shareholders and creditors, rather than to taxpayers.

F. Unity of powers and responsibilities

Should the state (which has taxpayers' money at its disposal) be responsible for events that it has no real influence over? This dilemma became very important after the financial crisis of 2007–2009. At that time, work began on a new supervisory architecture in the European Union. Particularly in the initial phase of developing new supervisory solutions in the EU, there was a strong tendency for *host countries*, where subsidiaries of large and even huge financial groups operate, to transfer supervisory powers over these groups to their home countries (*mother-country).* Furthermore, as was the case in Poland, for example, supervisors ensured that savings were not transferred from the host country to the home country or to subsidiaries in other countries. As a result, some national supervisory powers have been transferred to EU institutions, which, in the case of large financial groups, increases the chance of effective crisis management. Nevertheless, in the event of emergencies or possible disputes at EU level, the question of how to protect against the scale and manner of accessing local taxpayers' money in the process of rescuing large international entities remains open.

A side effect of the internationalisation of the national financial system, particularly the banking system, has been an intensification of the debate and actual measures aimed at domesticating banks, and in Poland, their repolonisation.

G. Regulatory balance

Regulatory policy is a „set of rules of the game" established by state institutions. The manner in which they are developed, their final content and, finally, their enforcement can be important tools of regulatory policy. Both excess and deficiency of regulation are harmful. Regulatory balance is a state in which regulations are strong enough to ensure the stability and security of the system, but at the same time flexible enough not to hinder development and innovation. Both excess and deficiency lead to undesirable economic and systemic effects. Excessive frequency of regulatory changes is also harmful because it generates instability and uncertainty about the direction of regulatory policy, especially when it is introduced by „surprise". In simple terms.

The experience of the 2007–2009 financial crisis shows that before it broke out, many countries, especially the US, were dominated by a lack of regulation, particularly in the area of derivatives and the mortgage market. This resulted in huge losses and the collapse of financial institutions. In response to these processes, the crisis was followed by a significant tightening of regulations (e.g. Basel III, Dodd-Frank Act). Some sectors considered them too costly and, in particular, limiting their flexibility. This was especially true in those countries where financial institutions were not prepared for such a drastic shift in the state's attitude towards regulation.

Overregulation increases operating costs for financial institutions, limits innovation and competitiveness, and can also lead to the transfer of activities to less regulated jurisdictions (*regulatory arbitrage*) or the emergence of institutions that offer similar services but are not subject to such drastic requirements. On the other hand, *underregulation* encourages abuse, speculation and crisis situations. It increases the risk of financial institution failures, which can lead to a loss of confidence in the financial system.

Regulatory balance means a level and scope of regulation that protects the stability of the system (in this case, the financial market), ensures the safety of market participants (e.g. consumers, investors) and does not stifle innovation and competitiveness in the sector. The term "regulatory balance" refers to a state in which the system of legal and institutional regulations (e.g. concerning the financial market) is optimally balanced – i.e. it is neither too extensive and restrictive nor too weak and liberal[20]. However, the search for a "golden mean" in regulations is not only a question of their liberality or restrictiveness. Additional factors include transparency, clarity and complexity.

Regulatory balance can be treated as a much broader issue that goes beyond the area of financial market supervision. For example, it may also concern the tax

[20] In 1998, Ricki Helfer, former Chairwoman of the FDIC, said at the World Congress of Deposit Insurers in Washington, D.C., "There is no contradiction between security and freedom. We will either have both of these benefits or neither." The meaning of this idea is often attributed to Benjamin Franklin, who wrote in the 18th century: "*Those who would give up essential Liberty, to purchase a little temporary Safety, deserve neither Liberty nor Safety*."

sphere and many aspects of the daily functioning of companies and citizens. This is an issue of particular importance from the perspective of developed economies competing for human capital and the foundations for further development in the 21st century. In the context of global competition in the 21st century, countries will compete for citizens and entrepreneurs not only in terms of quality of life (access to schools, healthcare, culture, ease and cost of dealing with basic official matters), but also in terms of a friendly tax system and other regulatory restrictions.

Summary and outlook

The establishment of the KNF in 2006 was a landmark moment in the development of Polish financial supervision. The process of creating integrated supervision was lengthy and not without controversy as to its optimal nature and structure in Poland, but ultimately it brought measurable benefits for the stability and development of the domestic financial system. This is evidenced, among other things, by the lack of turbulence in the financial market during the GKF period. Furthermore, it is worth emphasising the institution's ability to respond quickly to threats and effectively coordinate actions within the financial security system. However, the threats identified were not always adequately addressed by institutions outside the financial security network.

The effectiveness of the KNF's activities in the integrated supervision model should not obscure the risk of political influence on preferred solutions or decisions, the challenges of effective adaptation to the technological revolution in the financial sector and the accompanying risks, including the increasingly important issue of cybersecurity. Added to this are new challenges such as the emerging trend of deglobalisation and building resilience to the consequences of global tensions or armed conflicts. The very strong polarisation of society and populist support for demanding customer attitudes are also significant. Last but not least, a rational rather than emotional approach to the concept of sustainable development, and in particular the implementation of ESG goals and objectives.

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