

The SORB system – the first Polish RTGS system

Adam Tochmański

5 April 2003 marked the tenth anniversary of launching the SORB system (Bank Accounts Servicing System) by the National Bank of Poland. The system was used to operate current accounts of the Polish banks and through them made interbank settlements possible. The SORB system was the first Polish system that utilised the core features of the Real Time Gross Settlement system (RTGS), as it made possible the execution of payment instructions submitted by banks in compliance with the rule of gross and real time settlement. Not only could Krajowa Izba Rozliczeniowa S.A. (The National Clearing House) begin its activities after the introduction of the SORB system (5 April 1993 saw the launch of the SYBIR system, based on the exchange of paper payment instructions among bank branches – members of the Clearing House), but also contributed substantially to a significant upgrade of the Polish payment system and activities performed by the banks. The SORB and SYBIR system replaced the interbank settlement mechanisms existing at the time, based on decentralised servicing of the accounts of bank units in the regional branches of the NBP. Such mechanisms could be characterised by a long settlement cycle, excessive involvement of the central bank (in terms of operations performed and by crediting settlements in the old system) and not fully secure rules for the performance of the

settlement operation. Therefore, not only was the SORB system beneficial for an increase in the effectiveness and security of interbank settlements in Poland, but it indirectly affected the development of the interbank market as well, facilitating the implementation of many new types of operations. Furthermore, the establishment of the SORB system substantially improved the liquidity of banks by removing the money received from the settlement system but not booked (money on technical accounts), reflected in the NBP's balance sheet and arising from the previous interbank settlement system. In 1993, the SORB system was one of very few RTGS systems in use in Europe and worldwide at the time. In Europe, these systems entered a phase of substantial development as late as in the second half of the 90s in consequence of the European Union countries preparing for the launch of the TARGET system. However, the SORB system did not fully satisfy the banks and the NBP's needs for a modern and effective RTGS system, which would enable electronic exchange of orders and other electronic messages between the banks and the NBP. For these reasons, the SORB system was replaced by a more up-to-date SORBNET system in March 1993; the latter has been used by the banks ever since. Needless to say, it is also a RTGS system.

Interbank settlements in Poland based on figures supplied by KIR S.A. [The National Clearing House]

Jarosław Tymowski

On the tenth anniversary of launching the SYBIR system, the author presented the development of the interbank clearing system in Poland with its milestones. Based on figures retrieved from the files of the National Clearing House S.A., he showed the volatility

of selected features of the system. In his comments appended to the presentation, the author informs the reader about the high quality of the interbank clearing system in Poland in its many aspects, despite insufficient usage of its capabilities by the banks.

Co-ordination of economic policies in the European Union. Part II

Konrad Szelaq

From 1997 to 1999, the European Council took several decisions in order to ensure that not only general economic and budgetary policies, but also other areas of economic policy, which were of particular importance from the EU's standpoint, would be co-ordinated too. Therefore it was decided to introduce some economic co-ordination processes (Luxembourg, Cardiff and Cologne processes).

The Luxembourg process aims at co-ordinating employment policies and labour market reforms. The co-ordination is carried out by the Council, which prepares annual Employment Guidelines. They are not legally binding for Member States, but, nevertheless, have to be taken into account in their national employment action plans. The guidelines are based on the four pillars: employability, entrepreneurship, adaptability and equal opportunities. Within the framework of the Luxembourg process, which is also referred to as the European Employment Strategy, an important role is played by the Employment Committee (EMCO) formed by the virtue of the provisions of the Amsterdam Treaty. However, the key role is played by the European Commission, as it is responsible for the development of the so-called "employment package" and by the Employment and Social Policy Council, which formally adopts the guidelines. The strongest sanction is a non-binding recommendation and this instrument was used for the first time in 2000, when a recommendation was addressed to all Member States.

The Cardiff process focuses on the structural reforms of the product (goods and services) and capital markets. It is politically, but not legally binding for Member States. The process is guided by the principle of voluntary participation in jointly adopted procedures (such as continuous monitoring, exchange of information and best practices, peer pressure). Primarily, however, it is based on an extensive reporting system, so that Member States prepare and present annually their national reports on structural

reforms, the European Commission – the so-called Cardiff Report, and the Economic Policy Committee – the Annual Report on Structural Reforms.

The Cologne process has established the so-called Macroeconomic Dialogue with respect to improve the interaction between fiscal policy, monetary policy and wage developments. The dialogue is carried out by the representatives of the Council, Commission, European Central Bank and social partners. The overall process objective is to work out a macroeconomic policy supporting strong, sustainable and non-inflationary growth which fosters employment. The macroeconomic dialogue is held twice a year (spring and autumn) through informal discussions at a technical and political level. Meetings are not open to the public and the content of the discussion is confidential and not disclosed to third parties.

Referring to the above co-ordination methods, the Lisbon European Council (March 2000) concluded that no new process was needed, because the existing Luxembourg, Cardiff and Cologne processes as well as the BEPGs offered the necessary instruments, provided they were simplified and better co-ordinated. At the same time, the European Council proposed to introduce a "new open method of co-ordination" of economic policies.

The accession countries have also been included in the co-ordination process. They started by performing the joint assessment of medium-term economic policy priorities together with the European Commission, and then moved on to the development of pre-accession economic programmes (PEPs), which have paved the way to the stability and convergence programmes prepared currently by Member States. The PEPs have two objectives. First, to outline the medium-term policy framework, including public finance objectives and structural reform priorities needed for EU accession. Second, to develop the institutional and analytical capacity necessary to participate in the EU and then in EMU.

The Argentinian currency crisis - genesis

Urszula Żuławska

At the turn of 2002 Argentina experienced a long-forecast currency crisis. The crisis had to be expected due to the downmarket trend in the real economic market sector in Argentina combined with the deteriorating condition of public finance and growing tensions in the balance of payments. The crisis could not be prevented as the so-called Convertibility Plan launched at the beginning of the 90-s introduced the currency board, which could not be given up easily. In addition, temporary or short-term initiatives taken by the

economic authorities in 2001, although delaying the crisis, resulted in a considerable limitation of economic policies that could be applied.

The article presents the reasons underlying the currency crisis: advantages and disadvantages of the currency management system, causes of recession, mechanisms of the deterioration of public finance, the impact of external shocks on the Argentinian economy and the economic situation directly after the crisis.

Basic forms and effects of corporate governance in banking. Part II

Wojciech Rogowski, Małgorzata Pawłowska, Tomasz Kopczewski

As a result of research carried out in this field, the basic forms of corporate governance in banking have been recorded as well as their relation to the financial results generated by these banks and the risks they take. A review conducted at international level indicated the existence of highly differentiated forms of corporate governance in banking systems. In most countries, banks governed by a shareholder holding the majority package of shares, which exceeds 50% of the shares in absolute terms (and equity, typically), prevails. In the Polish banking system, rapid changes were observed in the governance structures in individual banks during the second half of the 90s. Research carried out in this area indicates a differentiation in the results generated by banks

when dividing the banks into groups by the form and type of corporate governance; however, the differentiation is not significant. Within the period analysed (1997 to 2000), the banks with a dominant and majority shareholder displayed an increased effectiveness, higher rates of return, and were less vulnerable to technological changes as compared with banks with a more dispersed ownership structure. Typically, the fact that a bank has a minority shareholder in its ownership structure results in a falling capital adequacy ratio, which may indicate a more effective employment of the bank's equity, as long as the ratio is maintained above the minimum level required by the supervisory authorities. The article ends with the authors' suggestions as to follow-up research in this area.

Bank loyalty programs for shareholders: an example of Australia and France

The possibilities of implementing foreign solutions in Poland

Danuta Dziawgo

In the article a loyalty programs for shareholders were presented on the basis of companies whose shares are quoted at the Australian Stock Exchange. Also in the article the issue of possibilities of implementing loyalty programs in Poland was analyzed. Therefore the structure banks' shareholders whose shares are noted at the Warsaw Stock Exchange (WSE) was presented. All of the banks have a strategic, dominating investor. In effect it influences their strategy related to individual shareholders and in particular those who has own less than 5% of equity capital or votes at the annual general meeting.

None of the banks whose shares are quoted at the WSE has a program of a relationship with investors based on dividend policy. Banks offer their shareholders only a wider information policy in the form of open meetings with the board, e-mail information service about banks activities and their financial results. It is so due to legal obligations of a public company.

Within none of the banks there is a shareholders club. There are no loyalty programs for shareholders offered either. Neither the loyalty programs for shareholders are offered. Moreover, none of the banks are planning to change their policy towards individual shareholders.

Therefore the actual implementation of loyalty programs for shareholders will be conducted by companies outside the banking sector, which do not have a strategic investor who would not be a dominating investors.

Results of survey conducted on the Author's request were presented. The results show that Polish individual shareholders are simultaneously loyal consumers since 40% respondents admitted that at the moment of purchasing goods they prefer products of the company whose shares they own i.e. they, as a consumers, also support the market position of partially their firms.

Electronic banking in the European banking systems: Sweden

Tomasz Chojecki, Anna Matysek-Jędrych

It is believed that development of information technology is one of the key driving forces that shape contemporary banking systems. Following up on the transformation on the European banking system resulting from the general application of informational and communication techniques, the authors analysed the banking system in Sweden. They focused on the factors which have determined the development of electronic banking in Sweden, whose general direction is the adoption of tele- and IT solutions in banking activities, and their consequences for the Swedish banking sector.

After the Finnish banking sector, the Swedish one is yet another example of an extensive and comprehensive application of electronic distribution channels for banking services. It has been stimulated by a number of factors, including growing pressure from competitors, well-planned actions taken by the government to foster development of modern communication techniques and the changing needs of bank clients. Social acceptance for new forms of contact with the bank has been primarily reflected in the rapidly

growing number of the Internet banking customers and in the use of electronic payment instruments. Progress achieved so far in this field places Swedish banks among the leading European banks which have responded to the challenge of intensive development of electronic banking.

The application of new technologies in the process of providing banking services in Sweden has neither been reflected in the traditional banking infrastructure nor in the economic condition of the banks unambiguously. The development of the banking infrastructure to maximise the advantages of electronic distribution channels and the related costs of the necessary upgrading of information technology in banks level off the benefits arising from the use of these channels. It is believed that the Swedish and Finnish examples, characterised by a very high use of electronic distribution channels, should be in the forefront in setting a direction for the further development of banking sales networks.

Valuation of exotic options with rates of return with hyperbolic spread – a simulative approach

Marcin Kolasa

The article describes a simulative approach to the valuation of a non-standard option contract which hedges a long position resulting from an investment made on the Warsaw Stock Exchange. On the basis of empirical data, the author presents the methodology of selecting a reliable process to generate the price of the hedged instrument. Next steps include a definition of the barrier option withdrawal function adopted to the needs of a hypothetical investor and the simulation of a contract valuation accompanied by considerations with respect to its effectiveness. The author shows how a selection of an appropriately defined exotic option may reduce the costs of hedging an open position.

Historical values of the WIG20 index indicate that assumptions on the normal rate of return on shares, which underly classical models of derivative valuation should be rejected. As an alternative, Levy's process was proposed, based on stationary and independent growths with hyperbolic spreads. Judging by the results of the simulation, one may say that the adoption of classical assumptions as to the normal rate of return on shares leads to a rather distinct overestimation in the value of an option contract, which is also noticeable in the valuation of a standard option. This overestimate may be markedly increased owing to the application of complicated pay-out functions typical for exotic options.

Entities supervising the Polish financial market – the analysis of basic legal regulations

Piotr Zapadka

A distinctive system of institutions supervising the Polish financial market has been formed on the basis of the legislative works prepared since the beginning of the Polish system reforms (after 1989). In their essence, the supervisory mechanisms established at the time were aimed at protecting the interest of those clients who entrusted their funds to the financial market.

For this reason, the objective of the article was to analyse the existing supervisory institutions, their competence, as well as the organisational framework established to support their activities in accordance with the legal status as at 31 December, 2002.

The author focuses on the key supervisory institutions responsible for the stability of financial markets: the Banking Supervision Commission, The Insurance and Pension Funds Supervision Commission and the Securities and Stock Exchange Commission, while disregarding other entities whose role is primarily to regulate the financial market, including the Competition and Consumer Protection Office, the National Bank of Poland, the General Inspector of Personal Data Protection, etc.).

The article is preceded by a short presentation of the supervisory institution as an important administrative and legal concept, which seems important for the proper analysis of

construction and statutory empowerment of the entities that supervise activities performed on the financial market.

In the final part of the article, the author includes a separate list that allows the reader to learn about and compare the core organisational construction of the supervisory entities and their set of instruments provided by the law-makers.

The author advocates the need for setting more precise principles of co-operation between the supervisory authorities and, in particular, considers the need to prepare a special act of law to regulate the rules of co-operation between the supervisory entities mentioned in the article. Such an act could underlie the establishment of a single mechanism or even a single supervisory institution that would become a strong and effective executor of supervisory tasks over the whole Polish financial market, similar to the British Financial Services Authority. It is important, since the future of the Polish financial market will probably be based on large financial groups composed of one or two banks, an insurance company, a brokerage house and a pension fund. Even today, groups of this kind are not rare in Poland. Therefore, assurance of even tighter relations between the supervisory bodies would enhance co-ordination of supervisory activities in all sectors of the financial market.

Short-term debt securities market in Poland

Jolanta Onoszko

The beginnings of the short-term debt securities market world-wide go back to the end of the 19th century. This method of financing business activities was used for the first time in the United States in response to the restrictions on corporate lending imposed by banks. Poland saw the first commercial papers in 1992 in the offer of Polski Bank Rozwoju.

The article offers a short description of the financial instrument i.e. a short-term debt instrument issued by a company – in terms of its form, the method used to determine its yield, interest

rate, maturity and functioning, as well as the legal basis underlying short-term debt instrument trading. The process of issuing short-term securities is presented, accompanied by a description of the parties involved in the process i.e. issuers and investors, with particular emphasis on the role of banks in the process, and the secondary market arranging process. In addition, the article analyses changes on the short-term debt securities market which occurred in Poland between 1992 and 2000, preceded by the history of commercial paper markets abroad.

Effects of the activities of international corporations in a host country in view of some imperfections on the local production markets

Andrzej Cieślak

The purpose of the article is to analyse and assess the economic effects of direct foreign investment of two kinds: buy-out of a part of domestic enterprises and greenfield investments in conditions of some deficiencies in the local production markets. The analysis presented in the article has been based on an extended theoretical model of general equilibrium developed by Batry (1986), which indicates three production factors: work, capital and knowledge.

In the case when activities carried out by international corporations are more intensive in terms of the capital invested

than the activities of domestic companies and know-how coming from abroad can be taken over in full, this take-over by the foreign investors without any transfer of capital from abroad leads to a decline in employment and national revenue in the host country. The above-mentioned effects may not take place if foreign know-how can be diffused among domestic entrepreneurs. Transfer of capital from abroad leads unambiguously to an increase in employment and hence the revenues in the host country.