

CURRENT BANKING REGULATION AND SUPERVISION EXECUTED BY CZECH NATIONAL BANK IN THE CZECH REPUBLIC

MARTINA HAVLIŠOVÁ

Masarykova univerzita, Právnická fakulta

Abstract in original language

Příspěvek popisuje a blíže analyzuje některé současné problémy státního dozoru v oblasti bankovníctví v České republice. Autorka krátce zminuje vývoj státního dozoru v bankovní oblasti a zabývá se aktuálními otázkami jeho dalšího směřování, zejména v souvislosti s problematikou EU.

Key words in original language

Státní dozor; Banky; Regulace; Česká národní banka.

Abstract

The contribution describes and analyses more in detail some nowadays problems of state supervision in the banking sector in the Czech Republic. The author shortly mentions also development of state supervision in the banking area and deals with actual questions of its further movement, especially in the light of EU problematics.

Key words

State supervision; Banks; Regulation; Czech Central Bank.

Czech banking sector constitutes an inseparable part of the European banking market. However, there are some specific features. The most important banks in the Czech Republic are part of the European banking group. There are reasons for different features of banking sectors between regions as well as each country. They are caused by differences in the transformation process in the economics of the younger EU member countries. Another feature could be also the international influence and the sophisticated and specialised banking services. The banking sectors itself have a different structure. The banking systems nowadays are harmonized in compliance with the EU regulation. The banking regulation and supervision in the Czech Republic is executed by the Czech National Bank. ¹ The supervision of banking activities involves seeing to "the sound operation and purposeful development of the banking system in the Czech Republic". This broadly defined objective means in particular supporting the sound development, market discipline and competitiveness of banks, preventing

¹ Cited on 20 November 2009 from the website :
http://www.cnb.cz/cs/dohled_fin_trh/bankovni_dohled/.

systemic crises and strengthening public confidence in the banking system.
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The member states, including the Czech Republic, have an obligation to follow EU regulations and implement EU directives into their local law. The implementation of EU directives in the banking area is another step to better functioning of the European banking market. The harmonisation in the form of EU directives, which from Basel II rules, MiFID Directive etc. Recently, the Payment Services Directive has been implemented into the Czech law. The purpose of this directive is to increase pan-European competition and participation in the payments industry (also from non banks), as well as to provide for a level playing field by harmonising consumer protection and the rights/obligations for payment providers and users.

The PSD contains two main sections: the market rules for payment service providers and the business conduct rules. The market rules which are defined in the PSD directive describe which type of organisations can provide payment services.

The PSD mentions next to credit institutions (i.e. banks) and certain authorities (e.g. Central Banks, government bodies), electronic money institutions (EMI), and also creates the new category of Payment Institutions with its own prudential regime rules. The business conduct rules specify the requirements regarding the transparency of information to be provided by payment service providers, exchange rates, transaction references and maximum execution time. It also stipulates the rights and obligations for both payment service providers and users. This also includes how to authorise and execute transactions, or liability in case of unauthorised use of payment instruments. Further it regulates questions regarding the refunds on payments, revoking payment orders and maximum execution time. The EU Payment Services Directive was implemented in the Czech Republic by means of an amendment to the Act on Transfers of Funds, Electronic Payment Instruments and Payment Systems (124/2002) to the implementation date 1 November 2009. It was crucial to strike a balance between consumer protection requirements and the costs incurred by the payments industry. Moreover, the economic and technical frameworks of existing payment systems had to be taken into account.

We may state that the Czech Republic had already most of above-referred question in place and there was not any need for implementation of new rules to the Czech banking legislation. On the other hand the

² The Act 21/1992 on Banks, as amended.

The Act No. 6/1993, on the Czech National Bank, as amended.

The Act No. 57/2006 on Amendment of Certain Acts Related to Integration of Financial Market Supervision.

implementation of the directive had a significant impact on the costs incurred by payment services providers, mainly in connection with reporting obligations owed to their clients. The implementation costs which were expected to be were not only simple non-recurring costs, but also repeated costs, including costs arising from new reporting obligations; costs connected to higher operational risk; and costs arising from the burden of proof transferred to the payment services provider in relation to the fulfilment of reporting obligations owed to its clients. (This will also represent considerable costs for the archiving and complaints department.)³ Recently, there have been some aims to harmonize the provision of facilities within the EU member states countries.

All above named aspects have a significant influence on the activity of the Czech National Bank in the banking area and its supervision. We may conclude that the activity of the Czech National Bank as a Czech banking regulatory authority remains the same and does not show any differences. The Czech regulatory authority further executes the off-site and on-site inspections.⁴ The banking supervision in the Czech Republic represents a continuous and a thorough process and it can be stated that all necessary procedures relating to the banking supervision have been implemented already.⁵ The Czech National Bank continues in the monitoring of documents submitted to it, e.i. auditory statements, banks' reports and notifications.⁶

The Czech National Bank closely monitors the capital adequacy requirements and liquidity of banks and branches of foreign banks operating in the Czech market. From the documents available from the Czech National Bank it can be concluded that the current banking sector does not show any substantial irregularities and could be Bank stated as healthy. However, an influence of a current market situation should not be omitted and forgotten.

³ Havlišová, M. in HAVLIŠOVÁ, Martina. Implementation of the EU Payment Services Directive. International Law Office, UK, Globe Business Publishing Ltd. 2009, vol. 2009, no. 6, 3 s. Article for Banking Newsletter.

⁴ Annual Report of CNB available from: https://www.cnb.cz/en/financial_market_supervision/banking_supervision/banking_sector/analytical_publ/publikace_rz.html, cited on 23 November 2009.

⁵ International Monetary Fund, Report on the Observance of Standards and Codes in the Czech Republic, available from the website: <http://www.imf.org/external/np/rosc/cze/bank.htm> cited on 25 November 2009.

⁶ Cited on 20 November 2009 from the website: http://www.cnb.cz/cs/dohled_fin_trh/bankovni_dohled/bankovni_dohled/metodicke_studie/index.html.

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Contact – email

martina.havlisova@post.cz