FIN-FSA
FINANCIAL SUPERVISORY AUTHORITY

Annual Report **2018**

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2018

Financial Supervisory Authority in brief

The Financial Supervisory Authority (FIN-FSA) is both the authority for supervision of financial and insurance sectors and the macroprudential authority in Finland. We are part of the European system of financial supervision and the common banking supervision for the euro area.

Our activities are aimed at ensuring financial stability, confidence in the financial markets as well as customer and investor protection and the protection of the insured benefits. The quality and efficiency of our supervision shall represent the highest level in Europe.

The entities supervised by us include

- banks
- insurance and pension institutions
- other actors in the insurance sector
- investment firms
- fund management companies
- the central securities depository
- the stock exchange.

In addition, we supervise listed companies' compliance with the disclosure obligation and trading in securities. Our activities are mainly funded by the supervised entities. The number of personnel of the FIN-FSA's expert organisation amounted to 212 at the end of the year.

Administratively, the FIN-FSA operates in connection with the Bank of Finland, but in its supervisory work it takes its decisions independently.

The FIN-FSA seeks to ensure that

- the operations of entities supervised by it are on a sound foundation and they have adequate capital resources to cover the risks and losses arising from their operations and are able to meet their commitments
- the information provided to customers and investors on products, services, service providers and issuers is of high quality
- financial market practices are appropriate
- payment systems are secure.

For more information, see
fin-fsa.fi
» FIN-FSA

Biggest gainer

▲19 (50)

Rank in the Most Attractive Employers survey by Universum Finland

Supervision resources strengthened

+17.8%

2018: 212 persons
(2017: 180 persons)

Personnel 2018

All FIN-FSA staff
212
62% **38%**

Management
20
50% **50%**

Experts
176
61% **39%**

Operative staff
16
94% **6%**

Contents

Unless otherwise indicated, all texts refer to the year under review 2018.

The personnel audit for the year under review will be published in spring 2019 at

fin-fsa.fi
» FIN-FSA
» Working at the FIN-FSA

DIRECTOR GENERAL'S REVIEW

The Finnish financial sector has remained stable. Sector actors are subject, however, to the same profitability pressures as their competitors in Europe. Profitability is threatened by a weakening of projected growth of the global and Finnish economies, the uncertainty of the political environment, competition from outside the traditional financial sector, investments in IT systems and digitalisation, and climate change.

Curbing indebtedness

Unsecured consumer credit granted by credit institutions is growing at an annual rate of over 10%. Early in the year, the FIN-FSA reviewed credit institutions' lending criteria. It is a matter of concern that growth has been pursued by loosening lending criteria, raising the maximum credit amounts and extending loan periods. The biggest shortcomings were perceived in the lending of foreign credit institutions. Unfortunately, we do not have reliable information on the amount of consumer credits granted by parties other than credit institutions. We do not supervise payday loan companies and we also do not know enough about their practices. What we do know, however, is that more than 380,000 Finns have a payment default entry.

These 'payday lenders' market their loans very aggressively and circumvent the statutory interest rate cap. Personally, I would vigorously restrict the marketing of such loans. I also consider that all consumer credit lending practices should be systematically supervised and sanctions imposed for breaches incurred.

In the spring, we investigated the risks involved in credit institutions' construction-stage financing. The risks have increased: a housing corporation loan may account for, in some cases, up to 80% of the purchase price, the number of professional investors has grown, and repayment-free periods have lengthened. We gave the banks guidance on how housing corporation loans should be taken into account in lending. Legislative assistance is also needed, however, to solve the problems associated with such loans.

It was in my Director General's Review six years ago that I first addressed the need for borrower-based macroprudential instruments. International studies have since found that such tools are most effective in curbing indebtedness. Such tools should also be included in the FIN-FSA's toolkit. The International Monetary Fund, the European Central Bank and the European Systemic Risk Board strongly support this view.

Legislative changes needed in insurance sector

Compared with the banking sector, for example, the FIN-FSA's powers to impose sanctions and penalty payments in the insurance and employment pension sectors is limited. In addition, shortcomings and gaps that require rapid correction have been identified in insurance sector legislation.

Let me give an example from occupational disability risk management services. The FIN-FSA has issued guidance on the matter to employment pension companies, but the FIN-FSA has no regulatory powers in this field. Based on our supervisory findings, some companies appear to be expanding their operations beyond the management of occupational disability risk into the area of actual occupational wellbeing, thus also having a significant impact on competition in that sector. Employment pension assets must always be used responsibly, in this case to manage occupational disability risk and to curb employment pension expenditure. It would also be important for the content of occupational disability risk management to be precisely defined in legislation or regulation.

The starting point for insurance company legislation is that insurance companies' scope to engage in non-insurance and other closely related activities is very limited. Technological innovations and electronic services, however, have increased the temptation to develop service concepts that cross company and sector boundaries. They are increasingly testing established operational boundaries. Innovations from outside the traditional insurance industry have also increased the need for supervision, for example regarding licensing assessments.

Banking Union should be completed

The Banking Union is the most significant reform of the European Economic and Monetary Union since the launch of the Union. The Banking Union is not yet completed, however. Its most important development needs relate to the Common Deposit Guarantee Scheme and the Single Resolution Fund's common backstop. On the latter, agreement in principle was reached at the Euro Summit in December 2018. The roadmap to a common deposit guarantee, on the other hand, is still unclear. The Banking Union, however, needs all three of its pillars in order to function effectively.

ECB[1] Banking Supervision has operated for just over four years. During that time, the capital adequacy of banks under ECB supervision has strengthened, their capital quality has improved and the level of non-performing loans has declined. At the same time, the ECB has demonstrated the importance of consistent supervision and uniform interpretation of regulations. The supervision model has proved to be successful; the ECB contributes to ensuring independent decision-making, the availability of high-quality and critical expertise, and harmonised supervisory practices and methods. The national supervisors, in turn, reinforce knowledge of the local operating environment, the banking sector and legislation.

[1] ECB = European Central Bank.

DIRECTOR GENERAL'S REVIEW

Of the large Nordic banks, Nordea came under the ECB's supervision at the beginning of October. Nordea headquarters' move to Finland was a major endeavour not only for the bank, but also for the FIN-FSA. It was preceded by a tough licensing process in which Nordea's licensing requirements were exhaustively assessed.

In order to meet the requirements for ECB supervision, the FIN-FSA has recruited nearly thirty financial sector professionals solely for supervising Nordea, and has reorganised its supervisory activities. In addition, we have a special role to play in ensuring that traditional Nordic supervisory cooperation also functions at least as smoothly as before in the new situation.

The transfer of responsibility for Nordea's supervision simultaneously weakened Nordea's capital adequacy ratios. This was due to the different treatment of risk weights in the ECB compared to in Sweden: they directly affect the capital adequacy ratio, not just the capital adequacy requirement. The difference in interpretations underlines the importance of ensuring that interpretations and supervisory practices concerning supervised entities are consistent and that key figures are comparable across the EU. What is important is that in the euro area, it is possible to reliably compare banks with their peers.

Strengthening prevention of money laundering

In the light of recent events, a fundamental change in anti-money laundering supervision responsibilities is required in the EU. To date, supervision has been national and based on directives, which each country has implemented in its legislation in its own way. As a quick remedy, it has been proposed that the powers and resources of the European Banking Authority be strengthened in anti-money laundering supervision. I recommend, however, a similar framework for anti-money laundering supervision as in euro area banking supervision: an independent and intrusive centralised supervisory authority with strong powers, supported in its work by national supervisors, should be established in the EU. This is the only way to ensure high quality supervision, uniform supervisory practices, seamless flow of information, and the independence and integrity required for supervision. The goal must be zero tolerance for criminal exploitation of the financial sector.

The Financial Action Task Force (FATF), which focuses on combating money laundering and terrorist financing, is finalising a country assessment of Finland. The assessment will be published later this spring. Already at this stage it is clear that the FIN-FSA has much to improve in its supervisory activities. We need to boost supervision intensity and resources and be able to assess operational risks more analytically. As the first corrective measure, the FIN-FSA will double the resources it allocates to anti-money laundering supervision.

Digitalisation – threat or opportunity?

Digitalisation is increasing competition, particularly in segments dominated by banks, and the trend is furthest advanced in payment services. Digital models facilitate cross-border provision of services, but differences in regulation may be a barrier to development. On the one hand, a challenge is presented by the fact that there are significant differences between member states in users' digital skills as well as in the degree of digitalisation of the financial sector and of society in general. On the other hand, phenomena and services are evolving very quickly, and the EU regulators are easily behind the pace with their projects – the most recent example being the lack of interpretations of virtual assets. In cross-border services, it would be important to find European solutions. It would be particularly harmful for our financial sector if Nordic countries' interpretations differed from each other.

Our annual review of basic banking services reminded us that while online and mobile services are highly developed and ever more widely accessible, the availability of non-digital services is a growing problem. The number of retail bank branches providing basic banking services has continued to decline and access to cash from branches has also been further reduced. The ATM network, on the other hand, has grown and cash withdrawals can, to some extent, be made in shops at checkouts. The situation is unsustainable, however, for customers who are unable to access digital services for one reason or another. In connection with the publication of the review, I stated that banks must ensure that affordable basic banking services are made available as alternatives to digital services.

Supervision in transformation

Changes in the financial sector impact approaches to supervision, the supervisory focus, and the competence required of the supervisory authority. In addition to institutions, supervision should be directed more towards activities and to the managed use of new technologies. It is important for the supervisory authority to understand the opportunities presented by technological change and innovations, but the supervisory authority must also ensure that supervised entities do not take excessive risks at the expense of the stability of the financial and insurance sectors, customer protection or operational risk management.

We will continue to enhance our supervision of the digitalising financial sector, cyber risks and new services and actors. In the FIN-FSA's activities, digitalisation is evident in both supervision and internal processes. Last year, we introduced our first software robot, and experiences of it have been positive. We will continue to increase the use of robotics, particularly in routine tasks.

The FIN-FSA has several operational development projects under way. Our renewal will also be promoted by the new FIN-FSA employees, who I hope will challenge our present working practices.

I would like to express my sincere appreciation to our personnel for their commitment to continuous development of supervisory work in a changing financial sector.

Helsinki, 7 March 2019
Anneli Tuominen

STRATEGY 2017–2019

During the year under review, the FIN-FSA followed the strategy for 2017–2019. The strategy highlights the evolution of supervision in line with the operating environment, including the promotion of an innovation-friendly atmosphere. Investment in personnel has been raised as a focus area.

VALUES

Dynamic, responsible, productive, TOGETHER.

VISION

Supervisory quality and efficiency among the best in Europe.

MISSION

We ensure financial stability and confidence in the financial markets and enhance protection for customers, investors and the insured.

Strategic objectives

Supervision responsive to changes in operating environment

- We forestall risks threatening financial stablility and confidence in the financial markets by proportionate action.
- We define the depth of supervision on the basis of the level of risk associated with the supervised entity and the significance of the issue at hand.
- We focus on inspections and thematic reviews in our work.
- We adjust our operations to reflect changes on the banking, insurance and financial markets.
- We emphasise areas critical to the Finnish financial markets in our European regulatory and supervisory work.
- We intensify cooperation with Nordic supervisors to promote financial stability and confidence in the Finnish financial markets.
- We foster an innovation-friendly climate in the financial sector.

High quality and efficiency

- We promote the establishment of harmonised risk-based supervisory practices within the EU.
- We make extensive use of guidance issued by EU authorities, and ECB supervisory practices.
- We harness the full potential of digitalisation.
- We apply standardised and efficient processes.
- We have in place up-to-date reporting and analysis systems.

Expertise and high esteem

- Our staff has strong competence that supports our objectives.
- We enable continuous on-the-job-learning.
- Our management culture is supportive and focuses on change management.
- We are well versed in the financial sector digitalisation.
- We are a highly valued employer of financial sector professionals.
- We engage in proactive communication.

State of financial markets

The upward trend in the equity markets, which had continued almost without interruption since 2009, was reversed in 2018. Fluctuations in the equity and interest rate markets during the year reflected uncertainty regarding the growth prospects of the international economy, among other things due to the trade war and tariff tensions between the United States and China. The prices of high-risk securities, such as equities, declined significantly across all main market areas, particularly towards the end of the year.

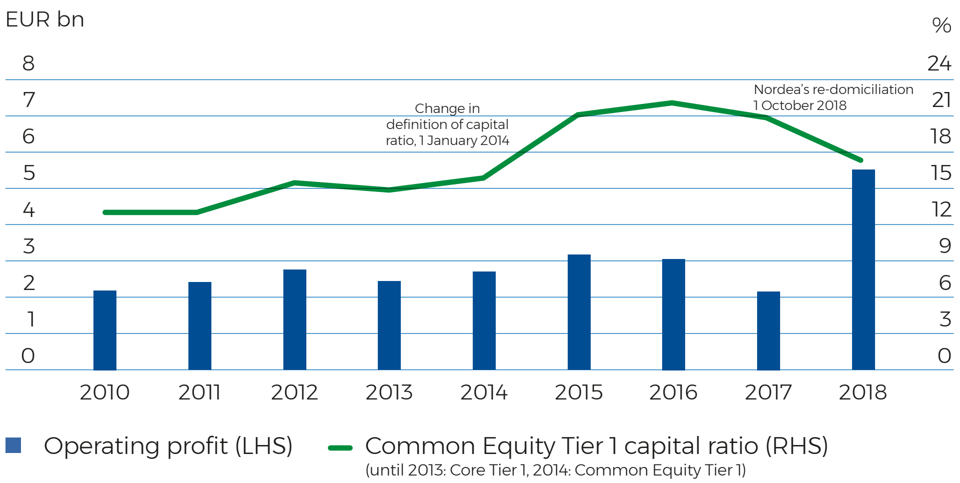
In the United States, the Fed[2] continued gradual increases of the policy rate due to the economic situation and inflation outlook, which remained favourable. Equity markets in emerging countries declined broadly during the year, as investors began to reallocate their assets out of these countries.

Net purchases under the asset purchase programme of the European Central Bank (ECB) as a non-standard monetary policy measure were discontinued at the end of the year. In its December meeting, the Governing Council of the ECB anticipated that the key ECB interest rates would remain at their present levels at least through the summer of 2019 – and in any case for as long as necessary – to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

Yields on Italian government bonds rose significantly from May onwards, as markets took a suspicious stance towards the economic policy pursued by the Italian government. Although the Italian government and the European Commission reached an agreement in December 2018 on budget deficit targets, the risk spreads on Italian government bonds have remained at an elevated level. In addition, uncertainties related to the agreement on the withdrawal of the United Kingdom from the EU (so-called Brexit) were among the factors leading to higher market nervousness towards the end of the year.

In the Finnish economy, 2018 was a cyclical peak year, and forecasts for the coming years were lowered at the end of

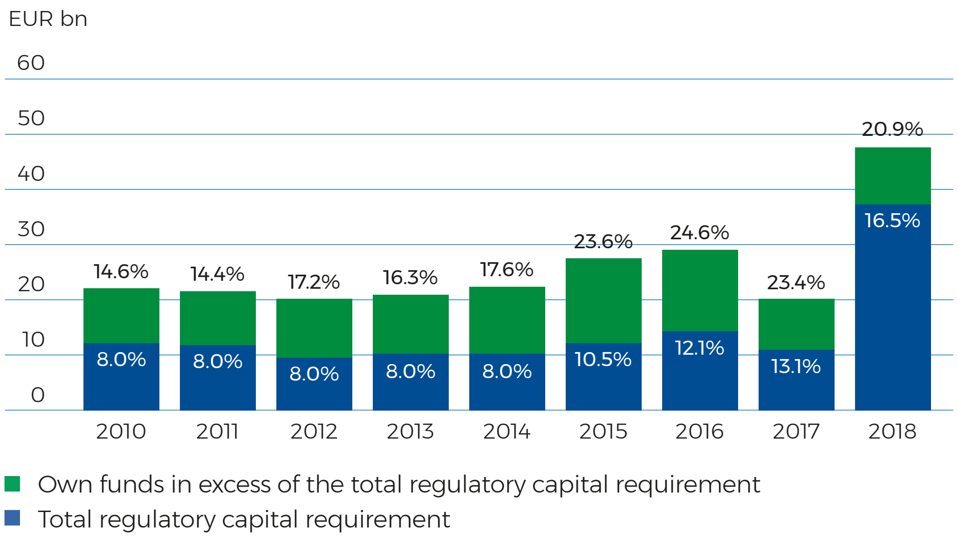
Operating profit and Common Equity Tier 1 capital ratio of the domestic banking sector



Source: The FIN-FSA.

The significant increase in the operating profit and decrease in the Common Equity Tier 1 capital ratio in 2018 were mainly explained by Nordea's re-domiciliation.

Own funds of the domestic banking sector



Total capital ratio shown on top of the bar and capital requirement inside the bar (%).

Source: The FIN-FSA.

[2] Fed = The Federal Reserve System, central bank of the United States.

the year. In the same vein, consumers' and companies' assessments of future economic development deteriorated during the autumn. Household indebtedness relative to disposable income remained close to its historical highs in 2018. In the housing markets, price differences within the country increased further and there were signs of a slow-down in housing production.

Capital adequacy of the banking sector weakened due to Nordea's re-domiciliation – it remains, however, above the European average

Due to the re-domiciliation of Nordea, the capital ratios of the Finnish banking sector weakened in the last quarter of 2018. The decrease in the capital ratios was primarily due to the risk-weight floors imposed on Nordea by the Swedish supervisory authority and the ECB, which increased Nordea's risk-weighted assets in capital adequacy calculation. Despite the decrease in capital ratios, the capital adequacy of the Finnish banking sector relative to its risk-weighted assets remained stronger than the EU area average. As measured by the leverage ratio, the capital position of the Finnish banking sector corresponds to the European average.

The comparable result of the banking sector weakened from the previous year. Positive development of net interest income were insufficient to compensate the lower net income from investment activities and higher business expenses. The reduction in net income from investment activities was partly due to high sales gains realised in the comparison year. A key reason underlying these sales was an International Financial Reporting Standard (IFRS 9), which entered into force at the beginning of 2018 and changed the valuation principles for equity instruments.

The solid capital position of the banking sector has enabled the launch of extensive systems development projects. These efficiency-improving investments are expected to have a positive impact on profit in the coming years.

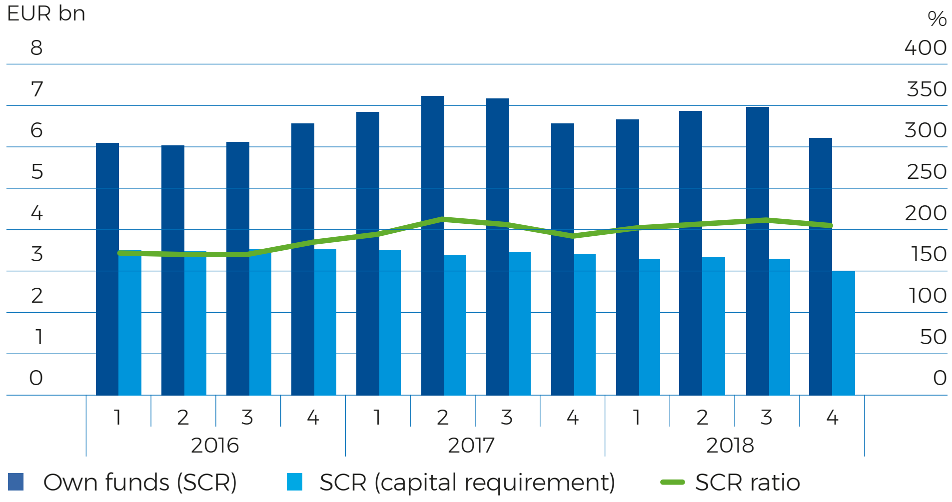
The solvency of life insurance companies strengthened despite a decrease in premium income and low investment income

The solvency of life insurance companies rose from the previous year to stand at a high level. Solvency was strengthened by a reduction in the Solvency II capital requirement.

Investment income was lower than last year. The decline in equity prices towards the end of the year cut investment returns of the third quarter, while fixed-income returns were close to zero.

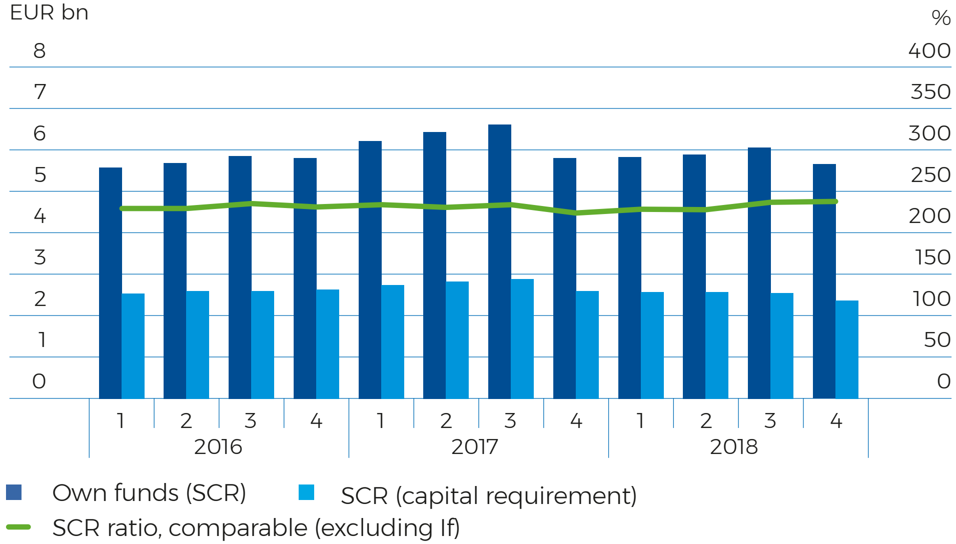
The unstable capital markets affected the sale of investment-linked products in particular, and premium income decreased from the previous year. The strong contraction in new sales over the past few years has now levelled off, however. Claims paid, including surrenders of unit-linked policies, clearly exceeded the premium income.

Solvency of life insurance companies



Source: The FIN-FSA.

Solvency of non-life insurance companies



Source: The FIN-FSA.

If P&C Insurance Company is included until 30 September 2017.

Supervised entities and fee-paying entities

1,093

Requests for information

108

Premium income of the non-life insurance sector resumed positive growth

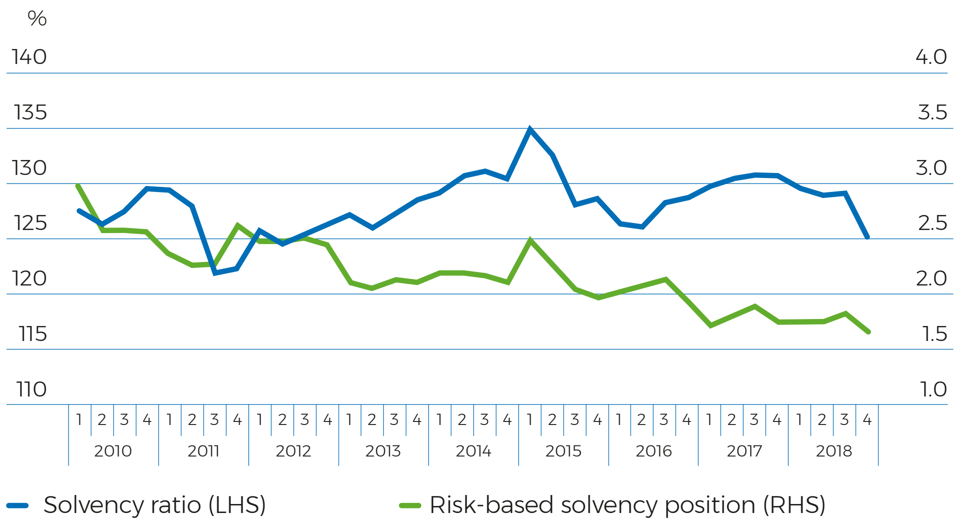
The solvency of the non-life insurance sector strengthened in 2018 and remained solid, although weak investment returns and profit distributions reduced the amount of own funds compared to the end of 2017. Solvency strengthened as the solvency capital requirement decreased. The steep decline in equity prices towards the end of the year reduced the capital requirement for market risk.

The pick-up of the economy increased the wage sum and thereby the premium income from worker´s compensation insurance. Premium income has decreased or remained unchanged since 2015, but it resumed positive growth in the review year. The profitability of the insurance business was weakened by adverse claims development.

Low investment returns weakened the solvency of the pension insurance sector

The solvency ratio of the pension insurance sector, or assets relative to liabilities, deteriorated during the year and particularly in the last quarter, while still remaining at a solid level. A decrease in the value of equity and fixed-income investments reduced the total return of pension assets, which fell below the return requirement for technical provisions. The risk-based solvency position weakened as solvency capital decreased. Pension insurance companies' premium income increased due to the growth of the wage bill of the economy.

Pension insurance sector's solvency development in 2010–2018



Source: The FIN-FSA.

Due to an amendment of legislation that entered into force at the beginning of 2017, the capital position in 2017 and 2018 is not comparable to previous years. Solvency ratio is calculated by dividing pension assets by technical provisions. Risk-based solvency position = solvency capital divided by the solvency capital requirement.

Mandatory bid obligation for Afarak shares – actions by the FIN-FSA

2012
The FIN-FSA made a request to the Police to investigate Danko Koncar on a suspected disclosure offence.

2013
The FIN-FSA received emails pertaining to Koncar's activities from an unidentified source and submitted them to the Police. As the Police investigation proceeded, it also expanded to other suspected offences.

12/2016
The prosecutor issued a partial decision not to prosecute.

9/2017
Certain minority shareholders in Afarak presented a demand to the FIN-FSA to impose an obligation on Koncar to launch a bid. The FIN-FSA examined the matter more extensively and over a longer period.

2/2018
The FIN-FSA obliged Koncar to launch a public bid for Afarak shares and imposed a running conditional fine to enforce the obligations. Koncar appealed the decision and applied for a prohibition of enforcement.

7/2018
The FIN-FSA ordered Koncar to pay the base amount of the conditional fine, EUR 40,000,000, and the supplementary amount of EUR 10,000,000 accrued by that date. Koncar appealed the decision and applied for a prohibition of enforcement.

12/2018
The Helsinki Administrative Court prohibited the enforcement of the conditional fine by an interim decision to the effect that Koncar's assets may be seized but not sold.

1/2019
The prosecutor decided to press charges against Koncar on a disclosure offence concerning the arrangements made in 2014. The prosecutor decided not to press charges on the suspected aggravated abuse of inside information.

3/2019
The Helsinki Administrative Court rejected Koncar's appeals, but repealed the FIN-FSA's decision regarding the supplementary amount of the conditional fine.

Supervision responsive to changes in operating environment

The stability of the Finnish financial markets remained good amid structural changes taking place in the financial sector. The largest change in the structure of the Finnish financial sector was the re-domiciliation of Nordea to Finland. Structural changes also continued in the employee pension sector. Digitalisation was a significant force for change affecting the entire financial sector, and new regulation resulted in new areas of supervision, including the supervision of financial products and new disclosure obligations for trading in securities. These and other changes in the operating environment were taken into

new authorisations or extensions of authorisation

526

new insurance intermediaries

The FIN-FSA processed a total of 26 applications for granting an authorisation or extension of previous authorisation during the year. A total of 526 new insurance intermediaries registered.

account in focusing the supervisory efforts of the FIN-FSA and in its action planning for 2019.

During the year, 15 thematic reviews and 32 inspections were completed. The inspection process was renewed at the end of the year. In connection with the change, the importance of following up on the completion of plans and reacting to deviations was highlighted.

The theme of the FIN-FSA's annual seminar was the household indebtedness and macroprudential instruments. In addition to the opening remarks by Anneli Tuominen, the topics of the seminar were an international perspective to household indebtedness, macroprudential policies and financial stability; Household indebtedness in Sweden and whether the actions taken are enough; The emergence and collapse of the Irish housing bubble and stability, indebtedness and economic growth.

Banking sector

Nordea's re-domiciliation to Finland took place as planned as of the beginning of October. The related decisions prepared by the FIN-FSA were made within the planned schedule, the most important being the ECB's authorisation for Nordea's new bank in Finland.

Actual supervision of Nordea in cooperation with the ECB began in October. Supervision is conducted under the leadership of the ECB, but the majority of the work in practice takes place at the FIN-FSA. In this regard, an agreement was made on the allocation of responsibilities for various areas of supervision between the ECB and the FIN-FSA. The FIN-FSA was assigned the responsibility for several key areas, such as the supervision of credit risk and market risks. At present, we are conducting a so-called comprehensive assessment of Nordea (asset quality review and stress test), which is done for all banks falling within the scope of supervision by the ECB. In addition, the new organisational structure supporting the supervision of Nordea was rolled out.

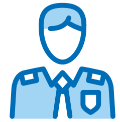
The FIN-FSA has emphasised the importance of smooth Nordic cooperation in the supervision of Nordea. The ECB and the Nordic supervisors agreed on practical issues regarding the cooperation, before the transfer of the supervisory responsibility.

Preparations for the re-domiciliation of Nordea did not affect the supervision of the remainder of the Finnish banking sector, which continued normally.

Insurance sector

The number of companies operating in the pension insurance sector was reduced, as Pensions-Alandia and Veritas Pension Insurance Company merged at the turn of the year. Following the merger, there are four pension insurance companies in operation. There was also a significant change in the pension foundation and fund sector, as OP Bank Group Pension Fund transferred most of its insurance portfolio to Ilmarinen Mutual Pension Insurance Company.

Sanctions



Investigation requests submitted to the police

5

Administrative fines

3

Public warnings

3

Supervision of the appropriate use of pension insurance assets continued according to plan; this was a focus area in ongoing supervision. In addition, company-specific inspections concerning the topic were launched, and an inspection of the compliance of governance system with instructions and a review of investment expenses and fees of the direct business were carried out. In addition, reviews were made concerning own risk and solvency assessments and the preparedness of pension institutions for the entry into force of the General Data Protection Regulation (GDPR).

The area of focus in the ongoing supervision of non-life and life insurance com-

Nordea's domicile moved to Finland in October

Nordea's re-domiciliation to Finland at the beginning of October required the granting of authorisation for the new bank. In June, the European Central Bank granted the authorisation on the basis of a decision proposal prepared by the FIN-FSA. As a result of the re-domiciliation, the FIN-FSA also received new permanent tasks. This required a significant amount of preparatory work.

As regards the prudential supervision, Nordea is under direct supervision by the ECB, but in other respects, such as prevention of money laundering as well as market practices and conduct, it is under the FIN-FSA's direct supervision. Supervision by the ECB is also largely based on the resources of the national supervisors, however, and therefore new employees were recruited to various functions of the FIN-FSA as a result of Nordea's re-domiciliation.

panies were issues concerning the governance system and control functions as well as the assessment of the fitness and propriety of persons effectively running the company. For the first time ever, the FIN-FSA appointed an authorised representative to supervise an insurance company's activities. Inspections of non-life and life insurance companies revealed shortcomings in solvency calculation and the calculation of technical provisions, for example in taking account operational expenses. Thematic reviews concerning outsourcing showed that companies did not comply with regulation in all respects. As part of ongoing supervision, compliance with binding regulation and, for example the adequacy of risk management and internal control were ensured on a company-specific basis also regarding outsourced activities.

In the field of unemployment insurance, inspections were made on the internal control and risk management of unemployment funds and preparations for the entry into force of the GDPR. The attention of unemployment funds was pointed to the organisation of internal control and risk management. As regards the GDPR, emerging topics included joint registers as well as technical and organisational prerequisites regarding the outsourcing of registers. Attention was paid to questions concerning the disqualification, procedure in membership issues particularly regarding outsourced functions as well as information provided to the board of directors on the operation of the benefits process.

Progress in key regulatory initiatives for the conduct of insurance supervision was supported by participating in the work of EIOPA[3] and liaising with relevant ministries. In particular, there was regular cooperation with the insurance department of the Ministry of Social Affairs and Health in order to ensure that the ministries have access to the requisite topical supervision findings in order to be able to remedy potential defects in regulation.

Macroprudential supervision

The FIN-FSA Board decided on several macroprudential measures in 2018. In March, it decided to tighten the maximum loan-to-collateral ratio for other than first-home buyers by five (5) percentage points to 85%. For first-home buyers, the loan cap was kept unchanged at 95%. In June, the FIN-FSA Board decided to impose a systemic risk buffer on all Finnish credit institutions and individually assessed additional capital requirements for the largest credit institutions. Furthermore, a decision made in 2017 on a 15% risk weight floor for housing loans took effect at the beginning of 2018.

The FIN-FSA, in cooperation with the Bank of Finland, prepared overall assessments on Nordea's impact on systemic risk and the application of macroprudential tools. The capital buffer decisions concerning Nordea are based on these assessments.

IDD

The new Insurance Distribution Directive, which entered into force in October 2018 and regulates the distribution of insurance policies:

- increases requirements for the professional competence of insurance sellers
- has an impact on the registration requirements and procedures concerning insurance intermediaries
- harmonises regulation applicable to insurance policies involving an investment element and to investment services

The FIN-FSA has participated actively in the debate on macroprudential tools in Finland and European forums as well as in the work of a working group of the Ministry of Finance looking into curbing household indebtedness. The macroprudential strategy confirmed in late 2018 supports the role of the FIN-FSA Board as a national macroprudential decision maker.

Securities sector and conduct

The entry into force of new regulation (PRIIPs[4], MiFID2[5]/MiFIR[6], PSD2[7], IDD[8],IFRSs)

[3] EIOPA = European Insurance and Occupational Pensions Authority.
[4] PRIIPS = Packaged retail and insurance-based investment products.
[5] MiIFD = Markets in Financial Instruments Directive, rahoitusvälineiden markkinat -direktiivi.
[6] MiFIR = Markets in Financial Instruments Regulation.
[7] PSD2 = Payment Services Directive.
[8] IDD = Insurance Distribution Directive.

required the FIN-FSA to guide market participants and to resolve questions of interpretation. New methods of supervision were developed and new monitoring tools were adopted to assist in the supervision. The capability of supervised entities to comply with new regulation was verified by thematic reviews.

Inspections were targeted at the sale of investment products, in particular on the implementation of suitability assessments for customers, and at risk management by Alternative Investment Fund Managers. On the basis of the inspection findings, the FIN-FSA issued an administrative sanction for shortcomings regarding the provision of investment advice and the sale of investment-linked insurance policies.

There were shortcomings in the coverage of transaction data reported under MiFID 2/MiFIR regulation at the EU level. These slowed down the establishment of supervision and the utilisation of reported data, for example in the supervision of trading.

The FIN-FSA assessed the appropriateness of investor information, in particular regarding new regulation and the process of companies listing on the First North marketplace operated by the Helsinki Stock Exchange. The listing market continued to be active, and inspection visits with listing companies continued. On the basis of the inspection findings, the preparedness of companies seeking a listing was mainly at a good level.

In the supervision of new IFRSs, the focus shifted from the monitoring of the implementation processes and the development of supervisory competencies to the assessment of the concrete application solutions adopted by the companies. The assessment is still at an early stage, however, since the final positions require a European-level approval through ESMA[9].

There was a solid flow of information to support the direction of supervision pertaining to digitalisation through the Innovation HelpDesk as well as European and Nordic cooperation. Nordic cooperation was consolidated in the areas of Fintech and PSD2. The PSD2 monitoring group discussed several difficult questions of interpretation. For example, virtual currency operators in various sectors emerged as a topical phenomenon.

Anti-money laundering

In ongoing supervision and inspections, the FIN-FSA has assessed the anti-money laundering procedures and practices of the supervised entities. Based on the supervision findings, these practices have room for development in many respects. During the year, Nordic banks were subject to significant suspicions of money laundering. The FIN-FSA conducted reviews of the suspicions concerning the actions and practices of entities supervised by it.

The FATF (Financial Action Task Force), which operates in connection with the OECD[10] and focuses on anti-money laundering and countering the financing of terrorism (AML/CFT), will complete mutual evaluation of Finland in early 2019. The evaluation process has lasted approximately two years. The report on Finland is intended to be published in April 2019.

Data collection for the FIN-FSA's supervisor-specific risk assessment on the prevention of money laundering and terrorist financing began as planned at the end of 2018. Entities supervised by FIN-FSA will report on their AML/CFT risks and management methods by the end of March 2019. An analysis tool is being developed for the purposes of analysing information received from supervised entities. The results produced with the tool will be a key part of the supervisor-specific risk assessment and the development of risk-based supervision. A summary of the FIN-FSA's risk assessment will be published towards the end of 2019.

Operational quality and efficiency were improved through digitalisation

In autumn 2018, we also launched a project to implement a signal and analysis system. The system will generate automatic signals and visualise potential cases of market abuse, which will significantly improve the efficiency of supervision of securities trading. The system is intended to be rolled out gradually during 2019. In addition, the electronic services project was launched in March 2018.

The FIN-FSA also piloted the utilisation of software robotics in the processing of notifications concerning the cross-border provision of investment service. Robotics can significantly improve the efficiency of large-volume manual processes and thereby generate cost savings. The next applications are in development, and the utilisation of robotics will continue in new areas in 2019.

The financial sector and climate change

Last year highlighted the role of the financial sector in combating climate change and in adjusting to it. At the beginning of March, the European Commission published a ten-point action plan on sustainable finance. The key target is to channel approximately EUR 200 billion of further investments to areas that are relevant to combating climate change. At the same time, climate-related financial risks are made more transparent. This will have a significant impact also on the domestic financial sector due to changes both in technology and economic activities as well as due to new regulation.

Since climate change affects the financial markets in many ways, we will participate actively in regulatory initiatives currently being developed. Communicating and consulting with supervised entities are a key part of our contribution. Better management of financial risks related to climate change will also be highlighted in the future. Changes affecting the whole of society will be significant and many respects hard to anticipate, and therefore preparation is important.

The starting point for Finland is positive. Both domestic banks and insurance institutions are in many respects forerunners in sustainable development, and their preparedness can be regarded as good.

[9] ESMA = European Securities and Markets Authority.
[10] OECD = The Organisation for Economic Co-operation and Development..

Anti-money laundering

Money laundering refers to activities seeking to disguise the origin of wealth gained by crime in order to make the funds seem legitimate. To a large extent, money laundering constitutes organised international crime, and criminals use banks and payment systems to disguise the illegitimate source of funds. Anti-money laundering is of key importance from the perspective of the reliability of the financial sector and the operability of the EU banking union.

Supervisory responsibility concerning money laundering in EU and Finland

Anti-money laundering activities are supervised by the financial supervisor of the country where the bank operates. As regards groups operating in several countries, the supervisor of the group's home country is responsible for anti-money laundering at group level. Responsibility for Nordea's anti-money laundering at group level was transferred to the FIN-FSA as of the beginning of October 2018.

Entities supervised by the FIN-FSA mainly operate in the European Economic Area, and therefore the majority of cooperation in the group-level supervision of financial institutions takes place with European supervisors. The European Central Bank (ECB) does not have supervisory powers concerning anti-money laundering. In order to improve the efficiency and harmonise EU-level supervision, there are plans to increase both the powers of the European Banking Authority (EBA) in combating money laundering and exchange of information and cooperation between national money laundering supervisors and the ECB.

In Finland, compliance with the Act on the prevention of money laundering and terrorist financing (AML Act) is supervised, in addition to the FIN-FSA, by the Police Board, the Province of Åland, the Board of Patents and Registration, the Regional State Administrative Agency and the Finnish Bar Association.

The Financial Intelligence Unit of the National Bureau of Investigation is tasked with receiving reports on suspicious transactions and investigating whether they constitute money laundering. The Police will investigate potential cases of money laundering.

Understanding of money laundering risk must be increased and risk management developed in the Nordic countries

Recently publicised cases of money laundering have shown that it may be difficult to detect money laundering. It is a complex phenomenon, and it often also has an extensive international dimension. Criminals have sought to identify systemic weaknesses particularly in the European banking system in order to use them for money laundering and other misconduct.

Significant suspicions of money laundering have also surfaced in Nordic banks. Therefore the Nordic banking sector must now develop the management of money laundering risks in order to secure trust in the operation of the financial sector, its ethics and stability of the sector as a whole. Anti-money laundering also requires increasing efforts by authorities. The FIN-FSA's resourcing in AML/CFT will be strengthened significantly and the function will be organised as a separate unit during 2019. There will be significantly more inspections, and the neglect of obligations will be dealt with by administrative sanctions where necessary.

FATF mutual evaluation of Finland to be completed in early 2019

The FATF (Financial Action Task Force) operating in connection with the OECD to prevent money laundering and terrorist financing will complete its mutual evaluation of Finland in early 2019. The assessment process has lasted approximately two years. The situation in Finland was assessed previously in 2007.

The mutual evaluation was coordinated in Finland by the Ministry of the Interior, and the process has involved the contribution of authorities focusing on anti-money laundering and terrorist financing, companies and other stakeholders. The FIN-FSA was one of the supervisory authorities subject to the assessment. The FIN-FSA has a key role in the assessment, since the financial sector, which is supervised by it, constitutes a significant group subject to the reporting obligation under the AML Act.

The mutual evaluation as a process is similar for all FATF member states. The report on Finland is intended to be published in April 2019. The criteria of the assessment are stringent. Actions required by the recommendations issued in the report will be taken immediately in Finland, and progress in completing the recommendations will be subject to regular reporting to the FATF.

FATF recommendations and the mutual evaluation have a very high importance in the prevention of money laundering and terrorist financing on an international scale, since they promote the harmonisation of supervisory practices, and public country reports will provide transparency into AML procedures.

Regulation related to virtual currencies to be developed

One of the most widely known virtual currencies is Bitcoin. Bitcoin and other virtual currencies can be considered a form of assets – but only as long as there are functioning markets for them. Virtual currencies are considered high-risk, speculative investments, and the FIN-FSA has issued a warning about their risks. Virtual or cryptocurrencies are also often referred to as crypto assets or virtual assets.

The characteristics of virtual currencies vary greatly, financial sector regulation may apply to some of them

Virtual currencies may vary by characteristics depending on the manner in which they have been issued. Virtual currencies can be divided roughly into three classes:

1. **Virtual currencies resembling payment instruments**, which have been initially designed as an alternative to traditional currencies and intended to be used as payment instruments also in other circumstances than the issuer's services. The most widely known virtual currency resembling a payment instrument is Bitcoin.
2. **Utility coins**, which can be used to pay for their issuer's products or services. A virtual currency that can be used to pay for products or services is usually issued when the products are still at an early stage of development.
3. **Virtual currencies resembling financial instruments**, which have security-like characteristics, such as voting rights, ownership rights or return expectations.

Current financial sector regulation also applies partly to virtual currencies; for example securities market legislation is technology neutral. Some business activities related to virtual currencies, however, are currently outside the scope of financial sector regulation.

European supervisors prepared advice for the Commission on the regulation of virtual currencies

In March, the Commission published a FinTech action plan, which listed a group of topics to be monitored and analysed in 2018–2019. The Commission stated it would assess development trends in virtual currencies in 2018 together with various stakeholders and then assess whether regulatory action at EU level is required.

The European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA) prepared their advice to the Commission in working groups in which the FIN-FSA also participated. Both supervisors assessed the applicability of the current regulatory framework on virtual currencies in their advice published in January 2019 and presented potential areas that could be considered to be covered by regulation. In the next stage, we await the Commission to potentially take a position on the matter.

Virtual currencies are defined in the new AML Directive as follows:

- they are not issued or guaranteed by a central bank or a public authority
- they are not necessarily attached to a legally established currency
- they do not possess the same legal status as currency or money
- they are accepted by natural or legal persons as a means of exchange
- they can be transferred, stored and traded electronically.

The Innovation HelpDesk provides guidance on regulation concerning cryptocurrencies

Through the Innovation HelpDesk, the FIN-FSA met and advised several entities concerning the provision of services related to virtual currencies. According to the FIN-FSA's experience, business related to virtual currencies was interesting only to a new group of service providers. Meanwhile, incumbent Finnish financial market participants took a reserved stance on virtual currencies, emphasising the risks involved. The FIN-FSA has also encouraged virtual currency service providers to increase their expertise in regulation.

In July, the FIN-FSA published a set of questions and answers related to virtual currencies on their website. The answers provided advice on, among other things, regulation applicable to the issuance of virtual currencies and the need for an authorisation for exchange services. In addition, the FIN-FSA published a list of questions to assess the nature of a new virtual currency to be issued, whether a security or not.

Anti-money laundering regulation and registration of service providers anticipated

Virtual currencies have been associated with a high risk of money laundering and the financing of terrorism. In addition, they have been utilised extensively in other criminal activities. The reform of the EU Money Laundering Directive, so-called Fifth Money-Laundering Directive, brings virtual currency exchanges and custodian wallet service providers within the scope of regulation.

The regulation is expected to enter into force at the national level in 2019, but the detailed schedule will be clarified as the preparation of the legislative proposal proceeds. The proposed Act seeks to improve the possibilities of authorities to prevent and investigate crimes related to virtual currencies.

According to the proposal, the FIN-FSA would register virtual currency exchanges and custodian wallet service providers, and assess their preconditions for registration. The FIN-FSA would also supervise that the operators comply with anti-money laundering regulation.

The FIN-FSA has increased its expertise in virtual currencies, for example through participation in international cooperation. Both the EBA and ESMA published their advice on virtual currencies to the Commission in January 2019. The FIN-FSA participated in preparing these statements. In addition, the FIN-FSA has met its future supervised entities and arranged an information event open for anyone during the Slush week in December.

Discussion on regulation of virtual currencies will continue in coming years

At present, there is extensive debate in Europe regarding the regulation of virtual currencies and the appropriate level and timing of regulation. Potential developments in regulation should be monitored closely in all business activities related to virtual currencies. The FIN-FSA will continue to participate actively in debate on the subject at the European and international level.

We will provide guidance to the sector and share information through the PSD2 monitoring group

The Second Payment Services Directive PSD2 was implemented nationally in January. Account-servicing banks must provide interfaces to the providers of new payment services at the latest in September 2019, when the requirement of strong customer identification takes effect. The PSD2 Directive was supplemented by several Commission Regulations and EBA Guidelines, some of which do not yet apply or have not even been issued.

There are many open questions related to regulation. In autumn 2017, the FIN-FSA therefore established a PSD2 monitoring group whose objective is to disseminate topical information to the sector on the subject, discuss matters of interpretation, provide guidance and respond to market participants' questions. The email list of the monitoring group has members from over 70 organisations, and participation in its meetings has been active.

The PSD2 monitoring group convened six times during the year. Among other things, the meetings addressed the process of applying for authorisation or updating existing ones. There were also status updates on EBA guidelines, and discussions about questions of interpretation concerning a broad range of operators posed by the sector to the FIN-FSA. Reception of the PSD2 monitoring group has been positive, and it will remain active at least until summer 2019.

Macroprudential measures were applied to strengthen the risk resilience of credit institutions and households

The FIN-FSA Board made a number of decisions during the year to strengthen the crisis resilience of the Finnish credit institution sector and households. The crisis absorbing capacity of the credit institution sector is strengthened by the 15% risk weight floor on housing loans, which entered into force at the beginning of the year, and the additional capital requirements for systemically significant credit institutions decided at the end of June as well as a systemic risk buffer applying to all credit institutions. The lowering of the maximum loan-to-collateral ratio for other than first-home buyers improves the crisis resilience of both credit institutions and households, since the decision curbs the amount of debt allowed against a given value of collateral.

Increase of the risk weights for housing loans

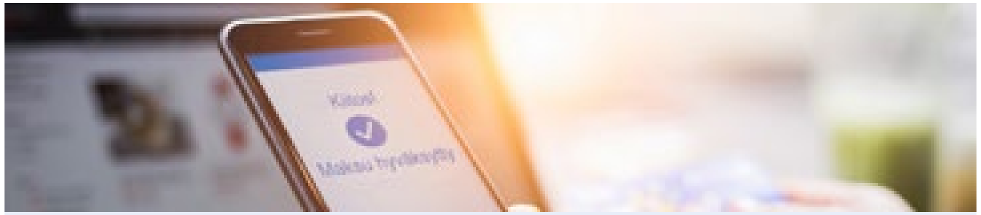
In 2017, the FIN-FSA Board decided to raise the risk weights applicable to housing loans. The decision took effect at the beginning of the review year, when the FIN-FSA imposed a 15% minimum for the average risk weight for the housing loan portfolios of banks using internal models. The measure was based on Article 458 of the Capital Requirements Regulation (CRR). The decision on the minimum was based on the observation that the average risk weights used in Finnish credit institutions' internal models were low both from a risk perspective and in comparison with the EU average.

The increase of the risk weights was intended to prevent the emergence of a housing price bubble. In addition, it was intended as pre-emptive action for circumstances where the Finnish economy and demand for housing would deteriorate and house prices decline amid rising euro area interest rates.

The increase of the risk weights improves banks' resilience to losses, since it increases their equity relative to the amount of housing loans. This also increases somewhat banks' cost of housing loan origination, which may slow down the growth of housing lending.

Systemic risk buffer for credit institutions

The purpose of the systemic risk buffer is to prepare for risks stemming from structural vulnerabilities of the financial system. In Finland, structural systemic risks are larger than in other EU countries on average. Due to the combined impact of the high indebtedness ratio of households and risk concentrations of the credit institution sector, housing market shocks, for example, could threaten the operating capacity of credit institutions.



New strategy will clarify macroprudential targets and the use of its tools

In December, the FIN-FSA Board adopted a macroprudential policy. It assists the Board's work as the national decision-maker on macroprudential policy.

The strategy combines the targets, indicators and tools of macroprudential policy into a coherent whole. It describes how the policy objectives are pursued in practice, which tools can be used to achieve the targets, and the role of communication in ensuring the transparency of decision making.

The main objective of macroprudential policy is to reduce the likelihood of financial crises and other severe shocks in the financial system as well as their adverse impacts on the real economy, thus promoting long-term economic growth.

The main objective is divided into interim targets and operative policy targets. The FIN-FSA Board defined three interim targets for macroprudential policy:

1. To prevent excessive growth in loans granted to households, companies and the private sector as a whole, risks caused by it and excessive indebtedness.
2. To prevent systemic risks related to the systemic significance of individual credit institutions and to structural vulnerabilities of the financial system.
3. To improve the risk resilience of the financial system as a whole.

The FIN-FSA Board will assess the success of its policy, the effectiveness of the tools available to it and the up-to-dateness of the strategy on an annual basis.

Since credit institutions are key financial service providers, their difficulties would have a major impact on the availability of finance and thus on the real economy. Even the problems of isolated credit institutions could also affect other credit institutions, since it is difficult to replace services in a concentrated sector. Credit institutions in Finland are also dependent on market funding, which exposes them more to funding difficulties in the context of market disruptions. An additional capital requirement covering the entire credit institution sector prevents and mitigates these long-term risks by improving the risk resilience of credit institutions.

In June, the FIN-FSA Board decided to impose a systemic risk buffer on all credit institutions, which will enter into force on 1 July 2019. The systemic risk buffer was imposed on Municipality Finance Plc at a level of 1.5%, on Nordea Bank Plc at 3.0%, on OP Financial Group at 2.0%, and on other credit institutions at 1.0%.

The significance of individual credit institutions for the vulnerability of the financial system is also taken into account through national O-SII (other systemically important institution) buffers. The FIN-FSA Board imposed O-SII buffers on the largest credit institutions, which entered into force on 1 January 2019.

Reduction of the maximum loan-to-collateral ratio

In March, the FIN-FSA Board decided to lower the maximum loan-to-collateral (LTC) ratio for loans other than first-home loans by 5 percentage points, to 85%. The loan cap for first-home buyers was kept at 95% to ensure market access. The decisions entered into force on 1 July.

The purpose of the tighter LTC ratio was to curb the historically high level of indebtedness of Finnish households. In September, the ratio of household loans to income was 128.1%, and the household loan stock amounted to 65.8% of GDP. The figures have more than doubled since the beginning of the 21st century.

High household indebtedness ratio is a risk to the financial system and the broad economy. It weakens the ability of the system to react to disruptions and intensifies shocks to the economy, as highly indebted households contract their consumption significantly during times of recession. A tighter LTC ratio reduces households' possibilities to run into debt and thereby contains the growth of indebtedness.

FIN-FSA contributes to the development of macroprudential tools

During the year under review, the FIN-FSA also participated actively in societal debate in order to develop macroprudential tools. FIN-FSA experts participate in a working group convened by the Ministry of Finance examining ways to contain household indebtedness. Furthermore, the FIN-FSA's annual seminar on EU legislation and supervision was themed around macrostability.

The theme of the seminar was household indebtedness and macrostability

The annual seminar focused on household indebtedness from the perspective of macrostability. The presentations and speakers of the day were:

- **Opening remarks: Household indebtedness and macroprudential supervision**
  Anneli Tuominen, FIN-FSA
- **Household indebtedness, macroprudential policies and financial stability. An international perspective**
  Claudio Raddatz Kiefer, IMF's Monetary and Capital Markets Department
- **Household indebtedness in Sweden: what has been done and is it enough?**
  Erik Thedéen, Finansinspektionen
- **The Irish housing cycle: From boom to bust and beyond**
  Niamh Hallissey, Central Bank of Ireland
- **Stability, indebtedness and economic growth**
  Marja Nykänen, Bank of Finland

Webcast recording and presentation material is available at: **seminaari.fiva.fi**

BOARD

The Board sets the specific objectives for the activities of the FIN-FSA, decides the operational principles, and guides and supervises achievement of the objectives and compliance with these principles. In addition, the Board inter alia considers the budget of the FIN-FSA and submits it to the Board of the Bank of Finland for confirmation. In accordance with section 10 of the Act on the Financial Supervisory Authority (878/2008), the Board supplies the Parliamentary Supervisory Council at least once a year with a report on the operational objectives of the FIN-FSA and their achievement. This includes an assessment of expected changes in supervision, their impact on the accumulation of supervision fees and measures required for such changes.

CVs of the Board, composition of the Parliamentary Supervisory Council, organisation chart, ethical rules of conduct:

fin-fsa.fi
» FIN-FSA
» Organisation and tasks

The Board's report to the Parliamentary Supervisory Council was published (in Finnish) in March 2019 at

finanssivalvonta.fi
» Tiedotteet ja julkaisut
» Julkaisut

Back row:

Vesa Vihriälä
DSocSc, Managing Director of ETLA, the Research Institute of the Finnish Economy

Vice Chair **Martti Hetemäki**
DSocSc, Permanent State Secretary, Ministry of Finance
(Deputy member: **Jaakko Weuro**, LLM, Advisor, Ministry of Finance, Deputy member until 14 December; **Janne Häyrynen**, LLM, DSc Econ, Docent of Securities Market Law, Legislative Counsellor, Ministry of Finance, as of 14 December)

Lasse Heiniö
MSc, (SHV) Actuary approved by the Ministry of Social Affairs and Health
(as of 15 March)

Front row:

Markku Pohjola
BSc Econ
(as of 1 February)

Chair **Marja Nykänen**
Deputy Governor of the Bank of Finland
(as of 1 April)
(Deputy member: **Katja Taipalus**, DSocSc, Head of Department, Bank of Finland)

Outi Antila
LLM (trained on the bench), Director General, Ministry of Social Affairs and Health
(Deputy member: **Hannu Ijäs**, LLM (trained on the bench), Director, Ministry of Social Affairs and Health)

Pirkko Juntti (not in photo)
LLM (trained on the bench), until 31 January

Until 31 March, the Board was chaired by Governor of the Bank of Finland **Olli Rehn** PhD. The Secretary to the Board was **Pirjo Kyyrönen**, Senior Legal Advisor. The Board convened 38 times during the year. Fees to the members and deputies in the year totalled EUR 64,124. No separate attendance allowance was paid.

MANAGEMENT GROUP

The Management Group convened 62 times during the year. The Director General's salaries and fees totalled EUR 208,773. Salaries and fees paid to the other Management Group members totalled EUR 806,374.

See Management Group's CVs as well as ethical guidelines and guidelines on securities trading and close ties of FIN-FSA staff at

fin-fsa.fi
» FIN-FSA
» Organisation and tasks

Back row:

Samu Kurri
MSocSc,
Head of Financial Analysis and Operational Risks

Erkki Rajaniemi
DSc Econ, LicLL, LLM (trained on the bench), Advisor to the Management

Kaisa Forsström
LLM, Head of Insurance Supervision

Front row:

Jyri Helenius
MSc Eng, Deputy Director General, Head of Banking Supervision

Anneli Tuominen
LLM (trained on the bench), BSc Econ, Director General, Chair of the Management Group

Pirjo Kyyrönen
LLM (trained on the bench), Senior Legal Advisor, Secretary to the Management Group

Sonja Lohse
LLM (trained on the bench), Chief Advisor, Head of the Director General's Staff

Jarmo Parkkonen
LLM, MSc Econ, Head of Supervision of Markets and Conduct of Business (not in photo)

Appendices

Total number of supervised and other fee-paying entities

Fee-paying entities	31.12.2017	31.12.2018
Credit institutions	268	257
Investment firms	66	57
Fund management companies and AIFMs	42	43
Securities issuers	167	179
Stock exchange, clearing corporation	1	1
Finnish Central Securities Depository	1	1
Other fee-paying entities in the financial sector	162	163
Financial sector, total	**707**	**701**
Life insurance companies	10	10
Non-life insurance companies	36	36
Pension insurance companies	5	5
Unemployment funds	26	26
Pension foundations and funds	52	52
Sickness funds and other insurance funds	124	124
Insurance associations	5	5
Insurance brokers	87	86
Public sector pension funds	3	3
Other fee-paying entities in the insurance sector	43	45
Insurance sector, total	**391**	**392**
All supervised and other fee-paying entities, total	**1,098**	**1,093**

In addition, the FIN-FSA supervises for example insurance intermediaries and compliance with the obligation to declare insider holdings.

Expenses and funding

Expenses and funding, EUR thousands	2017	2018*
Staff expenses	15,489	18,638
Staff-related expenses	964	1,001
Other expenses	3,522	4,100
Services	1,013	1,230
Real estate expenses	1,321	1,358
Other expenses	1,188	1,512
Depreciation	912	1,034
Bank of Finland services	4,751	5,129
Total expenses	**25,638**	**29,902**
Funding of operations		
Supervision fees	23,717	26,333
Processing fees	1,828	1,432
Other income	37	1
Bank of Finland's contribution: 5% of expenses	1,282	1,495
Surplus carried over from the previous year	1,499	2,725
Surplus carried over to the next year	-2,725	-2,084
Total funding	**25,638**	**29,902**

*The figures for 2018 are unaudited and unconfirmed.

Set supervision fees, EUR thousands

Fee-paying entities	2017	2018
Credit institutions	8,879	11,204
Investment firms	1,266	1,322
Fund management companies and AIFMs	2,118	2,322
Securities issuers	2,297	2,461
Stock exchange, clearing corporation	338	337
Finnish Central Securities Depository	229	231
Other fee-paying entities in the financial sector	552	541
Financial sector, total	**15,679**	**18,418**
Life insurance companies	1,310	1,372
Non-life insurance companies	1,606	1,408
Pension insurance companies	2,220	2,344
Unemployment funds	1,334	1,327
Pension foundations and funds	268	276
Sickness funds and other insurance funds	96	96
Insurance associations	5	5
Insurance brokers	110	117
Public sector pension funds	623	665
Other fee-paying entities in the insurance sector	228	249
Insurance sector, total	**7,800**	**7,859**
Adjustment items carried over from previous years	-238	56
Fee-paying entities, total	**23,717**	**26,333**

Processing fees, EUR thousands

Fee-paying entities	2017	2018
Credit institutions	33	58
Investment firms	73	48
Fund management companies and AIFMs	806	721
Securities issuers	221	142
Other fee-paying entities in the financial sector	50	44
Financial sector, total	**1,183**	**1,013**
Insurance companies[1]	345	60
Unemployment funds	18	18
Pension foundations and funds	28	45
Sickness funds and other insurance funds	44	34
Insurance intermediaries[2]	181	245
Other fee-paying entities in the insurance sector	29	17
Insurance sector, total	**645**	**419**
Fee-paying entities, total	**1,828**	**1,432**

[1] Life, non-life and pension insurance companies
[2] Insurance brokers and agents

Parliamentary hearings and submissions on draft legislation

The Financial Supervisory Authority's experts were invited to hearings by various committees of the Finnish Parliament on 58 occasions. The FIN-FSA was requested to make 50 submissions on draft Finnish legislation and 79 other submissions in its field of competence.

Journal

Items initiated in the FIN-FSA's journal (main functions and their major categories)	No
Management	153
Regulation	100
Supervision	2,653
Examples of categories:	
Notifications; branches and cross-border activities	592
Articles of association, by-laws and regulations; confirmation and changes	190
Prospectuses	169
Letters by private citizens	223
Fit & Proper reports	329
Inspections	23
Authorisations; granting and expansion	38
Other	301
Examples of categories:	
Domestic cooperation	83
International cooperation	14
	3,207

In addition, 526 new applications for registration and 1,984 applications for change were processed in the insurance agent register outside the scope of the Journal.

@FIN_FSA

Twitter: daily instant messaging

The account monitors communications by the EU's financial supervisory authorities and tweets among other things on public presentations by the FIN-FSA staff, vacancies and themes relating to the protection of banking and insurance customers.

872 tweets

2,726 followers

The most popular tweets concerned the following topics:

ESMA product intervention decisions published in the Official Journal of the European Union. The decisions entered into force on 2 July (binary options) and 1 August (CfDs)

FIN-FSA opinion on PSD2 transition period: security and reliability of use are crucial in new payment services

FIN-FSA corrects incorrect statements made regarding its activities. In 2012, the FIN-FSA made a request for investigation to the Police regarding trading in Afarak shares. Only the Police have the authority to investigate such cases, and police investigation may lead to a criminal procedure.

Most prominent topics in the media concerning the FIN-FSA

1. Loan cap for housing loans
2. Other topics related to housing loans
3. Money laundering
4. Afarak Group
5. Nordea

FIN-FSA
FINANCIAL SUPERVISORY AUTHORITY

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