FIN-FSA
FINANCIAL SUPERVISORY AUTHORITY

Annual Report 2019

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Contents

Unless otherwise indicated, all texts refer to the year under review 2019.

Director General’s review

The Finnish financial sector has remained stable. Even so, it is not immune to low interest rates hampering profitability, the weakening of the economic operating environment and changes in the competitive environment challenging old business models.

The FIN-FSA has reformed its strategy for 2020–2022. The new strategy highlights the need to redirect supervision based on changes in the operating environment. The FIN-FSA's scope of supervision has become increasingly diverse. This requires intense prioritisation of supervision and its allocation to the highest-risk entities and functions. Digitalisation, climate change and anti-money laundering were incorporated into the strategy as special subsectors.

Let me take an example of changes in the economic operating environment. In its most recent risk dashboard, the European Systemic Risk Board (ESRB) warned about the mispricing of risks. The protracted rise of asset prices, investments in illiquid instruments and problems in fund redemptions that have already materialised to date have increased the European supervisors' concern about the adequacy of funds’ liquidity in a stress situation. Based on our thematic review of real estate funds last autumn, we noted ourselves that Finnish real estate funds should improve their valuation practices and liquidity management. Funds have no experience of a liquidity freeze in weak market conditions. The supervision of funds’ liquidity is therefore one of our areas of focus in 2020. The uncertain market conditions further increase the importance of the issue.

Digitalisation, climate change and anti-money laundering highlighted in our activities

Digitalisation has changed and will further change the operating logic of the financial sector. From the supervisor's perspective, this means that the supervisor must not only understand the benefits of digitalisation for business but also the risks of digitalisation, whether they be related to the use of data and artificial intelligence or cyber risks. In the latter case, cooperation between authorities is a must. On the other hand, the supervisor also has another role – to look after the availability of financial services. At the same time, as digital services become increasingly diverse and user-friendly, it must be borne in mind that one in five Finns has poor digital skills. The availability of services for them must also be ensured.

The impacts of climate change on the financial sector are manifold. From the perspective of financial stability, it is important to consider the impacts of climate change and climate policy on the risks faced by supervised entities when assessing these risks. In our supervisory work, we have also participated in defining which investments may be considered green. It is important to try to prevent so-called greenwash of investments while ensuring that retail investors have access to adequate and understandable information on the greenness of investments. It is also important not to promote green investments by easing the supervised entities’ capital requirements, since capital requirements must remain risk based also in the future. All in all, climate change has significant impacts on supervised entities' risk management and risk-taking.

The third subarea in the strategy is anti-money laundering. European and, in particular, Nordic banks have been subject to heavy criticism in recent years after failing their monitoring obligation and allowing massive doubtful money transfers. The FIN-FSA was also reprimanded by the Financial Action Task Force (FATF), which focuses on anti-money laundering and countering terrorist financing, for inadequate supervision of anti-money laundering. We have learned our lesson and reinforced both supervisory resources and the intensity of supervision. The guiding principle is risk-based supervision, which means that supervision should focus on sectors with the highest risk of being abused in money laundering. The principle of risk-based supervision should also apply to entities supervised by the FIN-FSA. They should not focus their monitoring only and mainly on easy targets, such as normal consumer-customers.

Supervision of anti-money laundering cannot, however, be dealt with by national supervisory actions alone. Since crime is supranational, so must be its supervision. The FIN-FSA was one of the first to suggest the establishment of an EU-wide anti-money laundering authority based on a framework similar to the ECB banking supervision. This entails the establishment of a single supervisor, which will draw on the labour input of the national supervisory authorities. Many member states which previously opposed to the initiative are gradually converting to support it.

Measures to contain household indebtedness continue

In the autumn, a working group established by the Ministry of Finance finalised its proposal on tools to prevent excessive household indebtedness. In public discussion, the main attention has been on the debt-to-income ratio and its level, and the question has surfaced as to whether a ceiling linked to income would limit the availability of credit to recent graduates or people in short-term employment relationships. In these discussions, it has often been overlooked that the proposal includes leeway for such situations, i.e. the bank is able to determine within the boundaries of this flexibility the loans to which the limit need not be applied.

Another important subarea is the transfer of the supervision of payday loan companies to the FIN-FSA. Instant loans are a societal problem and therefore a firm grip and proper tools are needed to supervise them. Regulation must define in more exact terms how the customer's repayment capacity should be assessed and how high-risk customers should not be granted credit at all. Once this limit has been defined, it is possible for the supervisor to intervene.

Amendments to capital adequacy requirements

The implementation of the so-called Basel III finalisation package will introduce a considerable tightening of capital requirements for banks. The European Commission will give its proposal on the issue later this year. The purpose of the package is to restrict the reductions provided in the banks' capital needs by their so-called IRB models. Nordic banks are using these internal models more than the average. In addition, they have a high share of low-risk housing loans whose risk weights are low due to their low credit loss history. In fact, the regulatory change has the strictest impact on these. In implementing the reform, attention should be paid to impact assessments in order for the outcome to be as balanced as possible. In my opinion, a balance can be achieved while ensuring that the Basel principles are respected. The risk-sensitivity of capital adequacy calculations should not be reduced too much, and the significance of risk management must be emphasised further.

Another factor widening the gap between the capital requirements for banks in various member states are the macroprudential buffers. Their use within the EU has not been harmonised and there are indeed considerable differences in their application. For banks, this means that a level playing field does not prevail. Surely, the level of the buffer should also reflect, among other things, the structure and size of each country's banking sector; Finland, for example, has high structural capital buffers for this very reason.

In the insurance sector, assessment of the impacts of the reform of Solvency II regulation on supervised entities is ongoing. In particular, the new discount rate assumption applied in the solvency calculations is in need of a reform, since the current level of the discount rate is too high relative to market rates. This means that the amount of the companies' technical provisions has been underestimated with respect to long-term liabilities in particular. Similarly, the treatment of interest rate risk in solvency calculations should be revised to take the current interest rate environment into account. If the objective is not to increase the level of regulatory requirements, there should be a careful assessment of which Solvency II calculation parameters should be revised and how to achieve a balance. From our perspective, it is important that regulation is as risk-based as possible and promotes the principle of proportionality.

Boundaries of permitted activities have been clarified

Last autumn, the FIN-FSA issued a supervision release on the scope of disability risk management allowed for pension insurance companies. This is an important issue, since we had noted some companies slipping beyond their allowed field of business, i.e. social insurance, in providing occupational wellbeing services. The management of disability risk as a business is allowed for pension insurance companies, but only when it is pursued as part of the insurance business, namely risk management aimed at reducing disability risk at the company's own risk. The funds must not be used for other purposes, regardless of how good the intentions might be. The supervision release and related memorandum provide answers to questions posed by the sector on the scope of allowed activities. Since the issue at hand is not a need for new regulation but compliance with existing regulation, I do not see a need for clarifying legislation in this regard. Legislative amendments would require a careful overall and impact assessment both from the perspective of the structure of the earnings-related pension scheme and its impacts linked to the EU Accession Treaty. The FIN-FSA will continue its follow-up work in the matter also in the current year in order to ensure that all companies are operating within the boundaries of regulation.

European financial sector in transition

One of the objectives of the EU's Capital Markets Union project has been, in particular, to reduce the dependency of small and medium-sized enterprises on bank finance. The capital markets union has progressed slowly, however, and the share of bank finance has actually grown recently. In order to achieve the objective, cross-border investment within the EU should be facilitated, excessively detailed regulation should be reduced, and measures should be taken, where feasible, to harmonise bankruptcy and corporate law, in particular. Actions should be taken in the short term to facilitate IPOs and the availability of high-quality financial analysis on SMEs, while keeping investor protection in mind.

At the end of January this year, the United Kingdom exited the EU after a long and burdensome process. The immediate impacts of Brexit on the Finnish financial sector are minor. The City of London will also remain a major financial centre in the future. It is therefore important that the European Commission is able to grant the UK so-called equivalence status, which would enable smooth operation between the EU and UK also in the future. Of course, this status should only be granted in the event that the UK continues to meet the equivalence requirements.

From the FIN-FSA’s perspective, the decision of the UK to exit the EU is a loss. Our UK colleagues, similarly to the FIN-FSA, have represented a stance favourable for integration and supported a principles-based approach. Our UK colleagues possess outstanding professional skills, practical problem-solving abilities and a way of seasoning their comments with wry British humour. Without them, we feel like a part of ourselves is missing.

In pursuing its supervisory duties, the FIN-FSA is subject to ever closer external scrutiny. We are being assessed by the various European Supervisory Authorities: EBA, EIOPA and ESMA, the European Commission, the FATF and naturally our cooperation partner, the ECB. We utilise these assessments in developing our operations and analytical capabilities. The assessments also help us prioritise our activities and improve our efficiency. Our target for these assessments is to be, if not a grade A student, then at least an A- student.

During the past two years, a hundred new experts have been hired by the FIN-FSA, some of them into new positions and some to replace departing personnel. Our objective is to have this new expertise working at full speed as soon as possible. A further goal – in accordance with our strategy – is to ensure the competence and wellbeing of our personnel, and that we are viewed as a valued employer both from our employees' perspective and externally.

I would like to thank all of our employees for their good work.

In Helsinki on 2 March 2020
Anneli Tuominen

Anneli Tuominen
Director General

Photo: Antti Aimo-Koivisto, STT-Lehtikuva

State of financial markets

In the fixed-income and equity markets, the review year was exceptional. Government bond yields fell to record lows and largely sunk to negative levels up to the end of September. During the autumn, interest rates rose slightly, and at the end of the year the yield of the Finnish ten-year government bond, for example, was close to zero. On the other hand, equity prices rose significantly during the year, and almost all of the main indices rose. Investors were looking for return opportunities in equities, and corporate earnings development remained favourable. All in all, the performance of fixed-income and equities meant good return opportunities but, due to elevated valuations, also increased risks.

The prospects of the international economy remained uncertain. The uncertainty reflected, in particular, the prolonged two-year trade war and tariff tensions between the United States and China as well uncertainties related to United Kingdom's withdrawal from the EU. Towards the end of the year, the uncertainty eased slightly as preliminary agreements were reached both in the trade dispute and in the Brexit process.

The stimulative policies pursued by central banks supported the returns on government bonds and equities, as interest rates and interest rate expectations fell. In the euro area, the European Central Bank restarted securities purchases in November after a break of almost a year. In the United States, the Federal Reserve cut its policy rate three times.

Economic growth forecasts for both Finland and the global economy were downgraded. A key reason was the estimated impact of uncertainty on trade, investments and consumption. The upswing of the Finnish economy passed, but even so growth remained moderate.

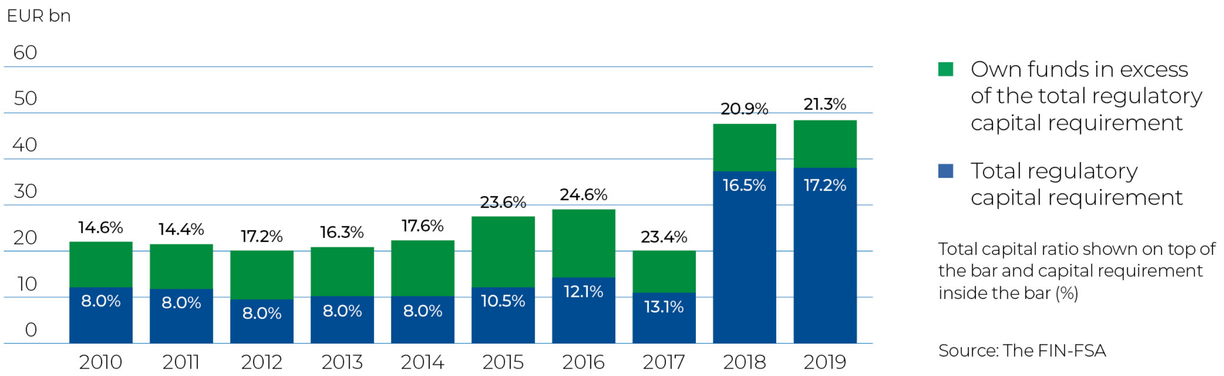
Household indebtedness remained at a historically high level. In the Finnish housing market, the gap between prices in large cities and other regions continued to widen. Construction volume began to decline during the year, reflecting deteriorating cyclical momentum.

Capital ratios of the banking sector strengthened and remained above the European average – non recurring expense items reduced the operating profit of the banking sector

Risks in the operating environment of Finnish banks increased in the review year. This was due to elevated risks related to international economic development and reduced confidence among domestic companies and households. Despite the economic uncertainty, the capital adequacy of the Finnish banking sector and the quality of the credit stock remained strong. The risk-weighted capital ratios of the Finnish banking sector strengthened and remained above the European average. The non-risk-weighted leverage ratio also strengthened slightly and was higher than the average level for banks within the EU area. Finnish banks' non-performing loans remained low in the review year. The level of non-performing loans in Finland is among the lowest in Europe.

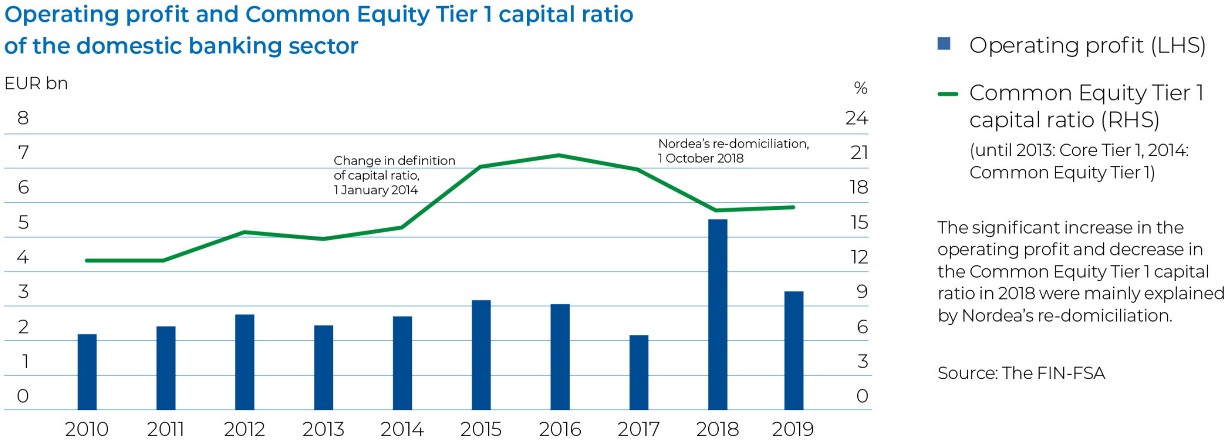
The operating profit of the banking sector declined compared with the previous year. The result of the banking sector was burdened particularly by one-time depreciations and impairments. Net interest income increased slightly from the level of the previous year, as growth of the credit stock levelled off the negative impact of declining market rates and margins on interest income. The decline of operating profit was also cushioned to some extent by a decrease in personnel costs.

Own funds of the domestic banking sector



Source: The FIN-FSA

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



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.

Source: The FIN-FSA

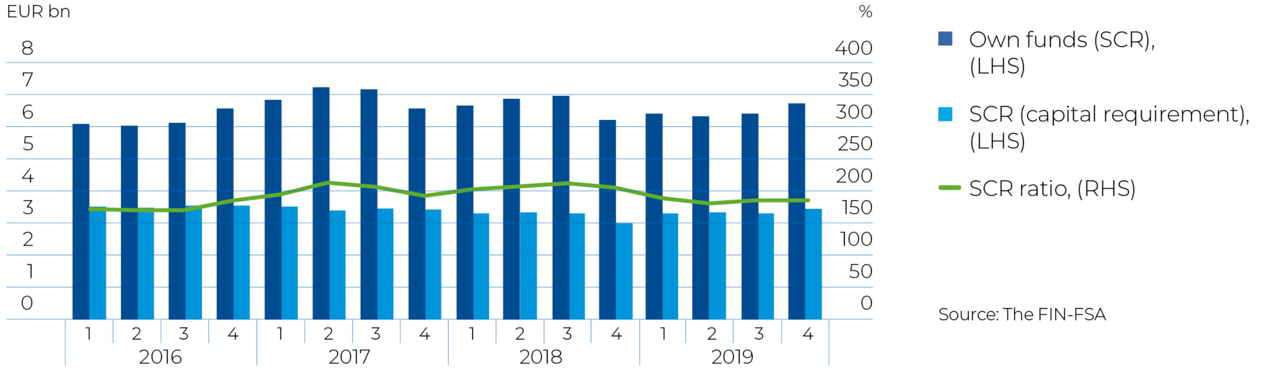
Life insurance companies' solvency deteriorated from the previous year

The solvency ratio of the life insurance sector contracted in the review year but remained at a good level. The deterioration mainly reflected a rise in the solvency capital requirement. An addition of Tier 2 capital, however, reduced the negative impact and therefore the reduction in the solvency ratio remained smaller than expected.

Insurance companies' investments made good returns during the year and fixed-income and equity investments, in particular, generated above-average returns. In contrast, the performance of the insurance business was unfavourable. Claims paid in direct insurance grew steeply and clearly exceeded insurance premiums. Net premiums written have indeed been negative throughout the review year. The capital redemption contract remained the most popular life insurance product.

In life assurance operations, customer behaviour was affected by changes in the operating environment that took effect at the turn of 2019–2020. The amount of policy redemptions increased as the tax treatment of investment policies changed. However, a majority of the redeemed funds was reinvested in new insurance policies.

Solvency of life insurance companies



Source: The FIN-FSA

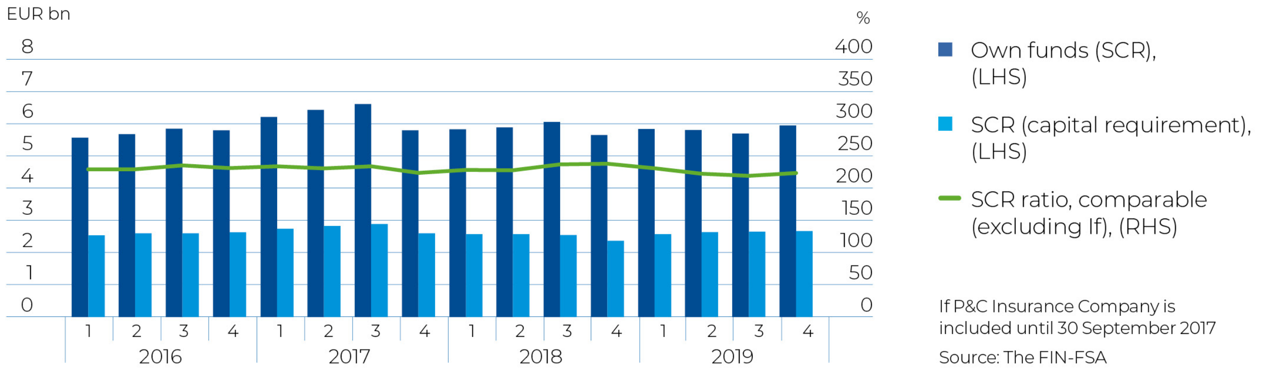
Fall in interest rates and appreciation of equity investments weakened insurance companies' solvency

The solvency of non-life insurance companies remained solid in the review year, although it weakened from the record level of end-2018. The deterioration reflected the increase of solvency capital requirement due to the rise in equity prices. In addition, growth of own funds was sluggish as the negative impact of insurance liabilities offset the positive impact of investment market performance on own funds.

Insurance companies' income mainly stemmed from investment income. In contrast, no margin was accrued from the insurance business. Profitability was undermined by unfavourable claims development. In addition, profitability weakened in the second half of the year as companies increased the prudence of technical provisions in accounting by reducing their applicable discount rates.

The growth in comparable premium income that began in 2018 accelerated. This stemmed partly from vehicle insurance and partly from workers´ compensation insurance. In addition, the brisk growth in health insurance continued.

Solvency of non-life insurance companies



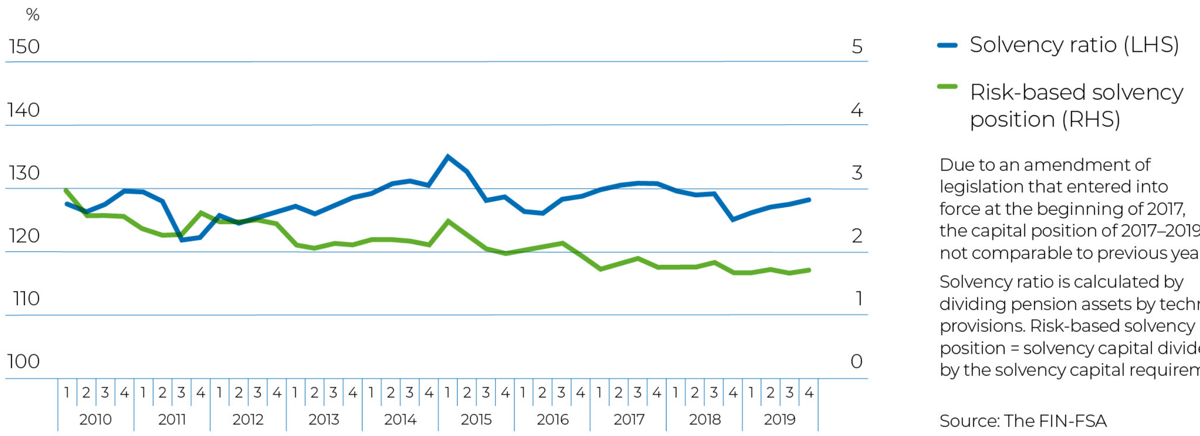
If P&C Insurance Company is included until 30 September 2017

Source: The FIN-FSA

Pension funds grew stably during the year

The solvency ratio of the employee pension sector, i.e. the ratio of pension assets to liabilities, improved throughout the year. The primary reason was that the return on investments exceeded the return requirement for technical provisions, mainly due to the strong performance of equities, but the improvement was also supported by the positive return on other asset classes. Risk relative to solvency capital did not change significantly during the year. The proportion of equities as the largest asset class increased further to 46.6% while the proportion of fixed-income investments 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 2010–2019



Due to an amendment of legislation that entered into force at the beginning of 2017, the capital position of 2017–2019 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.

Source: The FIN-FSA

Most prominent media topics brought to the public's attention by the FIN-FSA

1. **Second Payment Services Directive PSD2 and strong authentication**
2. **Suspected money laundering and anti-money laundering measures**
3. **Appointment of LocalTapiola's CEO**
4. **Afarak Group**
5. **Mounting household indebtedness**

Supervision responsive to changes in operating environment

The stability of the Finnish financial markets remained solid while the operating environment of the financial sector continued to evolve in the review year. Key change trends affecting the financial sector included the development of digitalisation and preparation for climate change, which continue to be significant. The weaker economic cycle and the protracted low level of interest rates are also challenging financial sector operators. The changes in the operating environment were taken into account in steering the FIN-FSA's supervisory work in the review year and in planning its operations for 2020.

The FIN-FSA's strategy for 2020–2022 was reformed in the review year to be in line with the changes in the operating environment. The strategy highlights three topics with significant supervisory implications for the coming years: climate change, digitalisation and anti-money laundering. The strategy now also emphasises a risk-based approach more clearly than before.

Banking sector

Nordea's prudential supervision was conducted in accordance with the supervision plan prepared with the European Central Bank (ECB). The comprehensive assessment (AQR[1] and stress test) were published in July. Nordea's first supervisor's assessment (SREP[2]) was completed in accordance with the schedule set by the ECB. Inspections of Nordea also proceeded as planned. The supervision plan concerning Nordea's consolidated financial statements was finalised at the end of the review year.

Banks under the ECB's direct supervision (SI banks[3]) were supervised according to the supervision and inspection plans of the single banking supervision for the euro area. Two supervisor's assessments were prepared as planned during the first half of the year. In addition, the planned six other supervisor's assessments on other banks under indirect ECB supervision (LSI banks[4]) were carried out during the year.

A survey on the pricing and availability of basic banking services was published in December. As part of the survey, there was a questionnaire on the availability and adaptations of digital services. Banks were also surveyed on how the changes to their authentication methods required by the Payment Services Directive would be implemented while ensuring the uninterrupted availability of the authentication tools to all customer groups.

Insurance sector

The operational focus of insurance supervision was shifted from regulation to supervision. Supervision and insurance observations were publicised in supervision and press releases to improve the effectiveness of supervisory work. To ensure regulatory compliance at sector level, a comprehensive assessment of compliance functions was launched in pension, non-life insurance and life insurance companies.

The supervision of pension companies and of the appropriate use of funds held by them were supported by a supervision release on the management of disability risk and sectoral boundaries. Special attention was paid in the release to the implementation of activities aimed at reducing claims risk allowed for pension companies within the scope of their operating sector.

In the supervision of unemployment insurance, attention was paid to the internal control and risk management of unemployment funds, preparation for the entry into force of the General Data Protection Regulation, and follow-up to previous findings.

In the ongoing supervision of non-life and life insurance undertakings, the focus areas included questions related to governance systems, control functions and the assessment of the fitness and propriety of persons in managerial positions. As regards non-life and life insurance companies, the sector was informed of the supervisory findings made during the year. The FIN-FSA pointed the companies' attention to, among other things, own risk and solvency assessment, the role of the board of directors in the preparation thereof and the stress tests to be used therein, and the importance of preparing for the low-interest environment, for example when making decisions on profit distribution.

Many applications were processed from various entities in the insurance sector. In the supervision of conduct, the implementation of changes resulting from regulation concerning the distribution of insurance (IDD) had an impact on the number of registrations of insurance agents in particular.

From the point of supervision, it is important that regulation is developed so that requirements concerning the sector correspond with the changed operating environment and are uniform. In a legislative proposal submitted to the Ministry of Social Affairs and Health, the professional competence and expertise requirements for pension insurance companies were proposed to be aligned more with the current competence requirements applying to life and non-life insurance companies as well as to many supplementary pension insurance institutions. In addition, the FIN-FSA participated in the reassessment of regulation for non-life and life insurance companies in the European Insurance and Occupational Pensions Authority EIOPA.

Macroprudential supervision

The Board of the FIN-FSA made several decisions in the review year to promote macroprudential stability in the financial markets and to contain the growth of systemic risks. In addition to the quarterly macroprudential decisions on the loan cap (maximum loan-to-income ratio) and the countercyclical capital buffer, the decisions on the systemic risk buffer and the risk weights on housing loans were renewed at the end of June. At the same time, it was found that there is no need to revise the current capital requirements on the so-called O-SII[5] buffers, since there have not been significant changes in market structures in this regard.

Securities sector

The supervision of the asset management sector focused on valuation of non-UCITS funds investing in real estate as well as liquidity management and depositary activities. The FIN-FSA made a thematic review on the valuation practices and liquidity management for non-UCITS funds investing in real estate and the arrangements of depositary activities. As regards non-UCITS' valuation and liquidity management, the FIN-FSA found that there is further room for development in the practices for more challenging market conditions.

Together with the European securities markets supervisors, the FIN-FSA used its MiFID II[6] product intervention powers. The supervision of new IFRSs on revenue (turnover) and leasing contracts proceeded as planned. Supervision of the new standard on insurance contracts has advanced more slowly than planned. In addition, the requirements of the revised regulation on prospectuses were highlighted in the supervision of investor information provided by issuers.

Cooperation with the Ministry of Finance continued in the authorisation process concerning Euroclear Finland Ltd. The model for the ongoing supervision of Euroclear Finland was developed further, and it will be rolled out in 2020.

As a result of the financial crisis, the EU's regulation of auditing was significantly reformed. The FIN-FSA was appointed the competent authority for the assessment and monitoring of the activities of audit committees in public-interest entities (PIE). This expanded the FIN-FSA's scope of activities concerning audit committees.

Supervision of anti-money laundering

Resources for the supervision of anti-money laundering were strengthened considerably and the activities were organised into a separate division as of March. The division achieved its target headcount at the end of the year, which has enabled the specialisation of its experts on, for example, regulation, risk assessment, ongoing supervision and inspection activities. The FIN-FSA imposed its first sanction on misconduct in anti-money laundering in December 2019.

During the review year, the FATF and the European Commission assessed anti-money laundering and its supervision in Finland. The FIN-FSA takes the observations and recommendations made seriously and has taken them into account in developing its activities.

Cooperation with other Nordic supervisors in the ongoing supervision of anti-money laundering has been intensified. Quarterly meetings have addressed, among other things, risk assessments, actions concerning high-risk customers, transaction monitoring and other key AML areas. Based on the information, a view of the risk situation and AML development needs is formed.

Supervision of digitalisation

During the review year, a digitalisation strategy for supervision was prepared. The strategy describes the FIN-FSA's long-term tasks in the supervision of digital activities and the objectives for the supervisor's own systems, process digitalisation and development of expertise. The main objectives of supervision of digitalisation presented in the strategy will be elaborated on and implemented in the three-year initiative “Supervision of the digitalising financial sector”, launched at the beginning of 2020.

From 1 May 2019, the FIN-FSA began the registration and supervision of virtual currency providers based on new legislation. In connection with the registration process, the FIN-FSA will ascertain that the applicant has adequate procedures for anti-money laundering and countering terrorist financing, that the client assets are protected in an adequate manner and that its management and key personnel meet the reliability criteria. By the end of the review year, the FIN-FSA registered five virtual currency providers.

The FIN-FSA developed its own digitalisation expertise by, among other things, participating in the Financial Technology knowledge exchange programme, FIN-TECH, organised by the Faculty of Management and Business of the University of Tampere.

Support for Finland's EU presidency

The FIN-FSA participated in the preparation of three legislative initiatives during Finland's EU presidency. These were the taxonomy of sustainable finance, recovery and resolution legislation for central counterparties, and legislation on crowdfunding.

[1] AQR = Asset Quality Review.

[2] SREP = Supervisory Review and Evaluation Process.

[3] SI bank = Significant Institution, bank subject to direct ECB supervision.

[4] LSI bank = Less significant Institution, bank subject to indirect ECB supervision.

[5] O-SII = Other Systemically Important Institutions.

[6] MiFID = Markets in Financial Instruments Directive.

Investigation requests submitted to the police

2

Administrative fines

5

Public warnings

1

Penalty payments

0

Report on means to prevent excessive household indebtedness

On 1 October 2019, a working group operating under the auspices of the Ministry of Finland submitted its report Macroprudential supervision tools limiting household indebtedness. The working group was tasked with assessing methods that could be used to curb excessive indebtedness of individuals and households and its potential negative impacts. A further aim was to assess, based on international experiences, alternative effective tools and to make the requisite legislative proposals to achieve the set objectives. The chair of the working group was Director General Leena Mörttinen, and the working group included expert members from, in addition to the Ministry of Finance, the FIN-FSA, the Bank of Finland, the Ministry of Justice, the Ministry of the Environment, the Competition and Consumer Authority, the Guarantee Foundation and Finance Finland.

The working group was established against a backdrop of elevated household indebtedness. In the third quarter of 2019, households had debt amounting to approximately 127 percent of their disposable annual income. The ratio has doubled since the turn of the millennium. High indebtedness constitutes a macrostability risk at the level of the national economy. On the other hand, consumer credit and so-called payday loans have caused problems for individual indebted households.

The working group assesses household indebtedness as a whole. From a macrostability perspective, the risks are primarily related to households' high loan-to-income ratio and housing company loans, which have emerged to play a significant role in new-built construction. From the perspective of consumer protection, the risks are related to consumer credit with high interest rates and their granting practices.

Proposals of the working group

The working group proposes new tools to be included in Finnish legislation.

In terms of normal **housing loans**, the additional tools are so-called borrower-specific tools. At present, Finnish legislation includes only one such tool, the maximum LTV, or the loan amount relative to available collateral. The working group proposes as additional tools a maximum loan-to-income ratio, i.e. the total loan amount relative to household income, and a maximum repayment period to limit the maturity of housing loans.

The maximum loan-to-income ratio would be 450 percent, i.e. the amount of debt including all loans could not exceed 4.5 times the household's annual gross income. The lender could exceed this threshold in 15 percent of the loans they grant.

The working group proposes a maximum maturity of 25 years. The lender could exceed this threshold in ten percent of the loans they grant.

The working group does not propose changes to the maximum LTV ratio.

As a whole, the proposal has been made so as to tighten current housing loan practices only slightly using these new tools.

In terms of **housing company loans** in new construction, the working group proposes the limitation of the loan amount to 60 percent of the unencumbered price of the flats to be sold. In addition, a similar maximum maturity of 25 years is proposed for housing company loans in new construction as for housing loans (overrun allowed in 10 percent of loans), and there should be no interest-only periods following the completion of the dwelling. As regards the tax treatment of housing company loans, the working group did not make a separate proposal, since the matter is also included for review in the government programme.

As regards **consumer credit**, the working group proposes a tightening of the default risks and the assumptions used in the assessment of creditworthiness. The lender should not grant credit to an applicant with an unreasonably high probability of default. The proposal includes an authority for the FIN-FSA to issue regulations on maximum values for the assessment of the default risk.

The working group also proposes the transfer of the responsibility for the supervision of operators entered in the register of lenders and intermediaries of peer loans from the Regional State Administrative Agency of Southern Finland to the FIN-FSA. In addition, the working group finds it important that the initiative to set up a positive credit register proceeds quickly. According to the government programme, it is intended to be implemented in spring 2023.

Recommendations of the European Systemic Risk Board to Finland close to the working group's report

In September 2019, the European Systemic Risk Board (ESRB) recommended that Finland implement new measures concerning borrowers to ward off vulnerabilities related to the housing markets. The ESRB recommendations related to housing loans are very similar to the proposals of the working group of the Ministry of Finance. The ESRB recommends that Finland either adopts a maximum debt-to-income ratio or a limit to a borrower’s debt-servicing costs relative to income (debt-service-to-income ratio) as well as a maturity limit for mortgage loans. Furthermore, the ESRB recommends that the calculation of the loan-to-value ratio is revised so that only real estate assets could be considered as collateral. The Board did not have further recommendations concerning housing company loans or consumer credit. Neither did it propose maximum values for the abovementioned instruments.

In addition to legislative amendments, the ESRB recommends that the Finnish macroprudential authority, i.e. the FIN-FSA Board, issues recommendations on tightening actions to entities supervised by it until the new tools will have been implemented as part of legislation.

Follow-up to the proposals of the working group

The working group submitted its report to the Minister of Finance on 1 October 2019. The public consultation concerning the report ended in November 2019. Based on the proposals of the working group and the comments received, a policy will be prepared, and further actions will be taken within the Ministry of Finance as part of official duties.

Management of disability risk by pension insurance companies

The purpose of a pension insurance company is to provide social security – this also means that it may not pursue other insurance business than activities under the Employees' Pensions Act and Self-Employed Persons Pensions Act as well as reinsurance activities directly related to the abovementioned.

Pension insurance companies are instruments for the management of a public governance duty based on social security. When it joined the European Union, Finland negotiated an exemption to its Accession Treaty, based on which the Life Assurance Directive of the time (currently, the Solvency II Directive), is not applicable to pension insurance companies. This exemption is also based on the role of pension insurance as part of social security and the management of a public governance duty.

An employer in the private sector may arrange statutory pension insurance in its own pension foundation or fund, or by taking an insurance policy from a pension insurance company. Most employers have opted for a pension insurance company.

Competition among pension insurance companies

A key characteristic of the diversified pension system is competition between pension insurers. It is hoped that efficiency benefits will be achieved through competition. In pension insurance, however, the significance of competition is limited, since free competition is poorly suited to the social security nature of the activity and requirements concerning the administration of a public governance duty pose requirements for the content of the activity. Several characteristics of the pension system restrict competition. The insurance product is the same, and pension institutions are under an obligation to provide insurance. The operability of the system requires cooperation by pension institutions. Pension institutions in the private sector are responsible for each other's bankruptcies. Due to the joint liability for bankruptcies, individual pension institutions are not allowed to take excessive risks deviating from the competition.

Competition between pension insurance companies has manifested itself in different forms, some of which have not been sound. "Competition" may have been focused, for example, on loans granted to the customer, their collateral – or the management of disability risk. All these elements of competition are characterised by a focus on, rather than the insurance product itself, another element that can be attached to it. In this case, the ultimate and sole task of the pension insurance company to be a provider of social security may be blurred.

Management of disability risk

The management of disability risk is allowed for pension insurance companies when it consists of the provision of advice and information, comparable to claims prevention. In this case, the management of disability risk must focus on customers based on their risks, and its objective must be the reduction of the disability risk for which the pension insurance company itself is responsible. For the purposes of management of disability risk, a fee is levied as part of the pension insurance premium whose amount is determined on common grounds. The amount of the fee sets a limit on the scope of these activities.

Disability risk management services were launched in the pension sector in the 1990s, when the industry sought to train medical doctors in key considerations related to disability pension decisions. As these services have become more extensive, their content in the light of activities allowed for pension insurance companies has fallen under scrutiny, i.e. whether the services provided by the companies remain within the boundaries allowed by regulation. Under competitive pressure, the activities have begun to take on forms that compete with companies providing services maintaining working capacity in the wellbeing sector. This has made it difficult to differentiate services provided by pension insurance companies from the general enhancement of working capacity.

Summary

Pension insurance is part of social security. Its nature as social security defines the activities of its providers and their boundaries – only the conduct of statutory pension insurance is allowed. The management of disability risk is permitted for pension insurance companies as part of risk management belonging to the insurance business. It may not amount to more than that, however. The activities in pension insurance companies must be related to their statutory duties and be subordinate to them.

A more detailed view on the FIN-FSA's policy line on the management of disability risk can be obtained by studying the supervision release 55/2019 (in Finnish) published on 28 October 2019.

Green Deal and the supervisory perspective

In December, the European Commission published the Green Deal, an action programme for sustainable growth. It is a package consisting of over 50 actions, geared to steering Europe onto a development path toward carbon-neutrality by 2050. The programme as a whole is ambitious but necessary in light of the risks threatening our living environment.

The most crucial components of the Green Deal are related to the emissions trading scheme and its broadening, a considerable reduction in transport sector emissions, food production, various forms of economic support and also the financial sector. The role of the latter is naturally emphasised since achievement of the targets for 2030 alone requires further annual investment of EUR 260 billion, which requires a considerable activation of private investors.

Large and rapid changes increase risks in the financial sector

The proposed actions would change the structures of the economy in a significant manner. Economic transition periods have typically accelerated economic growth, but they also always involve uncertainties and threats. As an example, let us take the proposal concerning carbon border taxes, which might also lead to an unwanted outcome. Likewise, rapid transition from fossil energy sources to renewables affects EU member states differently, and therefore the economic impacts at country level may be contrary to what is expected, depending on the situation of each country at the outset. If all changes were to take place at the same time, the risks to the stability of the economy and the financial system would also increase steeply.

The demand for green investments is already about to exceed supply even in the absence of the Green Deal, and therefore there are concerns of an emergence of a green bubble. For the time being, the taxonomy for environmentally sustainable economic activities finalised towards the end of Finland's EU presidency only covers under five per cent of all investments, and therefore as the demand for green investments increases, so does the risk of overheating of the market. This is something both central banks and supervisors must keep a close eye on.

Prudential requirements providing security to the financial system

The FIN-FSA pays particular attention in the Green Deal to a proposal to grant concessions to the prudential requirements for the financial sector based on the greenness of the risk exposures – for example, the capital requirement for investments in energy-efficient properties could be reduced. The adjustment of prudential requirements is not being proposed for the first time, as the Commission action plan on sustainable finance published already two years ago suggested studying the matter, but the Green Deal takes a somewhat more stringent stance on the matter.

The capital requirements imposed on the exposures of banks and insurance institutions are based on loss probabilities calculated on the basis of historical time series. Previously, this approach was effective, or at least the best available. The risks associated with the sustainability of the environment pose a challenge to this way of measurement, however, since risks related to climate change, for example, are not yet apparent in historical data. This was highlighted when the European Insurance and Occupational Pensions Authority published its report on the matter in summer 2018. There are no easy solutions to the problem, since alternative forward-looking forecast models involve such significant uncertainties that their application as the basis for prudential requirements for the financial sector would be rather questionable.

The prudential requirements framework for the financial sector is a risk management tool laying the foundation for the stability and credibility of the system. If the decision is made to give up the pure risk-based foundation of the prudential requirements framework, from the perspective of the supervisor it would be safest to only increase the capital requirements for environmentally detrimental activities, even if this alternative is not mentioned in the Green Deal. Highlighting the threats and financial sector risks seems to be left as a task for supervisors and central banks.

Acknowledgement of risks supports climate actions

Although this discussion has presented threats related to the Green Deal, sustainability risks also pose a significant risk to the financial sector, and preparation for them is an important part of the management of systemic risks. However, the supervisor must also highlight and prepare for potential risks involved in a project such as the Green Deal.

EU banking legislation to complete the Basel III recommendations in preparation

In December 2017, the Basel Committee on Banking Supervision[1] published the long-prepared reforms to the Basel III standards issued by it in 2010. The reform package was followed by the reforms published by the Committee in December 2018 on disclosure obligations concerning banks' capital adequacy information and reforms concerning capital adequacy requirements for market risk published in January 2019. The reforms made by the Basel Committee seek to improve the comparability and transparency of banks' capital adequacy information and to restore confidence in the manner of calculation of risk-weighted assets. These also seek to reduce the risk of unfounded differences in capital requirements for different banks and in different countries.

The 2010 requirements of the Committee were primarily related to the overall level of capital requirements as well as own funds and their quality. The 2017 reforms are particularly related to the calculation of risk-weighted assets.

The updated Basel Committee recommendations are implemented in Europe by uniform EU legislation. The European Commission is currently preparing its proposal on amending the current capital requirements regulation[2]. The objective is to make the European legislation as harmonised as possible with the standards of the Basel Committee on Banking Supervision. However, banking in Europe involves special characteristics that may justify certain deviations from the recommendations of the Committee. Among others, the European Banking Authority has given its recommendation to the Commission on how the standards of the BCBS should be implemented in Europe.

Basel III reforms increase the risk-based nature of the standardised approaches and limit the capital benefits achieved through internal models

According to several reports, there is significant deviation among banks' risk-weighted assets that cannot be explained by differences between their risk profiles alone. In addition, internal models have been used to ease banks' capital requirements considerably in comparison with standardised approaches.

The Basel III reforms considerably increase the risk-based nature of the capital requirements for corporate, institutional and retail as well as equity exposures under the standardised approach to credit risk. In particular, the reforms refine the measurement of risk related to unrated corporate and institutional exposures as well as exposures secured by residential and commercial property.

The reforms concerning the internal ratings-based approach for credit risk are related to the possibility of the use of internal models and the values allowed for the key parameters of the models.

In addition, the standardised approach to market risk becomes more risk-based, and the approval and measurement of internal models is clarified. Also, the concept of the trading book is clarified in order to restrict the transfers of balance sheet items between the trading book and the banking book with the intent to reduce capital requirements.

The capital requirement for operational risk is calculated applying the standardised approach, which replaces all current calculation methods for the capital requirement for operational risk. The reformed method is more risk based than the present standardised approach. It simplifies the calculation framework for the capital requirement for operational risk, which in turn improves the comparability of risk-weighted assets for operational risk.

Besides operational risk, the option to use an internal model is removed from the credit valuation adjustment risk (CVA risk).

In addition, the leverage ratio requirement for global systemically important institutions is tightened by establishing an additional leverage ratio buffer for them.

Impacts and entry into force of Basel III reforms

In practice, the most significant reform is a minimum for risk weighted assets (output floor), set for banks applying internal models, which limits the capital benefits that can be gained from the use of internal models. The total amount of risk-weighted exposures applicable in capital adequacy calculation must be at least 72.5% of the total risk-weighted exposure amount calculated applying the standardised approach under the Basel III reforms.

Based on impact assessments made, the reforms made by the BCBS have a clearly larger impact on European banks than the average globally. The impact is targeted most strongly on banks making the most use of internal models and achieving the largest alleviations to their capital requirements relative to the standardised approach through the use of internal models. Internal models are used more than the average in, for example, the banking sectors of Belgium, the Netherlands and Nordic countries.

The reform has been assessed as reducing the capital ratios of the Finnish banking sector to a considerable extent. The impact on total capital requirements is primarily determined based on how the various capital requirements are taken into account in the calculation of the output floor, which limits the capital benefits from the application of internal models. The amount of the buffer of own funds in excess of the capital requirements would decrease significantly if the output floor were applied to all capital requirements based on EU legislation. In this case, the risk-based nature of the capital adequacy framework would weaken, since the impact on internal models on the bank's capital adequacy situation would be reduced.

The application of the output floor to all capital requirements under EU legislation would not be consistent with the BCBS standards. In accordance with the standards, the floor should only be applied to the minimum capital requirements (so-called Pillar 1 requirements), the capital conservation buffer and the countercyclical capital buffer as well as the additional capital requirements for credit institutions identified as other and global systemically important institutions (OSIIs and GSIIs).

In connection with the implementation of the Basel III reforms, special attention should be paid to not overly reducing the risk-sensitivity of the capital adequacy framework. In practice, risk-sensitivity could be fostered by, for example, excluding the the output floor from the calculation of capital requirements beyond the original Basel framework (the systemic risk buffer and discretionary additional capital requirements i.e. so-called Pillar 2 requirements). Another option would be to partly compensate for the growth of capital requirements due to the output floor by, for example, reducing the Pillar 2 requirements or macro-prudential requirements. Assessment of the feasibility of the latter alternative would require an impact assessment.

The standards of the Basel Committee for Banking Supervision concerning the reform of Basel III will enter into force on 1 January 2022. The output floor will be implemented gradually over a five-year transitional period. The European Commission will issue its proposal on new EU legislation during 2020. The date of entry into force of binding provisions depends, however, on timetable by which the EU member states and the Parliament reach an agreement on their content.

[1] The Basel Committee on Banking Supervision (BCBS), an international cooperation body of the central banks and banking supervisors of 28 countries, provides recommendations related to the supervision and capital requirements for internationally active banks in its standards. The standards of the Committee are not binding legislation, but its members are committed to implementing the recommendations into their national regulation. In Europe, the standards of the Committee are implemented in EU legislation, which must be complied with by all banks under law.

[2] So-called EU Capital Requirements Regulation 575/2013 (CRR) and its update 2019/876 (CRR2).

Fund liquidity issues

The purpose of fund liquidity management is to ensure that the fund is able to pay the redemption requests made by investors to the fund at a predetermined date. In order to ensure this, the investment strategy of the fund and the liquidity profile of its underlying investments and redemption policy must be mutually consistent. In practice, the investments of a fund open for redemptions on a daily basis must be very liquid, such as publicly traded financial instruments, whereas a fund paying redemptions on a quarterly basis may also invest in less liquid assets, such as real estate. In order to secure and ensure the liquidity of the fund, the manager must conduct appropriate stress tests and simulate how the fund's liquidity can also be secured in the most challenging market conditions, for example where concurrent large redemptions are directed at the fund and the liquidity of its investments is impaired. Fund managers must therefore make advance preparations to ensure that they are able to fulfil assurances given to investors also in the most challenging circumstances.

Liquidity problems in European funds

As a result of the Brexit referendum of 2016, many real estate funds in the United Kingdom were forced to temporarily suspend fund redemptions to ensure the equal treatment of investors. Many funds which had professed to be open for redemptions even on a daily basis were unable to pay exceptionally large redemptions to investors at a predetermined date. The backdrop of the large redemptions was concern about the development of the value of the real estate market due to the Brexit vote. In summer 2019, there was a liquidity scandal in the United Kingdom when the redemptions of a UCITS fund[1] managed by Woodford Investment Management had to be suspended, and the fund was liquidated later in the autumn. In the Woodford case, the underlying cause of the problems was too large investments in illiquid non-listed equities and large redemption orders made to the fund, in combination with the daily dealing of the fund. There were also other individual European funds facing similar liquidity problems during 2019.

Authorities concerned about fund liquidity

Funds' liquidity problems witnessed in 2019 have led to increasing concerns about fund liquidity both among securities supervisors and other financial sector authorities. Liquidity problems in the fund sectors could have a more extensive impact on financial stability and the functioning of the markets. Problems concerning funds' liquidity have been the subject of global debate. Both the FSB (Financial Stability Board), IOSCO (International Organisation of Securities Commissions) and the ESBR (European Systemic Risk Board) have highlighted the issue. The European Securities and Markets Authority (ESMA) has launched a pan-European supervisory initiative on liquidity management by UCITS funds, in which the FIN-FSA also participates. ESMA has also published guidelines on more detailed requirements on stress testing related to funds' liquidity management, which will enter into force in autumn 2020.

The FIN-FSA found shortcomings in liquidity management by non-UCITS investing in real estate

In the review year, the FIN-FSA made a thematic review of the valuation practices and liquidity management estate funds. The capital and assets under management of open-ended Finnish real estate funds have risen significantly over the past five years, and in the review year, Finnish households held approximately 65 percent of the capital invested in them. In total, open-ended real estate funds had over EUR 6.5 billion of capital.

The thematic review found that real estate funds must prepare more thoroughly both in their valuationpractices and liquidity management for challenges posed by market developments, and that the operators continue to have room for development in this area. The FIN-FSA found that many real estate funds had shortcomings in their stress tests. Since the net subscriptions in open-ended real estate funds have almost always been positive, Finnish managers do not yet have experience of situations where they have been unable to pay fund redemptions to investors.

The FIN-FSA will monitor follow-up measures concerning fund operators' valuation practices and liquidity management in 2020.

[1] UCITS = Undertakings for Collective Investment in Transferable Securities.

Audit committees' activities were assessed

As a result of the financial crisis, the EU's regulation on auditing was significantly reformed. The reformed regulation highlights the role of the audit committees of public-interest entities (PIEs, that is, listed companies, insurance companies and credit institutions) in promoting the credibility and quality of financial reporting and auditing. New tasks conferred on audit committees include issuing a recommendation on the appointment of the auditor and the approval of non-audit services.

The regulation also resulted in new tasks to authorities in monitoring the quality and competition in the market. The FIN-FSA was named the competent authority in the assessment and monitoring of the activities of PIEs audit committees, which further expands the FIN-FSA's scope of activity in this field: we have already been supervising the reliable governance of credit institutions and insurance companies. In other respects, the Board of Patents and Registrations is the competent authority referred to in EU regulation on auditing.

In the autumn, the FIN-FSA and the Board of Patents and Registrations arranged the first event for audit committees seeking to increase dialogue between audit committees and the authorities and to increase awareness of the authorities' activities. Furthermore, the results of a survey on audit committees conducted in the review year were presented at the event. The survey mapped the activities of audit committees in Finland. A more detailed report on the results of the audit committee survey will be published in early 2020.

Responsible utilisation of data in the financial sector

Advancements in digitalisation, artificial intelligence and the use of data provide financial sector companies with opportunities to improve the efficiency of their operation, develop new services and reshape their business models. At the same time, new risks arise. The second Payment Services Directive (PSD2) obliged payment account operators to build interfaces and provide them to third-party service providers. PSD2 regulation can be seen as leading the way towards Open Finance, where financial sector data is utilised more extensively through various interfaces. Inquiries concerning various data-based business models have also increased significantly in the FIN-FSA's Innovation HelpDesk.

The responsible and ethical utilisation of data has taken a more central stage in discussions. The General Data Protection Regulation, which entered into force in May 2018 set the framework for automatic decision-making, for example. The ethical guidelines prepared by the high-level expert group of the European Commission have been piloted this year[1]. The responsible use of data is also being promoted on the basis of the principles of the European data economy[2].

The European Insurance and Occupational Pensions Authority (EIOPA) appointed an expert group to develop principles for the responsible promotion of digitalisation in insurance activities[3]. Three Finns are participating in this work.

The FIN-FSA participates in working groups of the European Supervisory Authorities (ESA) addressing the responsible use of artificial intelligence, machine learning and the responsible utilisation of data in the financial sector and the resulting risks.

[1] Https://ec.europa.eu/digital-single-market/en/high-level-expert-group-artificial-intelligence.

[2] Https://www.lvm.fi/-/yhteiset-pelisaannot-vahvistavat-datatalouden-kehitysta-1023133. (in Finnish)
Https://api.hankeikkuna.fi/asiakirjat/2d0f4123-e651-4874-960d-5cc3fac319b6/1f6b3855-fc1d-4ea6-8636-0b8d4a1d6519/RAPORTTI_20191123084411.pdf.

[3] Https://eiopa.europa.eu/Pages/News/EIOPA-establishes-Consultative-Expert-Group-on-Digital-Ethics-in-Insurance.aspx.

Digitalisation, artificial intelligence and data use are transforming financial services. What does this mean for the customer?

The annual seminar focused on the impacts of the use of digitalisation, artificial intelligence and data on financial services, particularly from the customer's point of view.

The presentations and speakers of the day were:

- **Opening remarks**
  Anneli Tuominen, FIN-FSA
- **Digitalisation, big data and artificial intelligence are transforming financial services – European aspect**
  Jon Isaksen, European Commission
- **Digitalisation as a competitive advantage and the consideration of different user groups in the provision of services**
  Timo Ritakallio, OP Financial Group
- **Responsible utilisation of artificial intelligence and data**
  Janne Viskari, Population Register Centre (as of 1 January 2020 Digital and Population Data Service Agency)

Panels

- **Availability and usability of services**
  Samu Kurri, moderator, FIN-FSA; Virpi Dufva, Valli ry (Union for Senior Services); Leena Vainionmäki, Danske Bank; Katri Väänänen, Consumer Ombudsman; Piia-Noora Kauppi, Finance Finland
- **Opportunities of data use and challenges for companies and consumers**
  Hanna Heiskanen, moderator, FIN-FSA; Teemu Relander, IF; Heljä-Tuulia Pihamaa, SOK; Ilkka Lähteenmäki, Aalto University

Webcast recording and presentation material: seminaari.fiva.fi

Management and personnel

Staff 2019

All FIN-FSA staff

233

60 % 40 %

Management

20

55 % 45 %

Experts

194

57 % 43 %

Operative staff

19

89 % 11 %

Board

The Board sets the specific objectives for the activities of FIN-FSA, decides the operational principles, and guides and supervises achievement of the objectives and compliance with these principles.

In addition, the Board 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.

Board 2019

Photo: Markku Ulander, STT- Lehtikuva
Front row: Markku Pohjola, Marja Nykänen and Lasse Heiniö
Back row: Hannu Ijäs, Vesa Vihriälä and Martti Hetemäki

Chair **Marja Nykänen**	LLM (trained on the bench), Deputy Governor of the Bank of Finland
Vice Chair **Martti Hetemäki**	DSocSc, Permanent State Secretary, Ministry of Finance
Outi Antila (not in photo)	LLM (trained on the bench), Director General, Ministry of Social Affairs and Health

Vesa Vihriälä	DSocSc, Managing Director of ETLA, the Research Institute of the Finnish Economy (1–3/2019) State Secretary to the Prime Minister, Prime Minister's Office (3–6/2019) Professor of Practice, University of Helsinki (as of 7/2019)
Markku Pohjola	BSc Econ
Lasse Heiniö	MSc, (SHV) actuary approved by the Ministry of Social Affairs and Health

The deputy member for Marja Nykänen is **Katja Taipalus** (DSocSc, Head of Department, Bank of Finland). The deputy member for Martti Hetemäki is **Janne Häyrynen** (LLM, DSc Econ, Docent of Securities Market Law, Legislative Counsellor, Ministry of Finance). The deputy member for Outi Antila is **Hannu Ijäs** (LLM (trained on the bench), Director, Ministry of Social Affairs and Health).

The Secretary to the Board was **Pirjo Kyyrönen**, Senior Legal Advisor. The Board convened 32 times during the year. Fees to the members and deputies in the year totalled EUR 66,600. No separate attendance allowance was paid.

CVs of the Board: finanssivalvonta.fi/en > FIN-FSA > Organisation and tasks

Management Group

Photo: Antti Aimo-Koivisto, STT-Lehtikuva
Standing in front: Anneli Tuominen
Seated: Erkki Rajaniemi, Armi Taipale, Jyri Helenius and Sonja Lohse
Standing in the back: Kaisa Forsström and Samu Kurri

Anneli Tuominen	LLM (trained on the bench), BSc Econ Director General, Chair of the Management Group
Jyri Helenius	Msc Eng Deputy Director General, Head of Banking Supervision
Kaisa Forsström	LLM Head of Insurance Supervision
Samu Kurri	MSocSc Head of Digitalisation and Analysis
Jarmo Parkkonen (until 18 January 2019, not in photo)	LLM, MSc Econ Head of Supervision of Markets and Conduct of Business
Armi Taipale (as of 1 August 2019)	LLM, MSc Econ Head of Supervision of Capital Markets
Sonja Lohse	LLM (trained on the bench) Chief Advisor, Head of the Director General's Staff

Erkki Rajaniemi	DSc Econ, LicLL, LLM (trained on the bench) Advisor to the Management
Pirjo Kyyrönen (not in photo)	LLM (trained on the bench) Senior Legal Advisor, Secretary to the Management Group

The Management Group convened 58 times during the year. The Director General's salaries and fees totalled EUR 212,637. Salaries and fees paid to the other Management Group members totalled EUR 754,112.

Management Group's CVs: finanssivalvonta.fi/en/ > FIN-FSA > Organisation and tasks

Financial Supervisory Authority in brief

The Financial Supervisory Authority (FIN-FSA) is the authority for supervision of Finland's financial and insurance sectors as well as the macroprudential authority. 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 insured interests. The effectiveness and efficiency of our supervision must 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
- management companies
- the central securities depository
- the stock exchange.

In addition, we supervise listed companies' compliance with the disclosure obligation and securities trading. Our activities are mainly funded by the supervised entities. The number of personnel of the FIN-FSA's expert organisation amounted to 233 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 its supervised entities are on a sound footing and supervised entities hold sufficient 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 finanssivalvonta.fi/en/ > FIN-FSA > About FIN-FSA

Twitter

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.

Tweets	Followers
651	**3 310**

The most popular tweets concerned the following topics:

Financial Supervisory Authority permits temporary exemptions for implementation of strong customer authentication in online card payment

Press release 5 September 2019

Kickstart it – super civil servants out for a Friday morning run

Virtual currency providers to be supervised by the FIN-FSA – briefing for virtual currency providers on 15 May

Supervision release 26 April 2019 – 17/2019

Financial Supervisory Authority strategy 2020–2022

VALUES

Dynamic, responsible, effective, TOGETHER.

VISION

Supervisory effectiveness and efficiency among the best in Europe.

MISSION

Our primary objectives are to ensure financial stability and confidence in the financial markets and to enhance the protection of customers and investors and insured benefits.

Strategic objectives

Supervision responsive to changes in operating environment

- We target our supervision on the basis of the level of risk associated with the supervised entity and the significance of the issue at hand
- We take account of financial sector digitalisation in our supervision
- We recognise in our supervision the effects of climate change and climate policy
- We promote the preventive effect of anti-money laundering supervision, fostering the good reputation of Finland in anti-money laundering efforts
- We are well prepared for any disturbances in the financial sector and its services

High quality and efficiency

- We apply standardised and efficient processes
- In our supervisory activities, we make extensive use of both cooperation with EU authorities and ECB supervisory practices
- We use modern IT systems to strengthen supervisory effectiveness and efficiency
- We make use of data analysis to enable appropriate targeting of supervision
- We support our strategic goals through effective communication

Well-renowned expert

- Our staff has strong expertise that supports our objectives
- We cooperate closely with other authorities and utilise the expertise of stakeholders in areas where it is not expedient to build in-depth competence of our own
- We harness the competence of staff flexibly across organisational boundaries
- We have a supportive management approach that promotes a good working atmosphere and focuses on change management
- We are a highly respected employer of financial sector professionals

finanssivalvonta.fi/en > FIN-FSA > Values and strategy

Total number of supervised and other fee-paying entities

Fee-paying entities	31.12.2018	31.12.2019
Credit institutions	257	240
Investment firms	57	56
Fund management companies and AIFMs	43	45
Securities issuers	179	185
Stock exchange, clearing corporation	1	1
Finnish Central Securities Depository	1	1
Other fee-paying entities in the financial sector	163	185
Financial sector, total	**701**	**713**
Life insurance companies	10	10
Non-life insurance companies	36	35
Pension insurance companies	5	4
Unemployment funds	26	25
Pension foundations and funds	52	51
Sickness funds and other insurance funds	124	124
Insurance associations	5	5
Insurance brokers	86	86
Public sector pension funds	3	3
Other fee-paying entities in the insurance sector	45	42
Insurance sector, total	**392**	**385**
All supervised and other fee-paying entities, total	**1,093**	**1,098**

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

Expenses and funding

Expenses and funding, EUR thousands	2018	2019*
Staff expenses	18,638	22,622
Staff-related expenses	1,001	1,166
Other expenses	4,100	4,247
Services	1,230	1,351
Real estate expenses	1,358	1,397
Other expenses	1,512	1,499
Depreciation	1,034	945
Bank of Finland services	5,129	5,798
Total expenses	**29,902**	**34,778**
Funding of operations		
Supervision fees	26,333	31,462
Processing fees	1,432	1,814
Other income	1	7
Bank of Finland's contribution: 5% of expenses	1,495	1,739
Surplus carried over from the previous year	2,725	2,084
Surplus carried over to the next year	-2,084	-2,328
Total funding	**29,902**	**34,778**

*The figures for 2019 are unaudited and unconfirmed.

Set supervision fees

Set supervision fees, EUR thousands

Fee-paying entities	2018	2019
Credit institutions	11,204	16,687
Investment firms	1,322	1,171
Fund management companies and AIFMs	2,322	2,170
Securities issuers	2,461	2,458
Stock exchange, clearing corporation	337	315
Finnish Central Securities Depository	231	228
Other fee-paying entities in the financial sector	541	624
Financial sector, total	**18,418**	**23,653**
Life insurance companies	1,372	1,303
Non-life insurance companies	1,408	1,393
Pension insurance companies	2,344	2,379
Unemployment funds	1,327	1,180
Pension foundations and funds	276	241
Sickness funds and other insurance funds	96	95
Insurance associations	5	5
Insurance brokers	117	112
Public sector pension funds	665	644
Other fee-paying entities in the insurance sector	249	258
Insurance sector, total	**7,859**	**7,610**
Adjustment items carried over from previous years	56	199
Fee-paying entities, total	**26,333**	**31,462**

Processing fees

Processing fees, EUR thousands

Fee-paying entities	2018	2019
Credit institutions	58	23
Investment firms	48	41
Fund management companies and AIFMs	721	919
Securities issuers	142	231
Other fee-paying entities in the financial sector	44	82
Financial sector, total	**1,013**	**1,296**
Insurance companies[1]	60	35
Unemployment funds	18	25
Pension foundations and funds	45	32
Sickness funds and other insurance funds	34	33
Insurance intermediaries[2]	245	385
Other fee-paying entities in the insurance sector	17	8
Insurance sector, total	**419**	**518**
Fee-paying entities, total	**1,432**	**1,814**

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

Journal

Items initiated in the FIN-FSA's journal in (main functions and their major categories)	Number
Management	183
Regulation	89
Supervision	2,382
Examples of categories:	
Notifications; branches and cross-border activities	280
Articles of association, by-laws and regulations; confirmation and changes	175
Prospectuses	179
Letters by private citizens	302
Fit & Proper reports	314
Inspections	32
Authorisations; granting and expansion	27
Others	329
Examples of categories:	
Domestic cooperation	86
International cooperation	16
	2,983

In addition, 555 new applications for registration and 8,149 applications for change were processed in the insurance agent register outside the scope of the Journal.

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 23 occasions. The FIN-FSA was requested to make 18 submissions on draft Finnish legislation and 81 other submissions in its field of competence.