FIN-FSA
FINANCIAL SUPERVISORY AUTHORITY

Annual Report 2021

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Contents

Unless otherwise indicated, all texts refer to the year under review 2021

Year 2021 in figures

Number of staff
244
(2020: 236)

New insurance intermediaries
364
(2020: 563)

Requests for information
104
(2020: 102)

Supervised entities and fee-paying entities
1,209
(2020: 1,074)

Authorisations granted and extended + registrations
10 + 13
(2020: 21+20)

Total sanctions
11
(2020: 10)

Director General's review

Europe has woken up to a new reality after Russia's invasion of Ukraine. At the same time, hybrid influence and cyber attacks are an increasingly serious threat to society. Many uncertainties are also impacting the global economic outlook. Record-high government and household indebtedness is a cause for concern, and accelerating inflation, rising interest rates and the tense geopolitical situation are unsettling markets, while medium-term economic growth figures are being revised downwards. Hopefully, the pandemic will be overcome, but there is no certainty about this and new variants raise fears. Meanwhile, listed companies and the financial sector are reporting record results and the unemployment rate has returned to its pre-pandemic level. The economic recovery has been aided by various government support measures and the stimulative monetary policy of central banks. The need to strike a balance between recovery and tackling high inflation has been particularly evident in recent comments of the US Federal Reserve. In this uncertain situation, the importance of good and sound risk management is – once again – underlined in the financial sector, whether it concerns the credit or market risks of banks, the risk management of employee pension companies' investment activities or cyber risk preparedness.

Finland's financial sector still in good shape, credit risk management is central

Despite the pandemic, Finland's financial sector has fared well to date. The results of many actors are at record levels and the capital adequacy of the banking sector is better than the EU average. At the start of the coronavirus crisis, Finnish banks granted payment holidays to their customers and were able to provide finance to companies and households during the pandemic. This was partly due to the regulatory flexibility granted by supervisors and the fact that, due to tightened banking regulations, banks' capital adequacy ratios were at a higher level than in previous crises.

So far, the non-performing assets of Finnish banks are among the lowest in the EU, although a slight upward movement can be seen with regard to household loans. At the same time, however, the low level of non-performing loans raises concerns about whether all banks in Finland and elsewhere in Europe are conscientiously complying with the regulatory framework for credit risk management.

Basel III agreement important, reform will also increase stability in Finland

From the standpoint of the crisis resilience of the European banking sector, it would be important to reach agreement on globally agreed rules for the Basel III reform. In Finland, the regulatory package is still under discussion, as the overall risk weight floor of the reform particularly impacts those banks that use internal models for capital adequacy (so-called IRBA banks) and have a large number of low-risk residential mortgage loans on their balance sheets. According to our calculations, the proposed model will increase the capital requirements of Finnish banks by approximately 15%.

Personally, I would have liked an outcome that takes risks better into account, but I still do not see a particular problem with the proposed model for the lending capacity of the Finnish banking sector. The capital requirements imposed on banks in Finland as a result of the regulatory reforms following the financial crisis have not had a directly perceptible effect on the interest rates on bank loans. Neither, therefore, have they had a dampening effect on credit demand. The margins on residential mortgage loans granted by Finnish banks have long been among the lowest in the EU. A profitable, well-managed and well-capitalised banking sector will be able to provide finance to households and businesses also in the future. Financial stability is a prerequisite for sustainable economic growth.

Further harmonisation needed in EU on use of macroprudential buffers and definitions of demand-based instruments

In addition to microprudential supervision, macroprudential measures contribute to ensuring financial stability. The European Commission is currently consulting its stakeholders on how to develop the macroprudential framework. There are many aspects to this, such as increasing the buffers that can be released in normal circumstances and more flexible use of buffers in economic upswings and downturns. It would also be important to strengthen both the role of the European Banking Authority (EBA) in harmonising regulations and the role of the European Systemic Risk Board (ESRB) in deciding on buffers, as national macroprudential authorities apply requirements based on their own situation, and preconditions for buffer requirements are not sufficiently harmonised at the EU level. There are also many discrepancies in the practices of different countries.

Another shortcoming is lack of harmonisation of the definitions and use of borrower-based instruments (e.g. debt-to-income ceiling). The ESRB and the International Monetary Fund (IMF), among others, have recommended strengthening the macroprudential toolkit with these borrower-based instruments. Indeed, the views of expert organisations are important because political decision-makers are rather reluctant to adopt borrower-based instruments at the national level. In practice, it is households that bear the risk of weaker-than-expected economic development, as banks have incurred hardly any credit losses from residential mortgage loans.

The third area where structural changes would be urgently needed is the extension of macroprudential instruments to non-banking actors, such as funds.

EU supervisor for major insurance companies?

ECB-led banking supervision in the euro area has focused strongly in recent years on the fair and equal treatment of banks. For example, a separate function that makes ex-post assessments of the consistency of the supervisory review and evaluation process (SREP) has been established within the ECB. SREP assessments conducted with rigorous screening determine, in turn, the level of discretionary capital requirements and guidance. In the insurance sector, too, the European Insurance and Occupational Pensions Authority (EIOPA) is working to harmonise supervisory practices. EIOPA is not a supervisor, however, and does not have supervisory powers. It would therefore be appropriate to examine whether an EU-level supervisory authority should also be set up to supervise the largest insurance companies.

Climate risk preparedness must be improved in banking and insurance sectors

Both banking and insurance supervisors critically assess whether supervised entities’ preparedness for climate and sustainability risks (ESG risks) is sufficient. The means employed are self-assessments, supervisor assessments, and macro- and micro-level stress tests. According to the macro-level stress test published by the ECB last September, the financial sector will suffer significant losses if it does not take climate change into account in its operations. An ECB micro-level stress test is currently under way and its results will be published in July. Climate change must therefore be taken into account in financial sector actors’ risk management, business models, disclosure requirements, solvency and long-term strategy. In the FIN-FSA, preparedness for climate change has been one of the strategic priorities. This has been reflected both in the amount of training and supervision releases on the issue and in the oversight of sustainable finance disclosure obligations, particularly in fund products. The importance of monitoring disclosure obligations is underlined by the fact that investors’ interest in ESG products has increased the risk of greenwashing.

Cyber threats must be taken seriously

In terms of operational risks, the number of cyber attacks, in particular, has increased during the pandemic. According to the Bank for International Settlements (BIS), in the early stages of the pandemic, the financial sector was the target of most cyber attacks, immediately after the health sector. Cyber attacks have become a major threat to the functioning of society. To date, cyber attacks in the financial sector have been mainly denial-of-service attacks and they have failed to corrupt the systems of financial sector actors. Cyber attacks may increasingly be state-sponsored or launched by organised crime. We must respond to threats more seriously, and preparedness must be commensurate with this. The EU is also preparing new legislation (the DORA Directive), which aims to strengthen the operational resilience of actors and the system. In addition, the European Supervisory Authorities, together with the ESRB, have set up a coordination network to mitigate systemic risks arising from cross-border cyber attacks. The importance of these measures and of the precautions taken by individual supervised entities cannot be overstated. In Finland, the issue of the financial sector's preparedness for emergencies and serious incidents must also be resolved without delay. Serious hybrid and cyber attacks may otherwise even paralyse the financial sector, including payment services, and in this way jeopardise society's ability to function.

EU supervisor for money laundering prevention – risk-based regulation and supervision should also be strengthened

Work to prevent money laundering and terrorist financing (AML/CFT) also aims to reduce criminal abuse in the financial sector. AML requirements have tightened significantly in recent years. The FIN-FSA has bolstered its activities in this sector in both regulation and supervision. National supervision is not sufficient, however, and experience has shown that there are qualitative differences in supervisors' actions. The proposal to establish an EU-wide Anti-Money Laundering Authority (AMLA) must also continue to be supported. It should base its work on the good experiences gained from the ECB's banking supervision. The AMLA would supervise the largest financial sector actors, harmonise regulations and coordinate the activities of national supervisors.

In the future, regulations, supervised entities' measures and supervision should become more risk-based in order to receive better value for the euros spent in preventing money laundering and terrorist financing, i.e. so that it would be possible with the investments made to block the movement of criminal proceeds better. It would also be valuable to carry out impact assessments of new regulations, to evaluate the benefits of the regulations – in particular, the detection of significant cases of money laundering vis-à-vis the inconvenience caused to low-risk customers.

Pension companies' role in implementing social security restricts their freedom of action

The role of pension companies in society is one of the enduring themes of Finnish social discussion. Pension companies are important implementers of social security. Their activities – with the exception of investment activities – are non-economic in nature. It is worth remembering that the waiver granted by the EU to Finnish pension companies from complying with the Life Insurance Directive requires that this role be maintained. Employee pension insurance actors should also continue to remember the nature of the industry and its regulatory structures and obligations.

The willingness of pension companies to increase investment risk also presents its own challenges. The joint and several liability of pension companies requires strict risk management and an investment policy appropriate for implementation of the occupational pension scheme. Under no circumstances should joint and several liability result in moral hazard. Achieving the target rate of return, moreover, should not lead to excessive risk-taking. An examination of solvency regulations from different perspectives on the basis of a transparent expert discussion would be appropriate.

Increased need for financial literacy

Investing in shares has grown in popularity, particularly among young investors. This is a positive development. At the same time, however, the risks of investing have grown. The year under review saw a large number of listings, including the first SPACs (Special Purpose Acquisition Companies). At the same time, speculative investments in both meme stocks and cryptocurrencies increased. Authorities warned of the risks of exotic instruments and non-transparent pricing as they waited for further regulation of crypto assets. Heightened market uncertainty, inflation prospects, concerns about rising interest rates and the prolongation of the pandemic, and in particular the war in Europe, have at least temporarily lowered asset values. New investors have learned a lesson on the risks of investing.

As the number of retail investors has grown, so has the need for reliable and easy-to-understand investor information. Information should reach new investors through different channels. The Bank of Finland's proposal for a national financial literacy strategy aims to make Finns the most financially literate people in the world by 2030. I wholeheartedly support this goal. In achieving this, schools will also have a more pronounced role in teaching the fundamentals of financial literacy.

Challenges for the FIN-FSA

In the spring, we commissioned an external consulting firm to evaluate our operations in comparison with our peer supervisors. The evaluation described our strengths but also areas for development. In the consultant's view, the latter were mostly related to a lack of resources. In the last 3–5 years in particular, our peers have increased their capacity to meet the challenges of stricter and more complex regulations and the changing operating environment. It turned out that the FIN-FSA's costs are around 30% lower than those of our peers, despite the fact that the FIN-FSA's resources have also been increased by around a third over the last five years. When preparing a future strategy, the FIN-FSA should consider its risk appetite: shortcomings in resourcing are also easily reflected in the outcomes of supervisory work.

In order to protect the health of our staff during the pandemic, we at the FIN-FSA have been teleworking for nearly two years. While teleworking has the potential to improve work efficiency, it may reduce the sense of community and the team spirit of the workplace. In these circumstances, it is gratifying that the result of the personnel survey of all FIN-FSA employees had developed positively and was at a satisfactory level (A+) and that the result of a stakeholder survey we commissioned had moved in a positive direction and was at a good level. There is no reason for complacency, however; a good atmosphere must also be maintained in the future, and our activities and efficiency must be developed further. Boosting efficiency requires clear and standardised processes, tight tracking of goals, modern tools, easy access to data, and use of robotics and artificial intelligence. To enhance our operational efficiency, it is also important to successfully complete the digitisation projects we have started.

For a supervisor, independence is a prerequisite for credibility

Last year, the European Supervisory Authorities conducted a study on the independence of national supervisors. Independence includes, in particular, financial and operational independence and the avoidance of conflicts of interest. Personally, I feel that the cornerstones of the credibility of the supervisor are independence and a high level of professionalism, combined with adequate resources. Independence means independence from supervised entities, political decision-makers, various stakeholders, lobbyists, media. Without independence, there is no credibility. I also want to leave this message for my successor.

In conclusion

During the year under review, in addition to my own work, I served for seven months as Interim Chair of the European Securities and Markets Authority (ESMA). The experience shed light on the multidimensional nature of European decision-making and the demanding role of the Authority in preparing European regulations and harmonising supervisory practices. Without the selfless support of ESMA's staff, I would not have been able to perform my duties. Many thanks to them.

This is my final Director General's Review. I have served the FIN-FSA for well over twenty years. It has been a rich and fulfilling time, and few are the days that I would have given away. The operating environment has changed enormously during these years, as have the competence requirements. The lessons of the financial crisis are reflected both in regulations and new supervisory structures and in the depth of supervision. The ECB in the euro area and the FIN-FSA in Finland have both redeemed their places. I am not going to speculate on how the business models and structures of the financial sector will change in the future, how much digitalisation, new actors and increased use of data will affect service provision and competition between different players. The supervisor must, in any case, be prepared for all kinds of changes.

I have had the opportunity to do socially important work in support of the confidence felt towards the financial sector, safeguarding the interests of the insured, and the stability of the financial sector. I have been able to serve among professionals in a working community with high ethical standards and an agreeable, informal working atmosphere. For that, FIN-FSA employees, I thank you all.

In Helsinki on 8 March 2021

Anneli Tuominen

State of financial markets

During the review year, the global COVID-19 pandemic continued for a second successive year. The economies of the OECD[1] countries recovered very quickly from the recession of the previous year. Consumption, investment and trade increased. This growth was supported by economic policy. Central banks' monetary policy remained accommodative through securities purchases and low policy rates, while government borrowing continued to increase – these factors contributing to the support of financial market activity. As the COVID-19 pandemic continued, however, there was, and still is, high uncertainty surrounding economic developments. The full impact of the pandemic on different sectors of the economy or on the behaviour of households and businesses is yet to be seen.

The most significant change in the international economy in the review year was the acceleration of inflation. This was due to increased demand as the economy recovered, supply bottlenecks in the international economy as a result of the pandemic, and a sharp rise in energy prices. In the euro area, the rise in consumer prices was the fastest since the creation of the euro area, and in the United States the fastest for nearly 40 years. Inflation expectations based on market prices also rose.

The acceleration of inflation did not significantly affect the broader pricing of financial markets during the financial year. Changes in long-term interest rates were relatively small during the review year and in the euro area, for example, government bond yields with a maturity of ten years were consistently very low or negative. Similarly, inflation-adjusted real interest rates remained negative and many different broad-based stress or volatility indices describing the state of financial markets reflected market composure.

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1 OECD = Organisation for Economic Cooperation and Development.

On the equity markets, equity indices everywhere rose due, among other things, to the continued good performance of companies and the stimulative economic policy. Equity valuation levels remained generally high, although at the end of the year equity prices fluctuated more than at the beginning of the year. Pricing in the equity and financial markets was also impacted by new phenomena. High-risk equity trading carried out by small investors active in social media had a strong impact on the valuation trends of individual shares. Trading volumes in many cryptocurrencies increased. Similarly, combating climate change and the demand for sustainable financing increasingly affected financial sector and market activities during the review year.

In Finland, the development of the economy and financial markets paralleled international trends. The fastest phase of economic recovery was in the year under review. The situation and profitability of companies in different sectors varied widely amidst the COVID-19 pandemic, but many economic indicators developed positively. A high number of residential mortgage loans were taken, the housing market was buoyant and house prices rose, particularly in the early part of the year. Towards the end of the year, the rise in prices was more moderate. Household indebtedness continued to rise as debt grew faster than income.

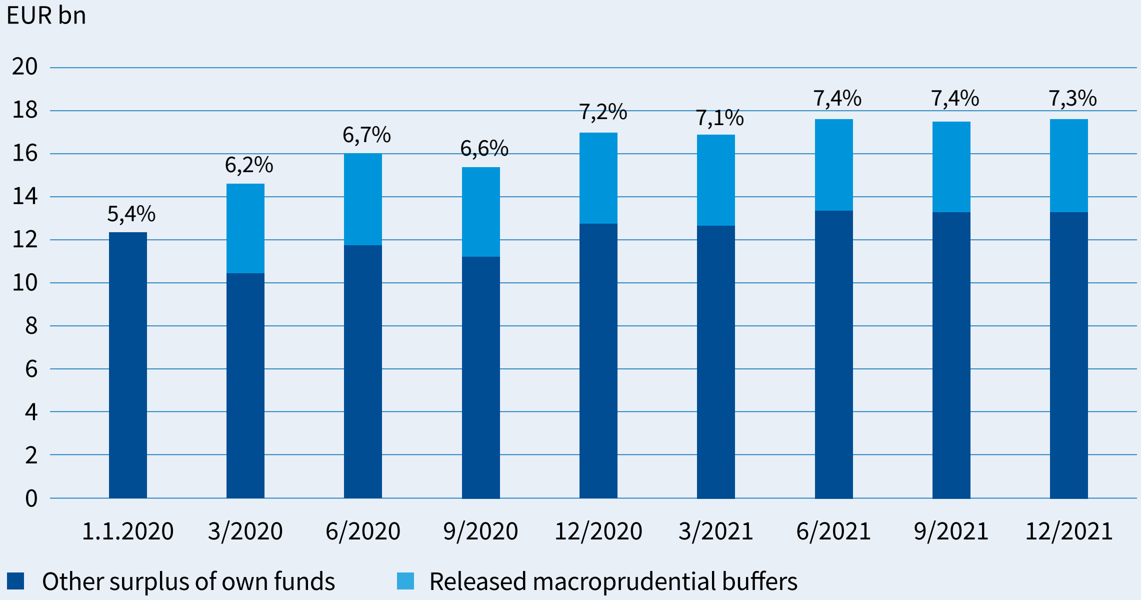
At the beginning of 2022, operating environment risks have increased rapidly. Continued higher-than-expected inflation has brought forward expectations of monetary policy tightening, which has led to a rise in interest rates and a sharp fall in equity market indices in January. In addition, the deterioration of the geopolitical situation, in particular, poses significant and, in some cases, difficult-to-assess risks for financial sector actors and, more broadly, for the operating environment as a whole.

Capital adequacy position of banking sector remained strong in uncertain operating environment – income growth was stable

Capital adequacy ratios in the banking sector changed moderately despite the uncertain economic situation. A continued strong financial performance boosted earnings and contributed to supporting capital adequacy ratios. The capital adequacy ratios of the Finnish banking sector remained stronger than the European average. In the review year, the banks' own funds surplus remained stable and capital was well above overall capital adequacy requirements.

The operating profit of the banking sector increased compared to the previous year, driven by positive development of income and lower impairments than in the comparison year. Net interest income was still the most significant income item for Finnish banks, although the share accounted for by commissions and fees has risen in recent years. In addition to growth of the credit stock, the rise in net interest income was supported by an increase in cheap central bank financing and the consequent lower interest expenses. The level of non-performing loans remained moderate and was still among the lowest in Europe.

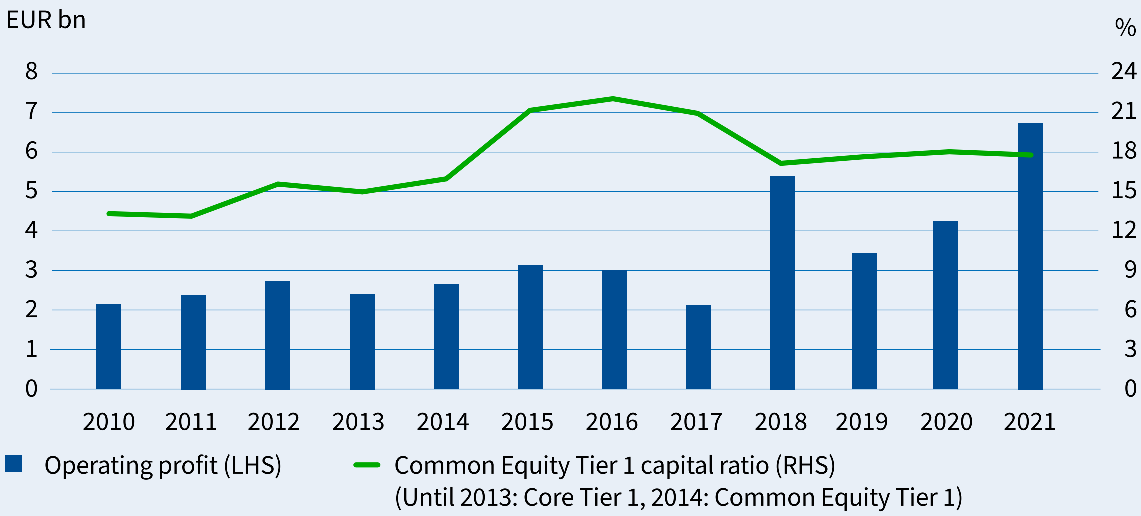
Finnish banks' own funds surplus compared with capital adequacy requirements



- Above the bars, size of buffer in relation to the risk-weighted assets.

Source: The FIN-FSA

Operating profit and CET1 capital ratio of the domestic banking sector



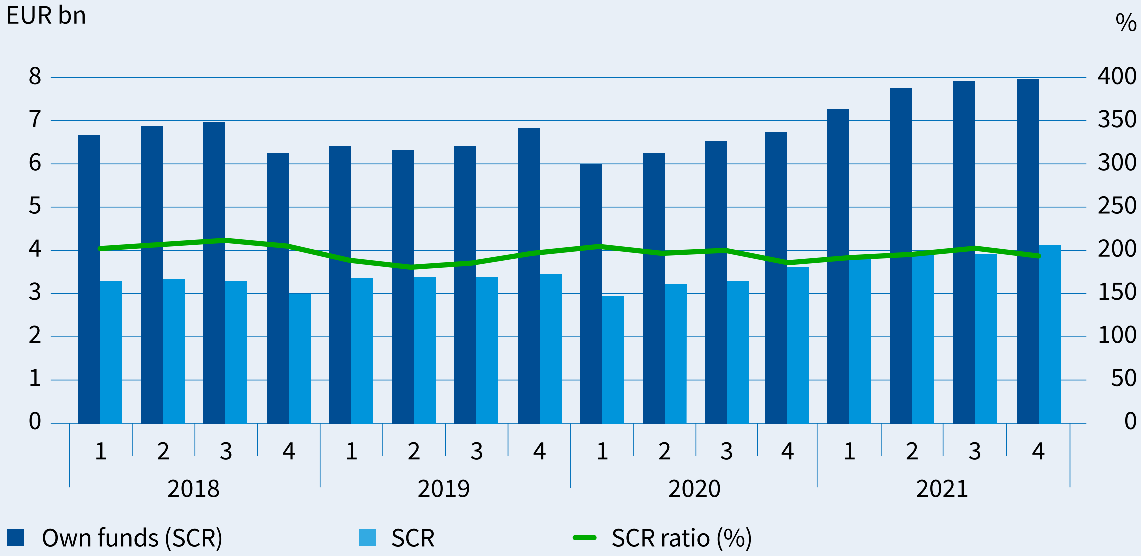
Source: The FIN-FSA

Life insurance companies' solvency improved and premiums written increased significantly

The solvency ratio of the life insurance sector strengthened during the review year, although it declined in the last quarter of the year. The rise in interest rates in the early part of the year reduced technical provisions in relation to investment assets. The amount of Solvency II own funds increased to a record level. Fixed-income investment losses weighed on total investment returns, but equities performed very well.

Life insurance companies' premiums written developed excellently, driven by investment-linked insurance policies. After a weak comparison year, demand recovered throughout the life insurance market. Insurance premiums written were also higher than claims paid. Companies' profitability was at a good level.

Solvency of life insurance companies



Source: The FIN-FSA

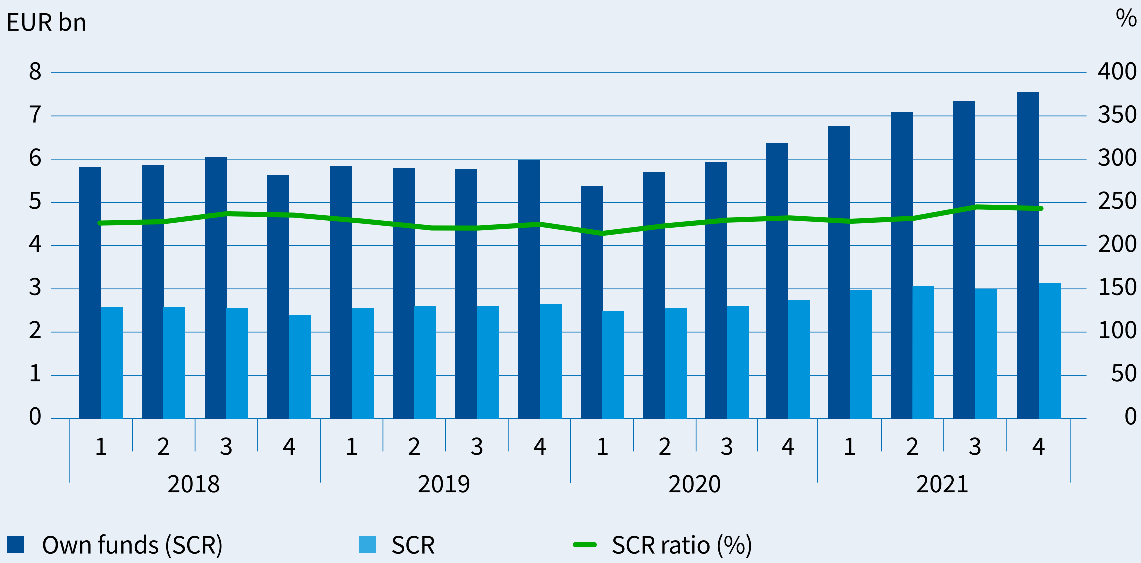
Non-life insurance companies' solvency strengthened by growth in own funds

The solvency ratio of the non-life insurance sector reached its highest level since the Solvency II regime took effect, i.e. in 2016. Investment returns and income from insurance business increased own funds in each quarter of the year under review, and solvency strengthened.

Investment returns accrued mainly from equity investments. Nearly a third of the investments of non-life insurance companies were equity investments. Returns on fixed income investments were negative, as interest rates remained low and started to rise at the beginning of the year under review. The rise in long-term interest rates, on the other hand, reduced the market value of insurance liabilities, which in turn increased own funds.

The insurance business result was very good. Claims expenses, excluding the effect of changes in reserving bases, were at the lower level of 2020. The pandemic reduced mobility and increased teleworking, which led, in particular, to fewer than average workers' compensation claims. The profitability ratio, the combined ratio excluding the effect of changes in reserving bases, strengthened compared with the end of 2020. The adequacy of technical provisions was increased in euro terms by more than in 2020.

Solvency of non-life insurance companies



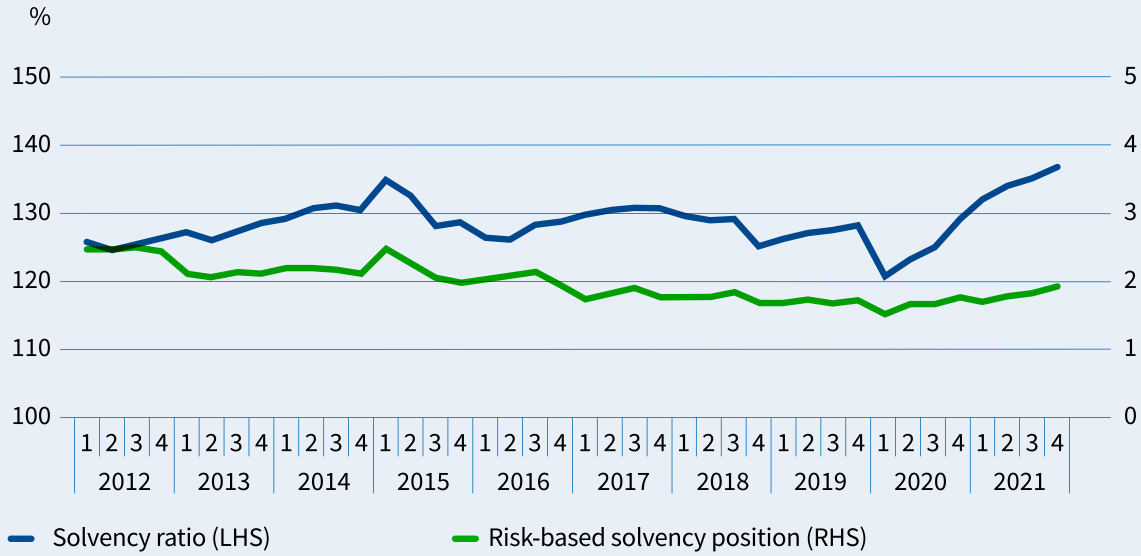
Source: The FIN-FSA

Employee pension insurance sector's solvency strengthened by financial market developments

The solvency ratio of the employee pension insurance sector continued to rise during the year under review. Investment assets grew, mainly due to equity returns, and other investment categories supported this growth. The risk-based solvency position also improved, despite the fact that the proportion of equity investments in the allocation of investments grew, increasing the risk inherent in investment assets; the ratio of the solvency limit, i.e. the capital requirement, and investment assets rose to its highest level since the solvency legislation that entered into force in 2017.

The wage bill started to rise again in the review year after a dip caused by the coronavirus situation.

Employee pension insurance sector's solvency development 2012–2021



Source: The FIN-FSA

Due to an amendment of legislation that entered into force at the beginning of 2017, the solvency position of 2017–2021 is not comparable with previous years.

Solvency ratio is calculated by dividing pension assets by technical provisions.

Solvency position is solvency capital divided by the solvency capital requirement.

FIN-FSA-related topics most visible in the media

1. **Profit distribution recommendation to credit institutions**
2. **Loan cap on residential mortgage loans**
3. **Supervision of Elo pension insurance company**
4. **Nordea service disruptions**
5. Supervision of Privanet Securities

Supervision responsive to changing operating environment

Financial sector must prepare for unfavourable developments despite its good situation

The situation of the financial sector is still good after two years of the COVID-19 pandemic, but there are also many uncertainties associated with economic development. These are described in more detail in the chapter State of financial markets.

Financial sector actors must, indeed, prepare for less favourable developments than projected, such as changes in financial market pricing or an increase in banks' credit losses. Although the financial position of the sector has remained good during the second year of the COVID-19 pandemic, the risks associated with the development of the pandemic and the economy have remained high.

The FIN-FSA has continued enhanced monitoring and analysis of supervised entities' risk situation with regard to the development of the COVID-19 pandemic and its economic impacts. Some non-life and life insurance companies reported on their situation more frequently. The FIN-FSA's banking supervision carried out enhanced monitoring of the development of the credit risk situation up to September. The FIN-FSA also continued to assess the effects of the COVID-19 pandemic on the financial reporting of listed companies.

The changed situation status of the operating environment was also reflected in macroprudential decisions in the year under review. At the end of June, the FIN-FSA Board decided to maintain credit institutions' lowered structural capital requirements, i.e. at the level at which they were set in spring 2020 due to the COVID-19 pandemic. At the same time, the Board decided to tighten the loan cap on housing loans for non-first-time home buyers by five percentage points to the pre-pandemic level of 85%. The new policies for macroprudential measures were prepared for the post-pandemic period so that the new policies and decisions based on them can be implemented in the first half of 2022 in a manner appropriate to the pandemic and economic situation.

The ECB[2] and the EBA published the results of bank stress tests in July. The FIN-FSA published the results of national tests at the same time. Based on the stress tests, the capital adequacy of Finnish credit institutions would withstand a significant deterioration in the operating environment. The largest Finnish credit institutions participated in the EBA and ECB stress tests, and other Finnish credit institutions in the national stress tests.

The results of an EIOPA stress test were published in December. The test confirmed that the vulnerabilities of the EU[3] insurance sector primarily relate to market risks, in particular interest rate risk. The average solvency of the sector decreased and some participants even fell below the solvency capital requirement. In all cases, however, assets still exceeded the amount of technical provisions. From Finland, OP Group and Sampo Group participated in the test.

Investigation requests submitted to the police

8

(2020: 6)

Penalty payments

2

(2020: 2)

Public warnings

1

(2020: 1)

Administrative fines

0

(2020: 1)

[2] ECB = European Central Bank.
[3] EU = European Union.

Focus of banking supervision on management of non-performing loans

Due to the pandemic situation, the FIN-FSA's banking supervision focused on credit risks and particularly on processes related to non-performing loans. Inspections in this area revealed in the case of many banks shortcomings in compliance with rules governing the classification of non-performing loans. In its inspection letters, the FIN-FSA called for these deficiencies to be rectified.

Banks under the ECB's supervision submitted a self-assessment and action plan on the state of their climate risk management in relation to the recommendations issued by the ECB in 2020. Based on these, the joint supervisory teams of the ECB and the FIN-FSA made their own assessments and issued bank-specific recommendations. In the future, assessment of climate risks will be included in all ECB supervisory assessments.

The EBA's extensive regulatory reform of banks' internal ratings-based (IRB) approach mostly entered into effect in early 2022. The reform requires banks that use the IRB approach in their capital adequacy calculations to develop their operating practices and submit applications for changes to the FIN-FSA for assessment. In its assessments of the development of IRB-model methodologies, the FIN-FSA found that banks have not been able to prepare fully for the change as required by regulations; development work will continue in the coming years.

In insurance sector supervision, attention has been paid to claims handling times, determination of entrepreneurs' earned income, calculation of solvency of groups, and timeliness of real estate investment valuation methods

The FIN-FSA identified delays in claims handling processes and overruns of statutory deadlines in non-life insurance companies' statutory motor liability and workers' compensation insurance. In the review year, the FIN-FSA developed a new reporting model for the processing times of these types of insurance, and will start collecting data in accordance with the model in 2022.

The FIN-FSA studied the valuation methods and the timeliness of valuations of real estate owned by pension insurance institutions as well as non-life and life insurance companies. The survey found that valuations are generally updated with sufficient frequency. The FIN-FSA also investigated for non-life and life insurance the calculation at group level of the solvency requirement. In the opinion of the FIN-FSA, the deficiencies and errors identified on the basis of the thematic assessment do not significantly affect the solvency ratios of groups.

The FIN-FSA conducted a study on the implementation, under the Self-employed Persons' Pensions Act (YEL), of entrepreneurs' pension security. The pension insurance institution must confirm for entrepreneurs the annual earned income corresponding in terms of quality and time to the value of work input. The FIN-FSA found that, in the confirmation of earned income, pension insurance institutions do not, however, comply with legal requirements nor their own guidelines and materials.

The number, expenditure and processing times of unemployment funds' applications were closely monitored. At the same time, there was a prompt response to possible changes in them.

Prospectus inspections at record level, changes in operating environment and regulations impacted capital market supervision

The number of prospectus applications received by the FIN-FSA (including the first SPAC[4]) was a record high. In the review year, prospectus applications were of variable quality. For this reason, the FIN-FSA had to announce in the summer that it may have to use the additional time permitted by the EU Prospectus Regulation to inspect prospectuses. The quality level of prospectus applications improved at the end of the year under review.

Changes in the operating environment and regulations have also impacted capital market supervision. Fund products and related interpretations have been a particular focus of the monitoring of the Sustainable Finance project. Fund rules were assessed particularly for their compliance with the new disclosure requirements related to sustainable finance. On its website, the FIN-FSA has published its own interpretations related to sustainable finance as well as interpretations of the European Supervisory Authorities and the European Commission.

Two thematic assessments of liquidity management in the fund sector showed that there is still room for improvement in investment funds' liquidity management. A thematic assessment of investment-based crowdfunding showed that there were particular shortcomings in describing risks and the companies' financial situation.

AML Supervision

The FIN-FSA has continued to assess supervised entities' anti-money laundering procedures through inspections and ongoing supervision. Inspections have focused on the banking and payment service sectors. Ongoing supervision included collaborating in periodic overall comprehensive assessments of domestic banks, the work of colleges of supervisors established for significant cross-border supervised entities, and participation in processing of new registration and authorisation applications.

Ongoing supervision was developed by expanding participation in international anti-money laundering cooperation and taking the findings of the supervisor's assessments better into account in risk assessment and supervisory work.

In 2021, an important operational development issue was the reform of the method and organisation of AML inspections. During the year, three previously initiated AML inspections were completed and a fourth was submitted to the subject of the inspection for final comments. Three new inspections were initiated during the

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[4] SPAC = Special Purpose Acquisition Company.

autumn. The AML division has an inspection capacity for around five inspections in a 12-month time window.

Another significant development target and priority in 2021 was regulatory reform. The FIN-FSA participated in the work of a Ministry of Finance legislation working group and launched its own reform of its regulations and guidelines focusing on anti-money laundering legislation.

The FIN-FSA participated in the work of a Ministry of Finance-led working group on the reform of the Money Laundering Act. A Government proposal prepared on the basis of this work was submitted in January 2022. Partly based on the reform, the FIN-FSA regulations and guidelines on prevention of money laundering and terrorist financing were approved and circulated for comments in December 2021.

Supervision of cyber and ICT risks

With the digitalisation of the financial sector, it is even more important to prepare for various information security and cyber threats. Regulations oblige financial sector actors to ensure an adequate level of information management, information security and business continuity. The FIN-FSA monitors the fulfilment of these requirements during new entities' authorisation and registration phase, in inspection activities and in other supervisory work, for example by monitoring significant disruptions in the services provided by the supervised entities as well as in payment and information systems.

In recent years, the FIN-FSA has inspected the ICT and information security risks of online banking and payment systems as part of its monitoring of operational risks. In addition, it has surveyed more broadly in its thematic assessments the management of the ICT and information security risks of different supervised entity sectors. Preparedness for information security threats is essential in ensuring the continuity of the financial sector's functions and services, and these inspections and thematic assessments will continue in 2022.

The FIN-FSA also analyses more broadly supervised entities' digitalisation maturity level and risk management. In the first phase, a thematic survey was conducted on the digitalisation maturity level of different supervised entity sectors. As follow-up work, digitalisation risks and their management tools, such as the management of information security and data protection risks, will be analysed on the basis of the collected data. This work is scheduled to be completed by the end of Q1/2022.

The FIN-FSA participates in security of supply work. For example, in the pool of financial actors and public authorities, the aim is to work together to safeguard the operating conditions of organisations critical for security of supply, and thereby of society as a whole, in all circumstances. Evaluating and preparing for cyber threats is a vital part of this preparedness work within the security of supply organisation. The FIN-FSA also participated in the financial sector's FATO 2021 joint preparedness exercise.

FIN-FSA authorised representative in two supervised entities

On 11 March 2021, the FIN-FSA appointed an authorised representative to supervise the activities of Privanet Securities Ltd. The justifications were, among other things, many cases of serious failures and violations perceived in the company's activities, such as in the management of conflicts of interest. The FIN-FSA withdrew the authorisation of the said supervised entity on 2 July 2021.

The FIN-FSA decided to continue the authorised representative supervision imposed on Elo Mutual Pension Insurance Company on 14 December 2020. The justification for the authorised representative supervision was, among other things, the way in which the company had fulfilled the purpose of its statutory duties and activities, in particular with regard to investment activities, solvency, risk management and management responsibilities.

Strategic priorities developed through projects

The project **Supervision of the digitalising financial sector** conducted an analysis of the digitalisation maturity level of the financial sector and will continue its analysis work in 2022 with an analysis of risks and controls. The final results of the project will be taken into account in the planning of future activities.

The project **Preparedness for disruptions** updated the main outlines of crisis plans covering key supervisory sectors and supervised entities and implemented a crisis communications model. The project also reviewed contingency plans for bank payments and cash services as well as for critical services of securities market participants.

The project **Integration of climate change into supervision** focused on communicating and providing training to both our own personnel and stakeholders. During the year, the FIN-FSA published several supervision releases, provided internal training for its personnel and held a webinar for supervised entities in September. The webinar attracted a record level of interest and reached its target audience well. The FIN-FSA also published on its website a questions and answers section, containing interpretations of questions asked about financial sector regulations.

There have, however, been challenges in finalising EU regulations, which may delay the start of supervisory work. The FIN-FSA continues to participate in the preparation of regulatory and supervisory guidelines in the EBA, ESMA and EIOPA.

In the review year, the FIN-FSA became a member of the Network of Central Banks and Supervisors for Greening the Financial System (NGFS). The network develops practices aimed at improving conditions for sustainable financing and identifying the risks to the financial sector from climate change. Through the network, supervisors share best supervisory practices for sustainable finance.

AML Supervision focuses on ensuring that the ability of supervised entities to prevent money laundering is at the level required by law. The activities of the review year are covered in more detail in the section AML Supervision of chapter Supervision responsive to changing operating environment. A presentation on activities was made to the Parliamentary Supervisory Council during the year under review.

Themes of 2021

Crypto assets emerged as a salient phenomenon in 2021. They were the most frequently asked theme in the FIN-FSA's Innovation Helpdesk in the review year, and a growing interest towards crypto assets has also been evident at the FIN-FSA in processing applications for registration of new service providers. This topic is discussed in the article "Crypto assets attract investor interests – risks to be reined in through regulation".

In the review year, discussion about investments increased in many channels. The FIN-FSA appeared in the media during the year in this context, seeking to provide guidance on regulation-compliant and appropriate investment discussion. This topic is discussed in the article "New investors, new sources of information".

Household indebtedness has risen for over 20 years now, standing currently at an all-time high: at the end of the review year, almost 400,000 Finns had a payment default on record. This phenomenon and the requisite responses are discussed in the article "New tools needed to contain household indebtedness".

Phenomena brought about by climate change pose physical and transition risks to the financial sector, which must be taken into consideration by market participants. It is also important to have adequate and consistent information on sustainability factors, since investors have a growing preference for sustainable investments. Sustainability factors are considered in the regulation and supervision of the financial sector, on the one hand from the perspective of risk management, and on the other hand from the perspective of the disclosure obligation. This theme is dissected in the article "Sustainability issues as part of financial market participants' risk management and disclosure obligations".

THEMES

Crypto assets attract investor interests – risks to be reined in through regulation

Crypto assets emerged as a salient phenomenon in 2021. They were the most frequently asked theme in the FIN-FSA's Innovation Helpdesk last year, and growing interest towards crypto assets has also been evident at the FIN-FSA in processing applications for registration of new service providers.

One factor behind the increased interest was the appreciation of the most widely known crypto asset[5], the virtual currency[6] Bitcoin, which hit the headlines in early 2021. Virtual currencies are not typically issued or guaranteed by central banks, and they do not have the same legal status as currencies or money. The provision of virtual currencies, and more generally of crypto assets, is digital business, which makes it easy to transfer them and expand from one area to another.

Current regulations are based on the EU's AML Directive

Current regulations in Finland specifically address services related to virtual currencies. The regulation is largely based on the EU Anti-Money Laundering Directive, and it is currently considerably more limited in scope than regulations on investment funds and investment activities, for example.

Current regulations seek to improve the detection of suspicious transactions and activities. In practice, this means that the service provider must retain the personal data and account numbers of the parties to a transaction. Before a transaction is executed, the service provider must also check whether the abovementioned information has been obtained on the sender.

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5 There is no official definition of crypto asset, but crypto assets as a concept include virtual currencies. What crypto assets have in common is the use of cryptography.

6 A virtual currency denotes value in a digital format, which has not been issued by a central bank or another authority and which is not legal tender; which can be used by a person as a means of payment; and which can be transferred, stored and exchanged electronically.

Issuance of virtual currency in Finland subject to authorisation

In Finland, unlike many other European countries, the issuance of virtual currency requires authorisation granted by the authority. In accordance with the Virtual Currency Providers Act, only institutions registered as virtual currency providers may provide virtual currency services in Finland. Following the entry into force of the Act, the operation and competitive preconditions of the providers became more equitable in comparison with other supervised financial market participants. The FIN-FSA processes applications for registration by virtual currency providers and supervises compliance with the Act. At the end of 2021, there were six registered virtual currency providers in Finland.

The regulation of virtual currency services is still at a very early stage, however. The primary objective of the national act, which entered into force in 2019, was the prevention of money laundering and the establishment of related mechanisms.

Regulation on markets in crypto assets under preparation within the EU

A regulation on markets in crypto assets that seeks to improve investor protection is under preparation within the EU. As a concept, a crypto asset also includes virtual currencies. The purpose is to harmonise and tighten the requirements for service providers in the EEA. The upcoming EU package will delve more into the organisation of activities, investor protection and investor information. The package will clarify the activities and playing field of companies operating in the sector.

The draft legislation takes a stance, for example, on guaranteeing the best possible result for the customer, the avoidance of conflicts of interests and intervention into problems concerning inside information. Furthermore, it provides guidelines on minimum capital requirements, IT risk management and information to be disclosed to investors on crypto assets. The draft regulation also includes a centralised EU register of crypto asset providers and providers of related services: the position of consumers will improve when information on all new crypto assets is notified in the EEA and approved service providers are available from a single point of contact. Following the regulation, provisions on market abuse will also apply to these providers, where applicable.

The details of the regulation are currently subject to negotiation, and final decisions on the contents have not yet been made.

Unauthorised marketing and scams

In Finland, services related to virtual currencies may only be provided by entities registered here. In 2021, the FIN-FSA intervened in the unauthorised marketing of virtual currencies in Finland and issued a press release on the subject. The media embraced this subject, and there has also been active discourse on both virtual currencies and crypto assets more generally in social media, particularly on Twitter.

Cases where people have become rich fast by investing in crypto assets have been celebrated in the media. When investing in any crypto assets, however, one must be prepared for the scenario where their value declines sharply. They also involve elevated cyber risk owing to the fact that crypto assets only exist in a digital format and, for example, data security requirements concerning their storage and transfer are not harmonised across countries. Neither are all crypto assets readily exchangeable into money.

Crypto assets also involve an ever-growing number of scams, even though many cases are never revealed in public. In many cases, a consumer has been lured into investing in crypto assets, but the real intent of the scam has been phishing of online banking credentials.

Before one invests in crypto assets, such as virtual currencies, caution is advised. One should only invest via authorised providers: where virtual currency providers are concerned, it is possible and advisable to check in advance, for example, that the service provider is found on the list of registered providers maintained by the FIN-FSA or in another country and, moreover, that it is not found on supervisors' warning list. There will be no material improvement in the protection of investors in crypto assets, however, until the adoption of tighter and more harmonised European regulations on crypto assets.

In spite of all the media attention received by crypto assets, their systemic significance remains rather small. Finnish financial sector incumbents have not embarked on virtual currency or crypto asset investments or on the provision of services related to virtual currencies. The main risks are related to individual investors, particularly in circumstances where the risks involved in crypto investments have not been assessed with sufficient care.

New investors, new sources of information

Direct investment in domestic and foreign equities has increased sharply during the pandemic. At the same time, discussion on investing in social media has become more active. During the year, the FIN-FSA has communicated the rules of discussion on investing, which must also be complied with in social media.

Traditionally, information on investing has been sought, for example, in companies' own sources, books and financial media. In addition, in recent years, growing social media discussion on investing has emerged on Twitter, Instagram, discussion forums and other social media channels.

At the beginning of 2021, a mass force of investors mobilised on the Reddit discussion forum in the United States sent the price of GameStop shares soaring, as Reddit users began to invest fervently in GameStop. Social media discussions are often characterised by invoking emotions, which also played a key role in this case: the discussions painted an impression of hedge funds as enemies of Reddit users and other common people.

The risk of making investment decisions based on incomplete information grows when the threshold to invest is lowered and investments are discussed in social media channels. In such an environment, new investors may be more readily drawn into topical investments without the necessary background checks and understanding of the investment case.

How are these changes viewed in the FIN-FSA?

From the FIN-FSA's perspective, there are two issues in particular that must be considered when it comes to the change in the culture of discussion on investments. Firstly, investment-related discourse takes place in an increasing number of channels. In recent years, the FIN-FSA has received more reports than before of suspicions of potential market abuse related to discussion on investments in social media. The rising number of reports increases the need for supervision work.

Another important concern is the quality of discussion on investments. The participants should bear in mind that discussion should always be as transparent as possible and based on public information. Anyone considering an investment should reflect on from whom or where it pays to take investment ideas: what are the true motives of so-called influencers and what is their expertise based on. It is important for investors to always bear in mind their own responsibility for investments and to examine the asset carefully before making an investment decision. During the year, the FIN-FSA has communicated on the ground rules for discussions on investing, which must also be complied with in social media.

The changes in the investment culture also have positive impacts, since transparency and the amount of information have increased. Digital services have made it easy to start investing, and the atmosphere surrounding investing is also very encouraging.

How should one behave on social media?

1.

Discuss with other investors in different social media channels based on public information and provide justifications for your views.

→ You contribute to market transparency, and particularly when it comes to smaller and less covered companies, you help increase awareness of them as potential investments.

2.

Study the investment object as carefully as possible before making the final investment decision.

→ You will considerably reduce your risks of making an ill-advised and potentially loss-making investment. Ultimately, you are responsible for your own investment decisions.

3.

Remember source criticism – on social media, you can never know for certain what the other party's true interests are.

→ You will considerably reduce your risks of making an ill-advised and potentially loss-making investment.

4.

Bear in mind that intentionally spreading misleading and incorrect information is forbidden.

→ If you see dissemination of misleading information on an investment on social media, you can report it to the FIN-FSA.

→ The issue can be investigated more thoroughly if the report contains adequately detailed information on the suspected action (what, where, when, who). You can attach, for example, screenshots of the discussion to the report.

→ The FIN-FSA may make a referral to the police on the social media comments if there are sufficient grounds to suspect market manipulation after FIN-FSA's investigation of the matter.

→ Instructions on reporting suspected market abuse to the FIN-FSA:
finanssivalvonta.fi/en » FIN-FSA » Report suspected infringement

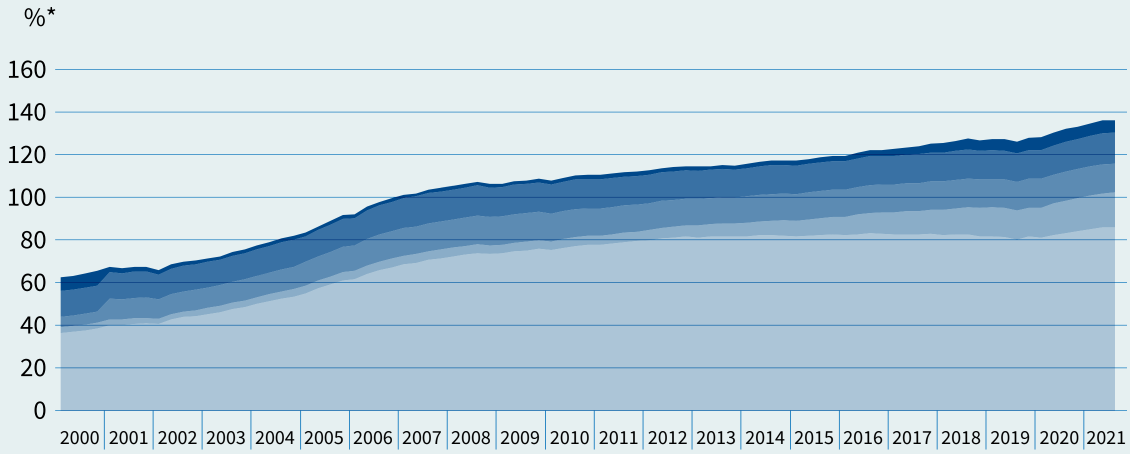
New tools needed to contain household indebtedness

Household indebtedness has been rising for 20 years and currently stands at an all-time high: at the end of the review year, almost 400,000 Finns had a payment default on record. Over-indebted people or households are prone to protracted financial and social problems.

From the perspective of the economy, households' over-indebtedness also weakens the capacity of the economy to adjust to adverse surprises. Highly indebted households may, for example, reduce their consumption when facing financial problems, such as unemployment, during a downturn. This in turn has negative impacts on the whole economy and companies' activities. As consumption weakens and households' debt burden grows further, banks' credit losses may grow indirectly and with a lag. Credit losses, in turn, weaken banks' capital adequacy and lending capacity.

The bulk of the household loan stock consists of housing loans. For the time being, the debt-servicing burden of households with housing loans has not increased significantly, as the general level of interest rates and interest rates on housing loans have remained very low for a long time now. Average loan periods have also lengthened. Household debt has been augmented not only by housing loans but also by consumer credit and indirect forms of indebtedness, such as housing company loans.

Finnish households' indebtedness 2000–2021



- Housing loans from Finnish credit institutions
- Loans through housing companies
- Consumer credit from Finnish credit institutions
- Other loans from Finnish credit institutions
- Other loans from Finland and abroad

* Debt, % of disposable income

Sources: Statistics Finland and Bank of Finland. The latest observations are for the third quarter of 2021.

Macroprudential policy maintains financial stability

The objective of effective macroprudential policy is to maintain the stability of the financial system as a whole. It supports both conventional banking supervision as well as fiscal and monetary policies to achieve sustainable economic growth. The safeguarding of stability is contingent on three things:

- financial institutions' adequate risk buffers
- the possibility to tighten the requirements in an upswing to prevent the growth of risks and vulnerabilities, and
- the possibility to ease the requirements in times of crisis to alleviate the situation.

In addition to banks' capital buffers, macroprudential policy includes so-called borrower-based measures. Almost all European countries have adopted several borrower-based measures into their regulations. In Finland, only a maximum loan-to-value ratio, so-called loan cap, is in place. Both the European Systemic Risk Board (ESBR) and most recently the International Monetary Fund (IMF) have recommended that tools to contain lending should also be adopted in Finland. The IMF's recent statement on Finland notes that the growing household indebtedness increases the need to enhance the macroprudential toolkit by new borrower-based instruments.

The FIN-FSA Board has voiced its concern on several occasions about households' over-indebtedness in connection with the publication of its macroprudential decisions. Through its recommendation issued in December 2021, to be specified further in the first half of 2022, the Board's aim is to contain, even more strongly than previously, the excessive growth of household indebtedness. In granting credit, it is also important to consider potential changes in total debt-servicing costs. The loan applicant's debt-servicing capacity should not be compromised by an increase in interest rates or a disruption in the repayment of debt by the loan applicant[7].

Need for borrower-based measures

Towards the end of 2019, the working group on excessive household indebtedness, established by the Ministry of Finance, completed its proposal. Based on the proposal, a Government bill is being prepared and will be submitted for consideration by the Government in late spring 2022. The draft Government bill on measures to curb indebtedness does not include the so-called debt-to-income (DTI) ratio or other income-linked instruments to restrict lending. The DTI would limit a borrower's loan-to-income ratio to a predetermined maximum amount.

Other potential instruments to limit indebtedness could include a cap on the loan amount relative to income (LTI, Loan to Income), debt servicing costs to income (DSTI, Debt Service to Income) or loan servicing costs to income (LSTI, Loan Service to Income). In establishing any restrictive instruments, the definition of debt, loans and income in more detail is naturally important. Unlike prudential requirements for financial institutions, borrower-based measures have not been defined or harmonised in European Union legislation.

[7] The FIN-FSA regulations and guidelines 4/2018 "Management of credit risk and assessment of creditworthiness by supervised entities in the financial sector" provide that, in the calculation of available funds, the interest rate should be set at least at six per cent and the maturity of the loan at no more than 25 years. The calculation of available funds should also reflect a potential increase in the financial charge for the housing company loan in the event of a rise in interest rates and the termination of any grace period for principal repayment. The regulations and guidelines apply to the management of supervised entities' credit risk, but the relevant restrictions are also closely linked to the objectives of macroprudential policy.

Household debt and the definition of when it becomes excessive from the perspective of an individual person or the economy as a whole is a complex issue. Problems stemming from excessive indebtedness are best prevented by curbing borrowing, and this is the very purpose of macroprudential measures aimed at borrowers.

It is important that authorities at their disposal have an adequately versatile macroprudential toolkit. The existence of regulatory tools does not automatically mean these tools will be used. The implementation of new tools is always preceded by exact specification and thorough preparation. Consumer protection considerations pertaining to indebtedness must also be taken into account. High indebtedness hinders the resolution of potential crises or major problems affecting the economy or the banking sector. The conclusion of many studies is that the most longstanding impacts of financial crises are concerned with household debt, where housing loans play the single most important factor. Finland also has a need for new macroprudential tools to curb household indebtedness.

THEMES

Sustainability issues as part of financial market participants' risk management and disclosure obligations

Phenomena brought about by climate change cause physical and transitional risks to the financial sector, which must be taken into consideration by market participants. It is also important to have adequate and consistent information on sustainability factors, as investors have a growing preference for sustainable investments. Sustainability factors are considered in the regulation and supervision of the financial sector on the one hand from the perspective of risk management and on the other hand from the perspective of disclosure obligations.

ESG (Environmental, Social, Governance) regulations have been developed rapidly: although some companies have communicated on their sustainability efforts for a long time and investors have been interested in sustainable investments, supporting regulations did not exist until a few years ago.

In 2021, the Sustainable Finance Disclosure Regulation entered into force, sustainability factors were added to regulations on insurers, and the ECB guide on climate-related and environmental risks, published in the previous year, was applied in bank supervision. The supervisor has participated in preparing these regulations and continues to do so. It has also incorporated obligations and recommendations that are already in force into its supervision.

In risk management, banks and insurance companies must consider both physical and transition risks. Direct risks include, for example, the immediate impacts of floods and storms resulting from climate change on the operating preconditions of the institutions themselves or parties financed by them. For example, a storm may destroy an institution's data centres or infrastructures used as collateral for credit. Transition risks, in turn, include adjustment costs arising as companies increasingly invest in low-carbon solutions or energy efficiency, or losses caused by sudden changes in valuations.

Banks made self-assessments and action plans on consideration of sustainability risks

In banks' activities, sustainability risks may take various forms. When providing finance to companies, a key consideration is how the companies being financed consider sustainability risks in their activities – for example, it is important to consider the long-term risks involved in financing a company in a carbon-intensive sector. In the future, when providing finance to households, the energy efficiency of the property used as collateral may have an indirect impact on the price of credit.

For banks, credit risks are the most important risk area, but climate and environmental risks must be considered in the same vein in the management of operational, market and liquidity risks. Have a bank's own infrastructures been protected from the impacts of natural phenomena, and have potential valuation changes caused in the markets by sustainability factors been taken into account?

In November 2020, the European Central Bank published a guide on the management of climate-related and environmental risks. The guide lays out, in particular, how significant banks under the ECB's direct supervision must consider sustainability risks in their activities. In the future, the purpose is to apply the guide also in the supervision of small domestic banks. Based on the guide, in 2021, significant banks conducted a self-assessment and an action plan on the management of environmental and climate risks.

The EBA Guidelines on loan origination and monitoring entered into force on 30 June 2021. They instruct banks to consider ESG risks in granting credit from the perspective of both client credit risk and environmentally sustainable lending.

In 2021, the ECB prepared a stress test with a particular focus on climate risks. The stress test was rolled out at the beginning of 2022.

The FIN-FSA has also taken climate and environmental risks into consideration in its supervisory review and evaluation processes as well as in supervision meetings with banks.

In Finland, sustainability risks impact insurance companies particularly through transition risks

In Finland, physical risks to insured property are limited by global standards, but regulatory changes, technologies and consumption behaviour also have an impact on insurance companies' business models. Some of the current insurance activities will change or vanish in the future: some European insurance companies are already withdrawing from insuring the coal industry. At the same time, the insuring of new technologies, such as electric cars and clean energy, introduces new risks. A Finnish insurance company must also consider, in particular, the impact of transition risks on investment activities.

Further details have been added to Solvency II regulations, which are binding on insurance companies, about how to take sustainability factors into account in risk management, the risk management function, the actuarial function, remuneration policy and application of the prudence principle. Sustainability factors have not been specifically mentioned in Solvency II regulations before, but insurance companies have already been obliged to map and consider all material risks to their operations, which also include sustainability risks.

The European Insurance and Occupational Pensions Authority (EIOPA) has issued an opinion on sustainability in the context of supervision of insurance companies. Insurance companies' own risk and solvency assessment (ORSA) also covers material risks beyond the scope of solvency regulations, such as changes in investment and insurance activities stemming from sustainability factors. The FIN-FSA has recommended that insurance companies also adopt at least a qualitative assessment methodology at a fast pace for climate scenarios.

The FIN-FSA already monitors sustainability risks in accordance with the application paper of the International Association of Insurance Supervisors (IAIS) and the guidelines and policies adopted by EIOPA. This supervision covers insurance companies' corporate governance, risk management, investment operations and reporting.

Adequate and standardised information to support investment decisions

The Sustainable Finance Disclosure Regulation, which applies to information both at the company level and financial product level, entered into force in 2021. Banks, life insurance companies as well as some occupational pension foundations and funds, fund managers and investment firms must provide information on their sustainability risk policies on their website.

When selling financial products that take sustainability risks into account, promote characteristics related to the environment or society, or invest sustainably, additional information on these factors and objectives must be given to the customer in connection with other information provided before concluding the agreement. Management companies must update their old prospectuses to cover this information on sustainability risks and factors. Furthermore, possibilities for funds to use terms associated with sustainability in their names has been limited.

The FIN-FSA has reviewed fund prospectuses with a particular focus on this viewpoint in 2021. It appears that the tightened regulation is steering the markets in the right direction, to the effect that financial products are not promoted too lightly as sustainable, since this gives rise to an additional disclosure obligation.

At the moment, the manner of presentation of sustainability information is not regulated in detail. There are technical standards under preparation, however, which will define the content of the disclosures in detail and provide templates for sustainability information. These standards are anticipated to take effect at the beginning of 2023. This will make the disclosures more standardised and comparable, which is important both from the perspective of investors and supervision.

What is sustainable? Taxonomy provides the criteria

The Taxonomy Regulation lays down the criteria for defining environmental sustainability. It takes a stance on climate criteria but also covers other environmental criteria: biological diversity and preservation of the ecosystem, sustainability of water and marine resources, prevention of environmental pollution and the promotion of a circular economy. Disclosure obligations concerning the climate objectives entered into force at the beginning of 2022: for example, if a fund's marketing states that it fosters the climate objectives under the Taxonomy, the prospectus must describe, among other things, how and to what extent the fund's investments carry out this objective.

In accordance with the Taxonomy Regulation, large banks, insurance and listed companies that employ over 500 persons must also provide information concerning the sustainability factors in the report of the board of directors or as a separate report, for the first time in 2022.

Obligations concerning sustainability information also indirectly steer the sustainability of other activities. For example, as credit institutions must report on the greenness of their lending, this means in practice that sustainability factors will affect lending or its price. In Finland, an example of this was a revolving credit agreed by UPM, the price of which is contingent on UPM's performance in its biodiversity targets. The popularity of sustainable investments among investors also channels funding to sustainable assets and thereby also promotes the achievement of sustainability objectives in other sectors, too.

FIN-FSA becomes member of the NGFS

In June 2021, the FIN-FSA was accepted as a member in the Network for Greening the Financial System (NGFS), a global cooperation network of central banks and financial supervisors. The network develops procedures to improve the preconditions of sustainable finance and identify risks caused by climate change to the financial sector.

Management and personnel

All FIN-FSA staff
244
(2020: 236)

59% (61%) | **41%** (39%)

Management
24
(2020: 22)

58% (55%) | **42%** (45%)

Experts
206
(2020: 197)

56% (59%) | **44%** (41%)

Operative staff
14
(2020: 17)

93% (94%) | **7%** (6%)

Photo: The Board of the Financial Supervisory Authority 2021–2023
Top row: Lasse Heiniö, Marja Nykänen and Leena Kallasvuo
Bottom row: Leena Mörttinen, Heli Backman and Vesa Vihriälä

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 by the expected changes.

Board 2021

Chair **Marja Nykänen**
LLM (trained on the bench), Deputy Governor of the Bank of Finland

Vice Chair
Leena Mörttinen
DSocSc, Permanent State Under-Secretary of the Ministry of Finance

Heli Backman
LLM, Head of Department, Director General, Ministry of Social Affairs and Health

Lasse Heiniö
fMSc, actuary approved by the Ministry of Social Affairs and Health (SHV)

Leena Kallasvuo
MSc (Econ.)

Vesa Vihriälä
DSocSc, Professor of Practice, University of Helsinki

The deputy member for Marja Nykänen was **Katja Taipalus** (DSocSc, Head of Department, Bank of Finland). The deputy member for Leena Mörttinen was **Janne Häyrynen** (LLM, DSc Econ, Docent in Securities Market Law, Legislative Counsellor, Head of Unit, Ministry of Finance). The deputy member for Heli Backman was **Hannu Ijäs** (LLM, trained on the bench), Director, Ministry of Social Affairs and Health) until 18 April 2021 and **Minna Lehmuskero** (MSc, actuary approved by the Ministry of Social Affairs and Health (SHV), Senior Actuary, Ministry of Social Affairs and Health as of 28 May 2021.

The Secretary to the Board was **Pirjo Kyyrönen**, Senior Legal Advisor. The Board convened 35 times during the year. Fees paid to the members and deputies in the year totalled EUR 86,582.26. No separate attendance allowance was paid.

CVs of the Board, composition of the Parliamentary Supervisory Council, organisation chart: finanssivalvonta.fi/en » FIN-FSA » Organisation and tasks

Top row: Samu Kurri, Anneli Tuominen and Kaisa Forsström
Middle row: Erkki Rajaniemi, Tero Kurenmaa and Jyri Helenius
Bottom row: Pirjo Kyyrönen, Sonja Lohse and Armi Taipale

Management Group

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

Armi Taipale
LLM, MSc Econ
Head of Supervision of Capital Markets

Tero Kurenmaa
LLD, LLM
Head of Unit, Legal

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

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

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

The Management Group convened 60 times during the year. The Director General's salary and fees totalled EUR 225,559.90. Salaries and fees paid to the other Management Group members totalled EUR 971,608.42.

CVs of the members of the Management Group and its Secretary:
finanssivalvonta.fi/en » FIN-FSA » Organisation and tasks

Financial Supervisory Authority

Financial Supervisory Authority in brief

The Financial Supervisory Authority (FIN-FSA) is the authority for the supervision of Finland’s financial and insurance sectors. Its supervised entities include banks, insurance companies and authorised pension insurers, as well as others active in the insurance business, investment firms, fund management companies, and the stock exchange. 95% of our activities are funded by the supervised entities; the remaining 5% comes from the Bank of Finland.

Administratively, the FIN-FSA operates in connection with the Bank of Finland, but in its supervisory work, it takes its decisions independently. At the end of the review year, the FIN-FSA’s personnel amounted to 244. Our office is located in Helsinki.

The objective our activities is the stable operation of credit, insurance and pension institutions and other supervised entities required for the stability of the financial markets. Another objective is to safeguard the best interests of the insured and to maintain public confidence in the operation of the financial markets. Furthermore, we seek to foster compliance with good practices in the financial markets and public awareness of the financial markets. These objectives and tasks have been laid down in the Act on the Financial Supervisory Authority.

We work in the interests of the users of banking, insurance and investment services.

Twitter

Followers

4,216

(2020: 3,777)

Tweets

327

(2020: 348)

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

Top tweets were on the following topics:

Wiseling Oy not authorised by FIN-FSA to provide investment services
News release 22 February 2021

Financial Supervisory Authority withdraws authorisation of Privanet Securities Ltd
Press release 02 July 2021

Macroprudential decision: Loan cap stays at 85%, lenders recommended to apply caution to granting loans that are long and large relative to income
Press release 17 December 2021

Summary of FIN-FSA’s activities in 2021

The activities of the Financial Supervisory Authority are aimed at ensuring financial stability and the necessary smooth operation of credit, insurance and pension institutions, and other supervised entities, so as to safeguard the interests of the insured and maintain confidence in the financial markets. (Act on the Financial Supervisory Authority, section 1)

The state of the financial sector has remained good also in the second year of the COVID-19 pandemic, but risks related to the pandemic and economic developments are still elevated. The FIN-FSA has maintained enhanced monitoring of the risk position of the supervised entities as well as analysis of the development of the COVID-19 pandemic and its economic impacts.

The FIN-FSA’s strategic initiatives proceeded almost according to plan.

Solid progress in the strategic initiatives in 2021 means that the targets highlighted in the strategy for supervisory substance matters are set to be achieved. Efforts supporting the other strategic objectives – high quality and efficiency, expertise and high esteem – are also on track. The achievement of the targets for the strategy period will be assessed in more depth in the next report, covering the year 2022, to the Parliamentary Supervisory Council.

Four out of the six IT projects prioritised from the perspective of the FIN-FSA’s supervisory tasks, proceeded as planned.

The results of the employee survey developed favourably in comparison with the previous study in 2019. The overall result of the study rose from the previous level of satisfactory to the level satisfactory+. In particular, there was clear improvement in the job satisfaction index and several factors related to leadership. In addition, improvements were recorded in the indices describing the commitment and dedication of personnel and the score reflecting the performance capability of the organisation, although this index still lagged behind the standard level in Finnish expert organisations. In comparison with the standard level in Finnish expert organisations, the FIN-FSA fared well in terms of having feedback from line managers, the personnel's view about the future of the organisation and development opportunities, but room for improvement was found in the availability of information and the efficiency of decision-making.

According to a stakeholder survey, the FIN-FSA's reputation had clearly improved since the previous study in 2017 and was overall at a good level (reputation index 68) and slightly above the average for supervisory authorities and ministries (65). In particular, the reputation improved, based on responses by the insurance sector, media and other authorities. The reputation is being bolstered by cooperability and flexibility, staff competence and professionalism as well as reliability, precision and strictness. Meanwhile, the reputation was most weakened by variation in the quality of supervision, slowness of activities, and cautiousness of statements and interpretations.

Outcomes of FIN-FSA's critical success factor indicators

The FIN-FSA's set of performance indicators keeps track of the outcomes of the critical success factor indicators. The result of these indicators is measured as a weighted average of the results of the constituent subindicators.

In the review year, nine success factor indicators and 25 subindicators were monitored. The target levels were reached in four success factors indicators and 14 subindicators, while five indicators and 11 subindicators lagged behind their respective targets.

In the review year, the FIN-FSA imposed two penalty payments. The processing time was not in line with the target in either case. At the end of 2020, an organisation change was approved to establish a new Legal unit. The unit was established in 2021, and it began to update the sanction process in the autumn of the year under review. The development effort will continue into 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.

Strategy of the Financial Supervisory Authority (FIN-FSA) 2020–2022

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

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

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

Total number of supervised and other fee-paying entities

Fee-paying entities	**31 Dec 2020**	**31 Dec 2021**
Credit institutions	226	208
Investment firms	54	179
Fund management companies and AIFMs	44	45
Securities issuers	176	200
Stock exchange, clearing corporation	1	1
Finnish Central Securities Depository	1	1
Other fee-paying entities in the financial sector	195	201
Financial sector, total	**697**	**835**
Life insurance companies	9	9
Non-life insurance companies	34	34
Pension insurance companies	4	4
Unemployment funds	22	18
Pension foundations and funds	45	43
Sickness funds and other insurance funds	125	124
Insurance associations	5	5
Insurance brokers	88	91
Public-sector funds	3	4
Other fee-paying entities in the insurance sector	42	42
Insurance sector, total	**377**	**374**
All supervised and other fee-paying entities, total	**1,074**	**1,209**

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

Expenses and funding

Expenses and funding, EUR thousands	2020	2021*
Staff expenses	24,402	26,099
Staff-related expenses	372	234
Other expenses	4,923	5,886
Services	2,069	2,811
Real estate expenses	1,415	1,430
Other expenses	1,439	1,645
Depreciation	1,224	912
Bank of Finland services	6,163	6,543
Total expenses	**37,084**	**39,674**
Funding of operations		
Supervision fees	33,269	35,568
Processing fees	1,531	2,584
Other income	2	6
Bank of Finland's contribution: 5% of expenses	1,854	1,984
Surplus carried over from the previous year	2,328	1,900
Surplus carried over to the next year	-1,900	-2,368
Total funding	**37,084**	**39,674**

*The figures for 2021 are unaudited and unconfirmed.

Set supervision fees

Set supervision fees, EUR thousands

Fee-paying entities	2020	2021
Credit institutions	17,659	18,810
Investment firms	1,259	1,513
Fund management companies and AIFMs	2,594	2,806
Securities issuers	2,436	2,605
Stock exchange, clearing corporation	327	357
Finnish Central Securities Depository	237	243
Other fee-paying entities in the financial sector	696	764
Financial sector, total	**25,208**	**27,098**
Life insurance companies	1,468	1,540
Non-life insurance companies	1,494	1,576
Pension insurance companies	2,556	2,753
Unemployment funds	1,113	1,060
Pension foundations and funds	251	231
Sickness funds and other insurance funds	99	102
Insurance associations	5	5
Insurance brokers	120	131
Public sector pension funds	726	794
Other fee-paying entities in the insurance sector	243	263
Insurance sector, total	**8,075**	**8,455**
Adjustment items carried over from previous years	-14	15
All supervised and other fee-paying entities, total	**33,269**	**35,568**

Processing fees

Processing fees, EUR thousands

Fee-paying entities	2020	2021
Credit institutions	90	53
Investment firms	22	241
Fund management companies and AIFMs	605	1,227
Securities issuers	142	343
Other fee-paying entities in the financial sector	62	67
Financial sector, total	**921**	**1,931**
Insurance companies[1]	63	67
Unemployment funds	26	24
Pension foundations and funds	51	56
Sickness funds and other insurance funds	48	56
Insurance brokers[2]	413	440
Other fee-paying entities in the insurance sector	9	10
Insurance sector, total	**610**	**653**
All supervised and other fee-paying entities, total	**1,531**	**2,584**

[1] Life, non-life and pension insurance companies

[2] Insurance brokers and agents

Case management

Items initiated in the FIN-FSA's case management system (main functions and their major categories)	Number
Management	151
Regulation	136
Supervision	2,065
Examples of categories:	
Notifications; branches and cross-border activities	130
Articles of association, by-laws and regulations; confirmation and changes	144
Prospectuses	274
Letters by private citizens	331
Fit & Proper reports	333
Inspections	26
Authorisations; granting and expansion	26
Other	283
Examples of categories:	
Domestic cooperation	68
International cooperation	11
	2,635

In addition, 364 new applications for registration and 6,118 applications for change were processed in the insurance agent register outside case management.

Parliamentary hearings and submissions on draft legislation

The FIN-FSA's experts were invited to hearings by various committees of the Finnish Parliament on 52 occasions. The FIN-FSA was requested to make 46 submissions on draft Finnish legislation and 65 other submissions in its field of competence.