FIN-FSA
FINANCIAL SUPERVISORY AUTHORITY

Annual Report 2020

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Contents

Unless otherwise indicated, all texts refer to the year under review 2020.

Year 2020 in figures

Number of staff
236
(2019: 233)

New insurance intermediaries
563
(2019: 555)

Requests for information
102
(2019: 131)

Supervised entities and fee-paying entities
1,074
(2019: 1,098)

Authorisations granted and extended + registrations
21 + 20
(2019: 12)

Total sanctions
10
(2019: 8)

Director General's review

Last year will go down in history as the year of the pandemic. Sporadic cases of infection in China developed into a global health crisis that affected us all. As the number of coronavirus infections grew, service sectors were closed, exports collapsed and employment rapidly declined. The direction of the economy was determined – and continues to be determined – by the development of the health situation in different countries. It is still impossible to assess the long-term effects of the pandemic on the finances and indebtedness of governments, corporates and private households. There is still considerable uncertainty surrounding the economic outlook, and the risk of a new recession is high.

In the spring, as the crisis hit, governments, central banks and supervisors took swift action to safeguard the functioning of society and ensure access to credit for corporates and households. The ECB's accommodative monetary policy was highly important. In Finland, the FIN-FSA lowered banks' macroprudential capital add-ons and, in the euro area, the ECB allowed banks to temporarily operate below the capital and liquidity buffers. We cover this in more detail in our article "Fast decisions supported banks' resilient operation in exceptional circumstances".

In Finland, bank lending to corporates and households continued uninterrupted, and banks were resilient in granting their customers payment holidays. Both insurance companies and pension companies also granted payment holidays to their customers. The capacity of unemployment insurance funds was most severely tested at the beginning of the year, but overall the sector coped well. The funds recruited new staff to relieve the application backlog and utilised automation in the processing of benefits.

In Finland, the situation of the banking sector has remained strong and credit losses realised by banks have not as yet increased significantly. Viewed as a whole, the solvency of the insurance sector also remained good. In March, however, the FIN-FSA issued to the Ministry of Social Affairs and Health a notification on exceptional circumstances concerning the employee pension sector, as exceptional circumstances evident in the financial markets posed a risk to the average solvency of pension institutions. Towards the end of the year, we considered that the situation had normalised.

It is appropriate to prepare for a deepening of the crisis throughout Europe and also in Finland. Uncertainties remain about the availability and effectiveness of vaccines, and new mutations are spreading rapidly from one country to another. We are living on terms imposed by the health crisis. Supervisors have considered caution to be the wisest policy: for example, banks must prepare for the realisation of credit loss risks and a weak scenario. They must also be able to analyse as precisely as possible the quality of their credit portfolios, notwithstanding the payment holidays they have granted. In these circumstances, the ESRB (European Systemic Risk Board), the ECB and also the FIN-FSA have recommended a very moderate dividend policy for both banks and insurance companies.

The ECB's tight dividend recommendation has been strongly criticised, particularly in Finland. An alternative solution would have been to permit well-capitalised banks to pay a reasonable dividend. Preparation for uncertainty prevailed in decision-making, however. Discretion is often the better part of valour. We will not have deeper knowledge of the state of banks' balance sheets until next autumn, when the stress tests have been carried out and payment holidays have largely ended. It may then be possible to remove the recommendation on general dividend distribution restrictions if there is no significant turn for the worse.

At present, it is important to ensure that recovery, support and forbearance measures do not all come to an end at the same time. It is essential for the financial sector to be able to operate as efficiently as possible and support the real economy. What would this mean in practice? Banks' capital requirements, for example, should not be increased during the recovery phase. By this I mean mainly the so-called Pillar II requirement set by the banking supervisor as well as macroprudential requirements. One of the lessons of this economic crisis is that the focus of macroprudential buffers should be shifted from structural to cyclical ones. The countercyclical capital buffer requirement should be increased during an economic upturn, so that it can be released during a downturn.

It remains to be seen how large the structural changes due to the crisis will be in the financial sector in Europe, where there are large differences between countries both in the depth of the crisis and in starting points. There are also differences with regard to degree of digitalisation, which has taken a significant leap forward throughout

Europe as a result of the coronavirus crisis. Digitalisation may have a significant impact on business models and industry structures in different countries.

Preparing for the future will also require a comprehensive review of current resolution legislation. The differing objectives of state aid regulation and bail-in rules, the harmonisation of the creditor hierarchy, resolution for small and medium-sized banks, and the role of the Deposit Guarantee Fund in the winding-up of a bank are issues that have been raised. The Commission is expected to propose amendments to the Resolution Directive later this year. In this, it will be important to ensure that the authorities are able to deal with the winding-up of any bank in a timely and controlled way. All measures must also be aimed at maintaining confidence in the banking sector without recourse to state aid. Developing a more effective resolution framework is also a way to move forward in decision-making on a common deposit guarantee, EDIS. Insurance sector resolution – national regulation of bankruptcy and liquidation – has also been long overdue, and solutions are needed to support proper preparedness.

Times of crisis generally accelerate changes in regulation and financial infrastructures. Recovery from the economic crisis caused by the pandemic has highlighted the importance of progress on the Commission's Capital Markets Union project. Implementing the project, even gradually, would help economic recovery and the transition to a digital and green economy. From the Commission's broad action plan, means should be selected that support these goals, without losing sight of investor protection. Promoting market funding would diversify financing channels and reduce corporate borrowers' funding risks in particular.

As part of the package, the Commission is assessing the aftermath of the Wirecard accounting scandal in Germany. The scandal highlighted shortcomings in legislation, cooperation between authorities and supervisory practices. Analysis of the case is still under way, but it should be clear that changes are needed. We must ensure that there are no legal obstacles to the flow and exchange of information between the various authorities, and also that the responsibilities of the supervisor are clear. The supervisory authority's independence from political decision-makers should be self-evident in all member states.

The Wirecard case also highlighted the importance of up-to-date, accurate and unambiguous information for both investors and other stakeholders. A flood of facts can also adversely affect the investor's ability to find relevant information. Ensuring reliable and sufficient investor information, on the one hand, and promoting financial literacy, on the other, will play a key role in the development of capital markets in the coming years. In the promotion of financial literacy, media articles relating the millions earned by speculative investors on individual investments are highly detrimental, as they tend to lead inexperienced investors towards unhealthy risk behaviour.

The financial sector's reporting obligations with regard to sustainable finance will gradually come into force over the next few years. As investors increasingly demand sustainable finance products that take the environment, social responsibility and good governance into account, the industry is also under pressure to respond to the increased demand while taking the obligations of new regulation into consideration. In regulation, it is important to remember that the amount of information required should not became so detailed that investors are no longer able to distinguish between what is relevant and irrelevant.

In recent years, European regulation and supervision of the financial sector has increasingly begun to emphasise the importance of good governance. Why so? Deficiencies in good governance have been considered to have contributed to the escalation of crises and to bankruptcies and abuses of financial sector actors. A major reason for tightened regulation, moreover, is learning from past mistakes: realising what is required in the financial sector from those in management positions, i.e. the Board of Directors, the CEO and the key function holders. In regulation, there are sector-specific differences in the level of detail, but regulatory requirements in the banking and insurance sectors, for example, cover individuals' experience, competence, reputation, conflicts of interest and time management, including restrictions on the number of board memberships. According to ECB policy, the CEO and the Chairman of the Board of a credit institution are required to have ten years' practical experience.

The strict requirements set at the European level do not extend, however, to sectors regulated on a purely national basis. This is a significant flaw. In my opinion, we have no reason to settle for a lighter level of requirements in domestic legislation, particularly with regard to actors important for society. In October 2019, the FIN-FSA submitted a proposal to the Ministry of Social Affairs and Health to revise regulation of the professional qualifications and experience of the board and management, as well as the key function holders, of employee pension companies. The FIN-FSA considers that, given the social significance of the sector, current regulation is partly deficient and disproportionate compared with, for example, the regulation of insurance companies. The FIN-FSA's supervisory findings support the prompt consideration of the proposal.

The FIN-FSA switched almost entirely to teleworking in March last year. As matters stand, the arrangement will remain in place at least until the end of April. Effective IT teleworking tools have facilitated extensive working from home. With the exception of on-site inspections, it has been possible to work almost normally. In fact, we have been able to better prioritise our work on what is essential for the sound operation of the financial sector. We have also attended all EU meetings by remote connection.

It must be remembered, however, that as human beings we are all different; teleworking comes more naturally to some than to others. For this reason, we have emphasised the importance of good management and care of the wellbeing of staff members. Presence and caring, even virtually, are of prime importance.

I thank all FIN-FSA personnel for this past year. You have displayed commendable resilience, even though there have been no indications of improvement in the pandemic situation and no return to the office is in sight. We all miss our working community and its social interaction. But we will see it through.

Thanks to everyone.

In Helsinki on 25 February 2021

Anneli Tuominen

FIN-FSA-related topics most visible in the media:

1. **Profit distribution recommendation to credit institutions**
2. **Loan cap on residential mortgage loans**
3. Review of Nokia Corporation's information disclosure
4. Appointment of CEO of LocalTapiola
5. Capital requirements for credit institutions

Summary of FIN-FSA's activities in 2020

The activities of the Financial Supervisory Authority (FIN-FSA) 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).

As a result of the exceptional situation caused by the coronavirus pandemic, the FIN-FSA re-prioritised its tasks under the action plan for 2020. This enabled the supervised entities and the FIN-FSA to focus on analysing the changes and risks caused by the pandemic and on related actions. The solvency and liquidity situation as well as the operational capability of banks and insurance companies were supervised on an enhanced basis. As regards unemployment funds, processing times and liquidity were under special scrutiny. The financial position of authorised payment institutions was monitored more closely than previously. Monitoring of the operating environment of the securities markets was intensified, and communication and reporting by listed companies were assessed on a systematic basis. Supervisory cooperation and exchange of information between international and domestic authorities were tightened.

In the spring of the review year, the FIN-FSA halted a major proportion of its inspection activities and continued some of the inspections virtually due to the exceptional situation caused by the coronavirus pandemic. In the autumn, the number of inspections was almost back to normal.

The FIN-FSA responded swiftly to the pandemic with measures ensuring the safety and wellbeing of staff and the continuity of its activities as an authority.

State of financial markets

The review year was characterised by the coronavirus pandemic. The pandemic intensified rapidly at the beginning of the year with intense and wide-ranging impacts. On the other hand, the policy measures taken to mitigate the pandemic globally, within the European Union and in Finland were unprecedentedly extensive. So far, the negative impacts of the pandemic as a whole on the Finnish economy have remained milder than was anticipated in early part of the year, and smaller than in the European Union on average. The pandemic is not yet over, however, and it will also leave permanent scars on the Finnish economy. Some of the impacts are more apparent than others. An example of this is the rise in public debt. Some impacts are more difficult to estimate, however: What kind of enduring effects will the pandemic have on the behaviour of people and businesses and on the outlook of different industries?

At an early stage of the coronavirus pandemic, there were sharp valuation adjustments in the financial markets, and prices of risky assets, such as equities, declined steeply. From April onwards, financial market valuations reflected expectations of the post-coronavirus period and recovery, although the real economy contracted in all EU countries. The prices of equities and many other assets increased while interest rates remained at zero or negative levels. At the same time, credit risks increased.

The coronavirus pandemic caused a significant global recession in the review year. Restrictions imposed by governments, in addition to the cautious behaviour of households and companies, left their mark on economic developments. The severity of the pandemic and the depth of the recession varied across countries.

Economic policies were geared to mitigate the economic impacts of the crisis in many ways. Public borrowing grew rapidly and central banks' monetary policy measures, for example through securities purchases, increased. Supervisory authorities took steps to ensure, among other things, that the lending capacity of the economy remained stable. The scale of measures was broad, and the volume of stimulus was exceptionally large.

The performance of financial markets during the year was bipolar. In early spring, there were very large price fluctuations; equity prices, for example, declined significantly in February–March. Investor confidence recovered after decisions and measures taken by governments, central banks and supervisory authorities, and equity prices rebounded. Valuations were based on an expectation that the negative economic impact of the coronavirus pandemic would remain temporary due to stimulus measures and extensive vaccinations. However, the level of interest rates remained at zero or negative as in the previous year, reflecting the overall weakness of economic development. The price performance of the financial markets diverged from the state of the real economy.

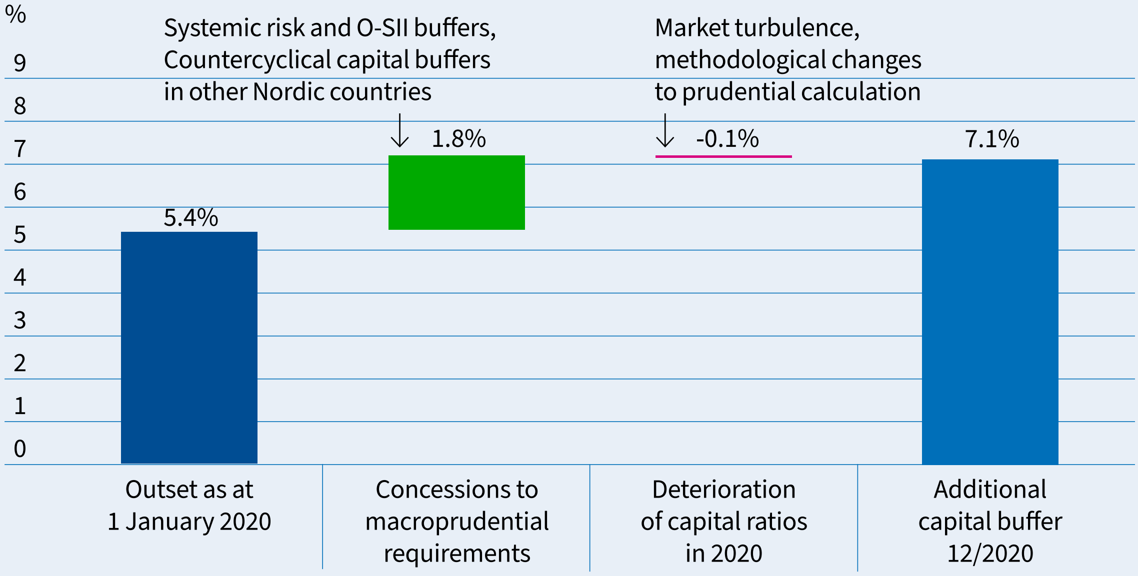
In Finland, the coronavirus pandemic reduced economic activity particularly in the second quarter, after which the economy began to recover. The situation varied greatly across industries, and unemployment increased during the year. Earlier trends continued in the housing markets: housing prices continued the trend seen in previous years, namely prices rose in large cities but either remained unchanged or declined elsewhere. Household indebtedness rose. Towards the end of the year, the sentiment and outlook of households and companies improved somewhat.

Capital adequacy ratio of the banking sector weakened slightly as the economy receded but remained at a solid level – credit impairments increased

The coronavirus pandemic and the consequent economic recession affected the operating environment for Finnish banks. Despite the elevated uncertainty in the economy, changes in the capital ratios of the Finnish banking sector remained minor, and CET1 capital adequacy ultimately improved a little. The capital ratios of the banking sector remained stronger than the European average. In the spring, Nordic macroprudential authorities reduced the additional capital requirements, which improved Finnish banks’ possibilities to grant credit and withstand losses.

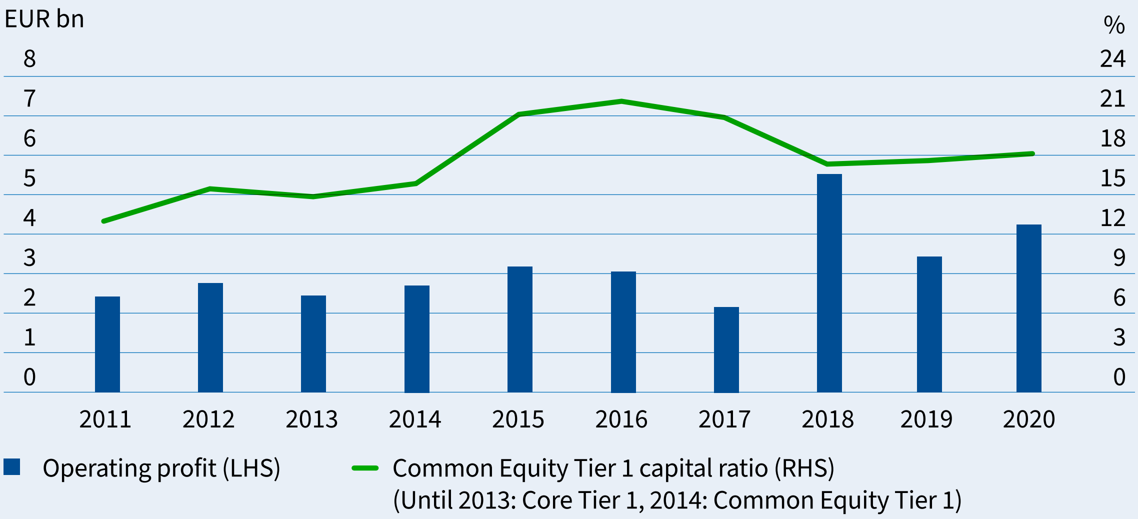
The operating profit of the banking sector increased from the previous year, but the growth took place against the backdrop of negative one-off items that weighed on the operating profit a year earlier. Net interest income increased slightly from 2019, as the growth of the credit stock outweighed the negative impact of declining market rates and margins on interest income. Credit impairments and non-performing loans grew, albeit moderately considering the economic situation. The level of non-performing loans in Finland remained among the lowest in Europe.

Own funds' surplus in the Finnish banking sector



Source: The FIN-FSA

Operating profit and CET1 capital ratio of the domestic banking sector



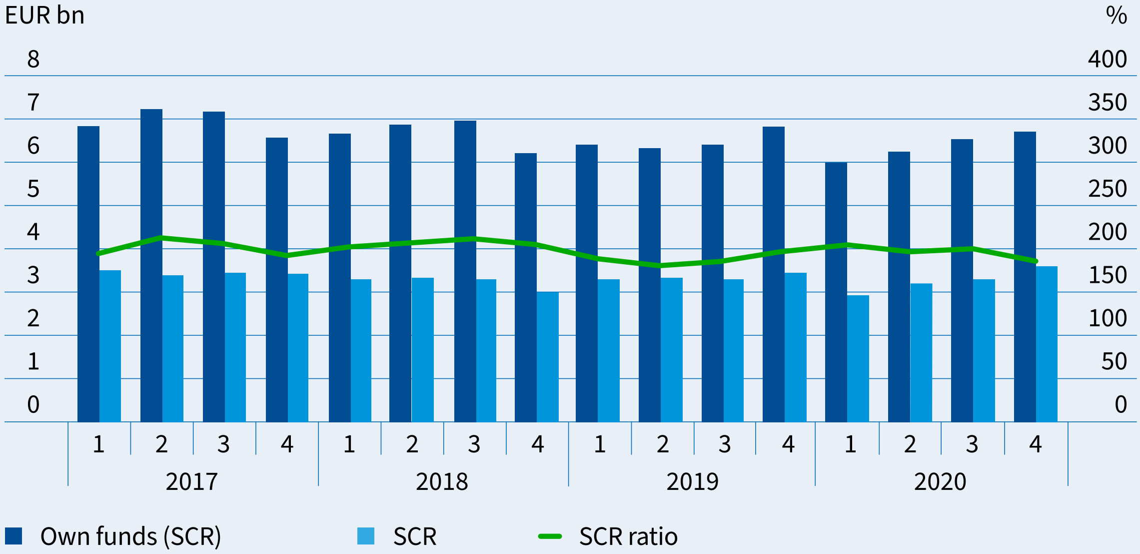
Source: The FIN-FSA

Life insurance companies' solvency withstood the exceptional year, but the pandemic eroded premiums written

The coronavirus pandemic made life insurance customers cautious, and new premiums written did not accumulate in unit-linked insurance at previous levels. Premiums written in 2020 declined to the lowest level during the current Solvency II regulation. The sale of risk assurance increased, however. Claims paid continued to outweigh premium income.

The solvency ratio of the life insurance sector remained at a good level, although it declined clearly from a year earlier. Own funds decreased and the solvency capital requirement increased. The interest rate level, which declined significantly during the year, increased the amount of technical provisions. Good returns on higher-risk investments increased the capital requirement for market risk. Life insurance companies' investment returns recovered during 2020 and ended up clearly positive.

Solvency of life insurance companies



Source: The FIN-FSA

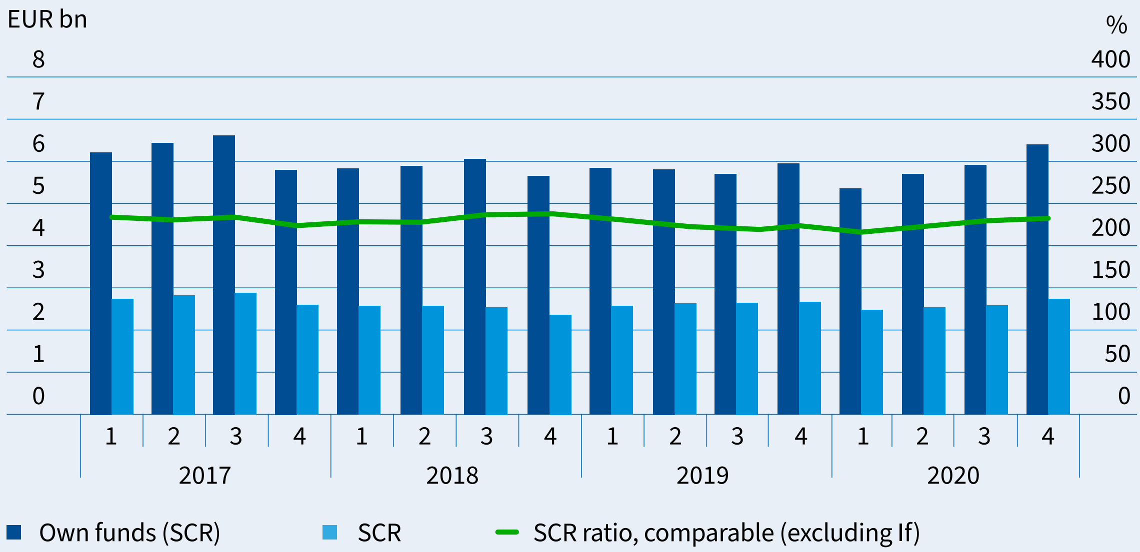
Non-life insurance companies' solvency remained solid and profitability improved as a result of the pandemic

Major movements in the investment markets during the review year caused significant fluctuations in companies' solvency ratios. However, good solvency buffers protected the companies with higher investment risk levels. In addition, the dampening mechanisms included in the Solvency II framework mitigated the impact of changes in market prices on solvency. At the end of March, risk parameter hedging against equity price fluctuations reached its maximum level, and volatility adjustment providing a hedge against changes in credit risk margins was at its highest.

Non-life insurance companies' investment returns recovered after the steep decline seen at the end of March. All asset classes achieved a positive return.

The profitability of non-life insurance improved, as claims expenses on workers' compensation as well as motor vehicle insurance decreased due to the pandemic. Companies increased prudence of their accounting technical reserves by lowering their related discount rates, but the downward impact of the measure on profitability was smaller than in 2019. Measures aimed at preventing the spread of the pandemic, while causing layoffs, for example, eroded the premium income from workers' compensation insurance.

Solvency of non-life insurance companies



Source: The FIN-FSA
If P&C Insurance Company is included until 30 September 2017.

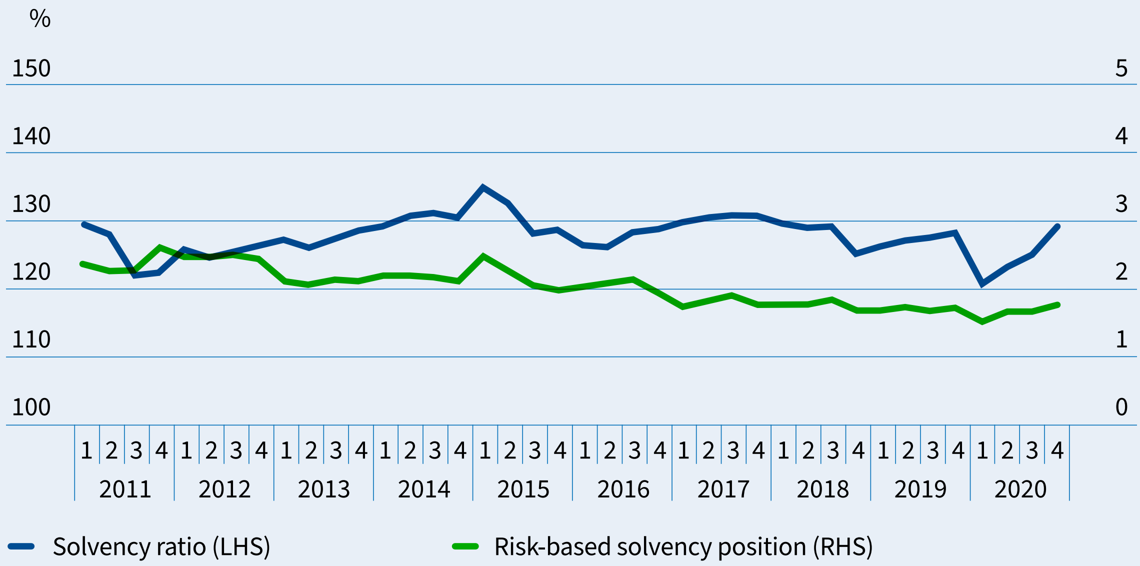
Pension insurance sector's solvency strengthened at an annual level

Year 2020 was very bipolar in the employee pension sector. In the first quarter, the solvency of the employee pension sector weakened significantly as asset values sunk in the sell-off caused by the coronavirus pandemic. In mid-March, the FIN-FSA filed a notification with the Ministry of Social Affairs and Health on exceptional circumstances in the financial markets, as the average solvency of employee pension institutions was at risk of declining rapidly and significantly.

During the second quarter, the solvency of the pension insurance sector began to recover as central banks and governments supported the financial markets through massive stimulus measures. The pension insurance sector's solvency strengthened at an annual level.

In November, the FIN-FSA notified the Ministry of Social Affairs and Health that the exceptional circumstances affecting risks related to pension insurance institutions' solvency, which gave rise to the notification on exceptional circumstances, no longer prevailed in the financial markets.

Pension insurance sector's solvency development 2011–2020



Source: The FIN-FSA

Due to an amendment of legislation that entered into force at the beginning of 2017, the capital position of 2017–2020 is not comparable to previous years.

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

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

Supervision responsive to changing operating environment

The FIN-FSA re-prioritised its tasks under the action plan 2020 as a result of the exceptional situation caused by the coronavirus pandemic. Tasks were divided into three categories: critical supervision-related tasks, discretionary supervision related tasks, which may be postponed if necessary, and tasks to be re-planned or moved to 2021.

- Critical supervision-related tasks
  - Adequate securing of ongoing supervision at the requisite level (including application issues), supervisory measures due to the coronavirus-induced situation and other critical grounds, analysis of supervised entities' significant risks, sanctions on severe misconduct and violations, and development of own operations according to the requirements posed by the exceptional situation.
- Discretionary supervision-related tasks, which may be postponed if necessary
  - Certain strategic development projects, such as supervision of the digitalising financial sector, integration of climate change into supervision and determination of the minimum level of supervision, participation in ECB[1] and ESA working groups, surveys and other inquiries as well as non-urgent objectives related to the development of activities.
- Tasks to be re-planned or moved to 2021
  - Plans concerning inspections, thematic reviews and the supervisory review and evaluation process were updated in September. A consultant study on the FIN-FSA's efficiency and resource allocation, the implementation of the EBA's[2] stress tests for 2020 and of the national LSI[3] stress tests as well as updating of the fee schedule were postponed to 2021. Tasks postponed during the coronavirus

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1 ECB = European Central Bank.
2 EBA = European Banking Authority.
3 LSI = Less Significant Institution, bank subject to indirect ECB supervision.

pandemic will be reconsidered in terms of resourcing and priorities where necessary before implementation.

The FIN-FSA put a significant proportion of its inspection activities on hold in the spring. This enabled the supervised entities and the FIN-FSA to focus on the analysis of changes and risks caused by the pandemic in the financial sector and on related actions. Some inspections continued on a teleworking basis, however. In the autumn, inspections again took place almost normally, but they were all conducted virtually.

The FIN-FSA's strategy for 2020–2022 was renewed at the end of 2019. The strategy highlights three areas significant from a supervision point of view: climate change, digitalisation and anti-money laundering. The strategy now also places a stronger emphasis than previously on risk-based supervision.

In 2021, the FIN-FSA will continue to assess how the deterioration of the economic situation due to the coronavirus pandemic is affecting supervised entities. The supervisor also raises its preparedness for crisis by developing further its operating models for crisis resolution as well as related internal guidance and cooperation models with other authorities. Ensuring the operating capabilities provided in the law is part of crisis preparedness. If the situation deteriorates, resources will be allocated to the management of the acute crisis and other operations will give way to crisis activities.

Investigation requests submitted to the police

6

(2019: 2)

Penalty payments

2

(2019: 5)

Public warnings

1

(2019: 1)

Administrative fines

1

(2019: 0)

Banking sector

The FIN-FSA supervised on an enhanced basis the impacts of the economic crisis caused by the coronavirus pandemic on banks' capital adequacy, liquidity and operational risk position, and distributed this information to other authorities. The supervisor analysed the development of corporate finance by banks in enhanced cooperation with the Bank of Finland and the Ministry of Finance. The FIN-FSA monitors developments in banks' capital adequacy, liquidity and operational risks on an enhanced basis and as required by the exceptional situation.

Joint Supervisory Teams (JST[4]) of the ECB and the respective national supervisors enhanced the monitoring of the risk position of Significant Institutions (SI[5]) in accordance with the ECB's guidance. The FIN-FSA's banking supervision analysed the risk position of LSI banks under its direct supervision in so-called corona projects, as a result of which the banks with the highest risks to capital adequacy or liquidity were identified. Banks' liquidity situation has been monitored on an enhanced basis throughout the coronavirus pandemic. The supervisor and the Bank of Finland have assessed the development of banks' credit losses in co-operation.

The FIN-FSA conducted supervisor reviews of significant institutions and the most significant foreign branches in accordance with the schedule established by the ECB and the home country supervisor. The FIN-FSA also launched two supervisory reviews of LSIs under its direct supervision, which were completed in early 2021. In the summer, some of the assessments of banks' internal models were competed, and more extensive inspection activities resumed in the autumn.

The ECB and EBA took special measures to maintain banks' lending capacity in the exceptional situation, particularly at the early stages of the coronavirus pandemic. The ECB and EBA adopted concessions allowed by regulation and provided recommendations to supervised entities ensuring that these concessions are allocated to supporting the real economy. The FIN-FSA participated in the preparations and applied corresponding principles in its supervision.

There is a significant ongoing domestic regulation initiative called the banking package, and the FIN-FSA participated in its preparation in a working group led by the Ministry of Finance.

In December, the FIN-FSA published a report on the pricing and availability of basic banking services. The study included a survey on the impacts of the coronavirus pandemic on the supply of basic banking services and on customer behaviour. It also mapped improvements made by banks in their digital services to improve accessibility and usability.

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4 JST = Joint Supervisory Team.

5 SI = Significant Institution, bank subject to direct ECB supervision.

In accordance with the government programme, the supervision of providers of instant credit will be centralised to the FIN-FSA. The exact timing of the change is not yet confirmed. The FIN-FSA is making preparations regarding its expertise and resources to be able to roll out the change at the beginning of 2022. The FIN-FSA has also cooperated with the Ministry of Finance to ensure that legislation would provide instruments as effective as possible for the supervision of instant credit providers. As part of the effort to contain household indebtedness, the FIN-FSA has also participated in the positive credit register project led by the Ministry of Justice. The purpose of the positive credit register is to facilitate a view of total indebtedness at the individual level that is as accurate, comprehensive and practicable as possible for situations where credit is granted and sought. A working group lead by the Ministry of the Employment and the Economy is preparing a potential shift of supervision of Finnvera to the FIN-FSA. The shift would take place at the earliest in the turn of 2021–2022. The FIN-FSA's expertise and resourcing requirements are being planned to ensure its preparedness to embrace the supervisory responsibility.

Insurance sector

The FIN-FSA analysed the solvency and liquidity position as well as the operational capability of supervised entities in the insurance sector – employee pension companies, non-life insurance companies, life insurance companies and unemployment funds – on an enhanced basis through increased reporting frequency. Due to the growth in the number of applications for earnings-related daily allowances, weekly monitoring of processing times and other relevant information was adopted in spring 2020 in the supervision of funds assessed as facing the highest risks concerning operational capability.

Participation in EIOPA's[6] work was more active than previously due to pandemic-related issues. The FIN-FSA reported to the EIOPA on the condition of the Finnish insurance markets. The supervisor participated in the EIOPA in the preparation of regulation and resultant interpretations aimed at responding to the escalating exceptional situation and mitigating its impacts. Towards the end of the year, tighter monitoring of supervised entities and related supervisory actions continued.

On-site inspections halted at the beginning of the year continued on a virtual basis, but no new inspections were launched. The thematic review of compliance was completed.

The number of applications concerning reorganisations of insurance companies and funds increased during the year. Insurance company groups have reorganised and clarified their ownership structures. The FIN-FSA granted authorisation to two new non-life insurance companies, Ålands Försäkringar Ab and the Finnish Mutual Patient Insurance Company. In addition, a significant non-life insurance group operating

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[6] EIOPA = European Insurance and Occupational Pensions Authority.

in Great Britain and Gibraltar was acquired into Finnish majority ownership. In December, the FIN-FSA appointed an authorised representative to supervise the activities of Elo Mutual Pension Insurance Company.

During the year, the FIN-FSA published over 30 supervision releases concerning, for example, solvency position and the monitoring thereof (ORSA[7]), profit distribution recommendations, outsourcing allowed in the insurance industry, distribution of insurance policies as well as general supervision findings.

Legislative initiatives made by the FIN-FSA in previous years concerning expertise requirements in the employee pension sector and sanctioning possibilities in the insurance industry were advanced in conjunction with initiatives related to the exceptional situation. Their significance in supporting the implementation of supervision is underlined in the situation created by the coronavirus pandemic.

Macroprudential supervision

In March, the FIN-FSA Board decided to ease the structural macroprudential buffer requirements for banks by one percentage point by removing the systemic risk buffer and lowering the O-SII[8] requirement for OP Financial Group. In addition, at the end of June, the Board restored the housing loan cap to its baseline level at 90% excluding first-home buyers.

Decisions of the FIN-FSA Board on structural macroprudential buffers as well as other countries' macroprudential supervisors' decisions were expected to increase the lending capacity of Finnish banks to Finnish companies and households by approximately EUR 30 billion. Structural macroprudential buffers have been established primarily for severe problems of the banking sector in crisis situations.

Restoration of the maximum loan-to-collateral ratio supported the functioning of the housing markets and the economy in the acute crisis. Due to the exceptional uncertainty caused by high household indebtedness and the pandemic, the FIN-FSA Board emphasised the need for careful assessment of borrowers' repayment capacity.

The FIN-FSA also made preparations for the implementation of provisions on macroprudential instruments, based on the new Credit Requirements Directive. This so-called banking package was intended to enter into force in early 2021. The FIN-FSA participated in the positive credit register project lead by the Ministry of Finance. The purpose of the positive credit register is to enable a view of total indebtedness at the individual level that is as accurate, comprehensive and practicable as possible for situations where credit is granted and sought. According to the latest estimates, the positive credit register would be in place in spring 2024.

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[7] ORSA = Own Risk and Solvency Assessment.
[8] Other Systemically Important Institutions.

Securities sector

The FIN-FSA intensified cooperation and exchange of information with ESMA[9] and national authorities due to the coronavirus pandemic and the market volatility caused by it. During the year, the supervisor also participated in solving Brexit-related interpretation questions. For example, these questions were concerned with the continuation of the provision of service. In particular, questions related to mutual recognition and memoranda of understanding were mainly solved by the end of the year.

Due to the sharp and rapid market movements caused by the pandemic, the FIN-FSA refocused its market supervision activities. The supervisor intensified the supervision of the operation of significant market infrastructures, the stock exchange and central securities depository and monitored the disclosures and financial reporting by listed companies on the impacts of the coronavirus. Companies' need for finance was reflected, for example, in a growth in the number of subscription rights offerings; prospectus inspection focused particularly on information on the impacts of the coronavirus. The FIN-FSA assessed the need to restrict short selling, and therefore price fluctuations and short positions in financial instruments were monitored and analysed on an enhanced basis in the first half of the year. In addition, the supervisor monitored more closely investment funds' liquidity management, use of liquidity instruments and valuation. The use of liquidity management instruments by Finnish open-ended UCITS and alternative investment funds was also reported on a weekly basis until the end of the year to ESMA.

The supervisor completed two thematic reviews concerning the provision of investment services: product governance procedure for investment services and products, and the assessment of appropriateness. In addition, the findings of the ESMA-driven pan-European thematic review on investment funds' liquidity management were completed within schedule. Due to market disruptions affecting the fund sector, the FIN-FSA also conducted another ESMA-driven supervisory initiative, based on the ESRB's recommendation, on the liquidity management and valuation of open-ended fixed income and real estate funds. A review of algorithmic trading was also completed towards the end of the year. The FIN-FSA published the findings of a thematic review on disclosure obligation in investment-based crowdfunding at the beginning of January 2021. The thematic review of IFRS[10] supervision was overhauled in terms of content and focus due to coronavirus so as to include, in particular, companies with a weak financial standing as objects of supervision.

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[9] ESMA = European Securities and Markets Authority.
[10] IFRS = International Financial Reporting Standards.

Supervision of digitalisation development

The FIN-FSA is mapping the level of the utilisation of digitalisation and risk management related to digitalisation through a survey. Due to reprioritisation related to the coronavirus pandemic, this survey was postponed to the first half of 2021.

Preparation for disruptions

In the preparation for disruptions project, the goal of the review year was to map the present situation to establish a basis for updating guidance and operating models in 2021–2022. Due to the coronavirus pandemic, however, the updating of the preparation plans for disruptions began during the review year.

Guidance on bank resolution was updated and revised to accord with the economic crisis resulting from the coronavirus pandemic. Operating guidelines for supervised entities in the insurance sector were updated based on regulation for any severe solvency, liquidity or operational capability problems. The securities sector prepared for disruptions affecting the operations of supervised entities by updating internal operating guidelines for interruptions of operations. The supervisor has the preparedness to resolve problem situations affecting authorised payment institutions and to use macroprudential instruments, if necessary.

Climate change and supervision

The project proceeded almost on schedule, and the key objectives set for it were achieved despite changes of priorities related to the coronavirus pandemic.

The ESAs continued the preparation of international legislation for the financial services sector throughout the year. A clear need emerged in the sector for pan-European interpretation of regulation. The FIN-FSA contributed to EU regulation of listed companies' non-financial information and the development of supervision thereof through ESMA, and it presented the regulation and related changes in several webinars to supervised entities and other stakeholders.

Work on including risks related to climate change in various supervision frameworks as well as the launch of supervision of non-financial information continues in 2021. A series of blogs was published on climate change and sustainable finance.

AML Supervision

The supervision of anti-money laundering was organised as a dedicated division in 2019, and it was promoted as one of the FIN-FSA's strategic focus areas in 2020. AML supervision proceeded mainly as planned, although the target state has not yet been achieved.

In 2020, the FIN-FSA prepared a risk assessment which classifies sectors by risk rating. The supervisor published sector-specific risk assessments concerning payment service providers and the life insurance sector.

Due to the coronavirus situation, on-site inspections were put on hold. The inspections continued as applicable through teleworking solutions enabled by digitalisation.

Ongoing supervision meetings with the Nordic and Baltic supervisory authorities continued on a regular basis. The first memoranda of understanding on the principles and responsibilities of practical supervision of supranational credit institutions were signed during the year.

The AML division developed its inspection activities by reorganising the AML inspection team. Towards the end of 2020, the EBA and the Council of Europe completed their assessments of the state of anti-money laundering in Finland. In its assessment, the EBA focused on the FIN-FSA's activities in the supervision of anti-money laundering and provided recommendations on, for example, how to add depth to the risk-based approach and to develop guidance for supervised entities as well as the FIN-FSA's internal, national and international cooperation and processes. The European Council assessed the implementation of the 4th Anti-Money Directive as a whole in Finland. The report was not yet finalised by the date of this annual report.

Themes of 2020

Coronavirus pandemic changed the narrative of the year

In 2020, the coronavirus pandemic also affected the FIN-FSA's activities. In cooperation with other authorities, the FIN-FSA took several measures aimed at mitigating the negative economic impacts of the pandemic. These measures are discussed in particular in the article "Fast decisions supported banks' resilient operation in exceptional circumstances".

The coronavirus pandemic also had a significant impact on the operation of unemployment funds, as discussed in the article "Unemployment funds coped with the coronavirus pandemic despite record growth in applications and claims expenses".

Work on strategic priorities continued

The FIN-FSA also continued its efforts on its strategic priorities, including the supervision of anti-money laundering, as discussed in the article "Risk-based approach is a cornerstone in the prevention of money laundering and terrorist financing".

Supervision related to the digitalisation of the financial sector is another strategic priority, as highlighted in the article "Digital finance gaining ground – European Commission strategy to accelerate development".

One of the main projects of recent years was the signal and analysis system, which improves the efficiency of market supervision. This topic is discussed in more depth in the article "Suspicions of market manipulation and abuse of inside information are detected and investigated increasingly effectively".

The third strategic priority is the incorporation of the impacts of climate change and other sustainability risks into supervision. The European Supervisory Authorities continued working on international legislation for the financial services sector throughout the year, and the FIN-FSA contributed to the regulatory initiatives through the banking, insurance and securities market authorities alike. There was a particular focus on preparing the disclosure obligations concerning sustainability risks, since the EU's action plan on sustainable finance includes an objective to increase the transparency of disclosures on sustainability risks and related risk management.

Climate change and other sustainability risks in the financial sector are primarily a question of risk management. The introduction of regulation as part of supervision has already commenced, and a clear need has emerged in the financial services sector for pan-European interpretation of regulation. The FIN-FSA and other national supervisory authorities continued their efforts to produce common supervisory practices and interpretations. The FIN-FSA also presented regulation and related changes in several webinars to supervised entities and other stakeholders in Finland.

Brexit also affected the financial sector

Brexit, i.e. the withdrawal of Great Britain from the European Union, entered into force at the end of the review year on 1 January 2021.

Brexit did not cause any sudden or steep price movements at the turn of the year, but its major impacts on the economy and the markets will only surface gradually in due course.

The FIN-FSA has assessed the impacts of Brexit on the financial industry together with other national competent authorities and the European Supervisory Authorities. In particular, interpretation has been needed in the application of contracts across the UK-EU border and in defining where an activity is considered a cross-border activity. In addition, the change has given rise to the need for companies that have become third-country entities to apply for authorisations and organise their activities so as to minimise any inconvenience to their customers. The FIN-FSA has also received dozens of applications and has already provided guidance to institutions regarding these changes.

The FIN-FSA and the ESAs provide technical advice to the European Commission on assessing the equivalence of financial sector regulation. The equivalence assessment remained unresolved in the context of Brexit, but preparation of the decisions will continue in the EU over the coming months. Equivalence assessment often includes an assessment of the content and effectiveness of legislation, which will reduce the risk of significant differences between EU and UK legislation in the future.

THEME

Fast decisions supported banks’ resilient operation in exceptional circumstances

Coronavirus shut down society in spring 2020, making it vital to keep consumption going and the wheels of the economy in motion. Many steps taken by authorities to safeguard the economy have ensured banks’ capacity to grant loans and allow debt-servicing concessions to customers, which has a key impact on the ability of households and businesses to function.

The role of banks in resolving the economic crisis caused by the coronavirus was considered crucial. Therefore, it has been important to support banks’ capacity to grant credit and be flexible in the event of temporary debt-servicing difficulties among businesses and households. This has been highlighted particularly in Finland and other parts of Europe where the financial system is highly bank-centric.

Banks’ lending capacity was strengthened

The FIN-FSA Board makes macroprudential decisions on a quarterly basis about additional capital requirements for banks and about how much credit borrowers may receive for a house purchase relative to own funding or other collateral (loan cap, maximum loan-to-collateral ratio). The objective of the decisions is to contain or support lending, i.e. have an influence on the channelling of financing to the markets.

When the coronavirus pandemic began in March 2020, the Board made an extra macroprudential decision to decrease banks’ capital requirements. This decision, in combination with decisions by other countries’ macroprudential supervisors, increased Finnish banks’ lending capacity to Finnish businesses and households by an estimated EUR 30 billion.

Structural macroprudential buffers have been set for problems caused by the structures of the banking sector, such as its size or concentration. No cyclical macroprudential buffers have been set for the Finnish banking sector which could be activated and removed at different stages of the economic cycle. In the highly exceptional circumstances caused by the coronavirus pandemic, it was appropriate to reduce the structural buffers in order not to weaken the ability of credit institutions to provide loans to the corporate sector in particular.

In June 2020, the FIN-FSA Board decided to restore the maximum LTC for housing loans back to its standard level of 90% for non-first-home buyers. This decision supported the functioning of the housing markets and the channelling of finance to the real economy.

Fast decisions about further flexibility

As the supervisor of the most significant banks in the euro area, the European Central Bank (ECB) decided to provide a possibility for banks to be flexible regarding their additional capital and liquidity requirements. The decision was made rapidly when the pandemic began and economies shut down.

The purpose of the capital and liquidity buffers is to help bank withstand stress situations such as the coronavirus pandemic. The European banking sector has strengthened its capital buffers significantly since the global financial crisis. It was therefore possible for the ECB to allow banks to temporarily fall below their capital buffer and liquidity requirements. In addition, banks were allowed to cover their discretionary Pillar 2 additional capital requirement in addition to CET1 capital by other own funds.

The FIN-FSA made corresponding policy decisions for banks under its supervision within the limits allowed by Finnish legislation.

It is important that any flexibility concerning capital requirements are channelled to supporting the real economy. In order to support this objective, the ECB gave a recommendation to banks under its direct supervision to refrain from the distribution of dividends on a temporary basis. The recommendation was given in March and renewed in July. The recommendation was extended further in December by recommending that banks exercise extreme caution in profit distribution until autumn 2021.

The FIN-FSA gave a similar recommendation to banks under its supervision. In the supervisor's opinion, it is important to maintain strong capital adequacy among Finnish banks and comply with common European guidance.[11]

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[11] In early 2021, however, two Finnish banks decided to distribute dividends in excess of the prudent profit distribution criteria described in the non-binding recommendation.

Reporting by banks was eased

The reporting by banks was either eased or additional time was granted for the submission of reports. European authorities postponed stress tests by a year, as they would require significant resources from the banks and the authorities. In order to have an up-to-date situational view, the FIN-FSA and the ECB monitored banks' capital adequacy, liquidity and corporate finance risks on an enhanced basis when the crisis escalated.

The European Commission brought forward by a year regulation facilitating lending to SMEs and infrastructure and also made other regulatory changes aimed at easing the impacts of the coronavirus pandemic.

In March, the European Securities and Markets Authority (ESMA) published a statement on the method of calculation of expected credit losses in the exceptional circumstances caused by the pandemic. The objective was to facilitate financial reporting by banks. The statement provided guidelines on the assessment of a significant increase in credit risk and expected credit losses in IFRS financial statement reporting. Consistent reporting improves the possibilities of investors and other stakeholders to compare banks and assess their financial condition.

Capital adequacy as a long-term target

2020 was an exceptional year that required the supervisor to have a completely new kind of approach to supervision. In normal circumstances, the supervisor's primary attention focuses on ensuring banks' capital adequacy and liquidity as well as on compliance with related requirements. In the corona-induced situation, however, there was a need to consider opportunities to take advantage of the capital buffers accumulated, temporarily ease the supplementary capital requirements and also accept a controlled shortfall from these thresholds.

Banks operating in Finland encountered the coronavirus pandemic from a profitable and solvent position, which enabled the flexible approach. By ensuring the channelling of flexibilities to support the economy and, for example, by issuing the recommendation not to distribute dividends, the supervisor sought to ensure that banks' capital adequacy in Finland remains at a solid level.

The capital adequacy of banks operating in Finland is high by European standards, and the level of non-performing loans is low, but Finnish households are more indebted than the European average. It is important for banks to ensure borrowers' repayment capacity and observe caution particularly in granting long-term credit to avoid over-indebtedness of individual households.

Concessions granted by banks have temporarily improved the ability of borrowers to cope with debt servicing. The public sector has provided support funding to businesses, and legislation on bankruptcy has been adjusted on a temporary basis. Although loan moratoria, or general grace periods concerning a large number of loans, are not used in Finland in contrast with other parts of Europe, the outlook for bank customers when the support measures are phased out is not entirely clear. Grace periods granted to customers, public support and uncertain cash flow make it difficult to assess credit risk, which increases uncertainty concerning the estimation of the future impacts of the pandemic in the banking sector.

It is the supervisor's task to ensure for its part that the Finnish banking sector remains well capitalised and maintains its significant role as the intermediary of finance and monetary transactions.

THEME

Unemployment funds coped through coronavirus pandemic despite record growth in number of applications and claims expenses

Due to the coronavirus pandemic, unemployment funds faced one of the tightest situations in their history in spring 2020, when a very large number of people were made redundant or were laid off within a very short space of time. Growth in the applications for benefits was exceptionally sharp and rapid, and claims expenditure also reached an unusually high level. Both unemployment funds and the FIN-FSA reacted to the unprecedented situation by swiftly adjusting their practices.

The number of initial applications in some funds rose to even 20 times their normal level. Overall, the situation was worst in April when the funds received over 80,000 initial applications, compared with an average of some 10,000 in April of the two previous years. The situation developed favourably in the summer, and the number of initial applications in July was down to 34,000, which was nevertheless around twofold compared to the previous years. The number of initial applications remained above the previous year's level throughout 2020.

The overall number of applications began to decline in July 2020, although it remained at a very high level all year long. The high number of applications indicates that re-employment after becoming unemployed is slow or only partial (lay-offs and part-time work).

As the number of applications mounted, the processing times in many funds lengthened very quickly, and it proved impossible to keep apace with the statutory processing deadlines in the exceptional situation. The capacity of the funds to make decisions on benefits proved to be a bottleneck. No sanctions were imposed for exceeding the maximum processing times since the funds took significant steps to reduce processing times, and it is unlikely that any sanctions would have made a difference to processing times in the crisis conditions.

Although processing times of benefit applications increased considerably compared to normal circumstances, they did not, on average, become as long as during the financial crisis in 2009. At their longest, processing times reached 80 days. By late autumn 2020, processing times had become considerably shorter after the funds made efforts to speed up processing.

How did the FIN-FSA and the funds respond to the changed situation?

The FIN-FSA adjusted the supervision of unemployment funds after the crisis began by focusing resources on the acute situation and putting inspections and other major projects concerning the funds on hold. Unemployment funds were divided into three risk categories determining the reporting frequency for each fund. The placement of each fund in the categories was assessed regularly. Funds involving the highest risk reported to the FIN-FSA on a weekly basis on their processing status, liquidity and actions and remained in active contact with the supervisor in general. Funds of the second risk grade reported in two-week intervals and funds of the third grade whenever anything significant happened in their situation. At the end of November 2020, there were no longer any funds in the highest risk grade. Enhanced supervision of unemployment funds continued throughout 2020 and was still active in January 2021, when this report was written.

Processing of applications for benefits is manual labour, and unemployment funds took rapid steps to cope with the influx of applications. Among other things, they recruited a significant number of additional staff, adjusted their procedures and increased automation at various stages of the processing of benefits.

The coronavirus pandemic was also reflected in significant growth in claims expenditure. The impact of the crisis is also demonstrated by the fact that expenditure began to increase steeply in spring 2020, even though it usually tends to decrease in the spring. When the crisis began, the financial position of the funds was mainly good or excellent and, from a financial perspective, their operational capability was maintained throughout the crisis.

Government support measures helped funds stay afloat

In 2020, several fixed-term amendments were made to legislation on employment protection, aimed at alleviating the position of the newly unemployed. Furthermore, the conditions of eligibility for earnings-related unemployment cover were eased by shortening the required time in employment. This resulted in additional work for the funds, however, as the number of applications surged.

In spring 2020, the situation of the unemployment funds looked bleak, mainly with regard to financing and the countervailing fund. Government support measures, however, provided significant help: the government granted additional funding for funds' administrative and claims expenditure, which improved their financial position significantly and reduced the need to raise membership fees for 2021. The government also supported the Employment Fund by exceptionally contributing to the funding of lay-off daily allowances. The liquidity of the Employment Fund also remained solid thanks to proactive measures, including borrowing. In addition, support measures allocated by the government to various areas of society helped the funds indirectly.

Benefits paid by wage-earners funds and their administrative expenditure are funded by a contribution paid by the government and the Employment Fund as well as contributions paid by the members. In normal circumstances, member contributions account for 5.5% of the funding of earnings-based daily allowances. The assets of the Employment Fund are collected through statutory unemployment insurance contributions levied from wage earners and employers. Benefits paid by entrepreneur unemployment funds and their administrative expenses are funded by a contribution paid by the government as well as member contributions.

THEME

Digital finance gaining ground – European Commission strategy to accelerate development

The European Commission published a Digital Finance package in autumn 2020. The package includes digital finance and retail payment strategies as well as legislative proposals on the digital operational resilience of the financial industry, crypto-assets and a pilot regime for market infrastructures based on distributed ledger technologies. The strategy steers the EU's actions to promote digital transformation until 2024.

The Commission strategy was established against the backdrop of a continuous increase in the digital use of financial services by consumers and businesses. New technologies are being embraced and business models are being transformed. The coronavirus pandemic has accelerated these trends.

Digital finance has helped in the response to the challenges posed by the pandemic. Electronic identification has enabled the opening of accounts and the remote use of financial services. An increasing proportion of in-store payments take place as digital near-field communication payments, and more and more customers are using financial services online. During the pandemic, financial sector employees have also been teleworking extensively.

The purpose of the Digital Finance Strategy is to generate new responsible innovations, increase competition and promote the cross-border use of digital financial services in the member states.

The Commission strategy has four key priorities, geared towards highlighting the promotion of the opportunities provided by digital finance to consumers as well as consumer protection.

Expansion of financial markets across the EU

The first key priority of the strategy is to tackle fragmentation in the Digital Single Market for financial services, thereby enabling European consumers to access cross-border services and help European financial firms' scale up their digital operations.

On-line services are costly to develop, and therefore their extensive deployment and utilisation enable companies to expand their operations at a lower price and higher quality. The expansion of markets across the borders of member states would help raise the funds required to develop the services.

Digital innovation made easier

The second priority is to ensure that digital innovation is facilitated in the interest of consumers and the retail payment market. For example, innovations based on or making use of artificial intelligence or distributed ledger technology have the potential to improve financial services for consumers and businesses.

The regulatory framework for financial services should ensure that innovations are used in a responsible way. Regular examination of and adjustments to EU financial services legislation and supervisory practices ensure that they support digital innovation and remain appropriate in evolving market environments.

Common European financial data space to promote innovation

The third priority is to promote data-driven innovation by creating a European financial data space. This will be based on the European data strategy[12] and its purpose is to promote enhanced access to data and data sharing within the financial sector.

As part of the Payment Services Directive, the EU seeks to promote the sharing of data on payment accounts. The EU has also ensured through legislation that companies, including the financial sector, publish comprehensive financial and non-financial information on their operations and products. Further steps towards enhanced data sharing will enable the financial sector to fully embrace data-driven innovation. This will encourage the creation of innovative products for consumers and businesses, and facilitate access to data to channel funding in support of sustainable investment.

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[12] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions (COM(2020) 66 final), 19 February 2020).

Challenges and risks of digital transformation

As financial services migrate to digital operating environments, ecosystems become increasingly fragmented. New technology companies are constantly entering the financial services space either directly or indirectly. The fourth priority of the strategy is, indeed, to address these new challenges and risks associated with the digital transformation and reinforce the principle that similar activities involving similar risks are subject to the same rules.

How will the initiative proceed?

The digital finance strategy includes several actions promoted by the Commission. European supervisory authorities are working on the reports requested by the Commission within expert groups to which national supervisors have appointed their experts. The European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA) are also working on the topic within their remit.

National legislative preparatory work will start when the draft regulations advance towards adoption. In addition to legislative amendments, they will necessitate amendments to the FIN-FSA's set of regulations and guidelines.

The FIN-FSA wants to be active in the forefront of digital finance, to promote it and to monitor its impacts proactively from the outset. Finland has a solid reputation of being a bellwether in digitalisation, which is why it has a lot to offer to digital finance, too.

THEME

Risk-based approach is a cornerstone of anti-money laundering and countering terrorist financing

The FIN-FSA has steered its supervised entities increasingly towards aligning the scope of their AML controls with the risks involved. During the year, a supervisor-specific risk assessment of the money laundering risks inherent in the activities of the whole field of supervision was published, as were two sector-specific risk assessments. The FIN-FSA received contacts voicing concerns about a phenomenon where banks and also other financial institutions, instead of managing the risks, restrict the availability of their services to high-risk customers and even entire groups of customers.

In addition, issues pertaining to the updating of KYC information were highlighted in the media and contacts made to the FIN-FSA. The FIN-FSA and other institutions intensified their cooperation in the supervision of anti-money laundering both at the domestic and EU level.

Risk assessments are a key part of the construction of the FIN-FSA's supervisory framework

The FIN-FSA must prepare an assessment of the risks of money laundering and terrorist financing affecting the entities supervised by it. A FIN-FSA risk assessment is an extensive package involving several stages. In March, the FIN-FSA published a summary of the inherent money laundering risk levels related to the activities in its entire field of supervision. Subsequently, it published two sector-specific risk assessments: in August, a summary of a money-laundering risk assessment of the payment service sector and, in December, a summary of a money laundering risk assessment of the life assurance sector.

In preparing its risk assessments, the FIN-FSA considered both the EU's supranational risk assessment and Finland's national risk assessment as well as the risks of money laundering and terrorist financing indicated by these assessments. The supervisor's risk assessment addresses the risks of money laundering and terrorist financing affecting each sector through its customers, products and services, geographical location and distribution channels.

The comprehensiveness and frequency of the FIN-FSA's supervisory measures are determined on the basis of the assessment of AML/CFT risks affecting the supervised entity. Risk assessments are indeed a key part in the construction of the FIN-FSA's supervisory framework.

The supranational risk assessment was conducted by the European Commission. The Ministry of the Interior and the Ministry of Finance coordinate the preparation of the national risk assessment. To that end, they have established a working group, in which the FIN-FSA actively participates. Finland's national risk assessment will be published in 2021.

Avoidance of risk has led to terminations of high-risk customer relationships

The FIN-FSA has received many contacts voicing concerns about financial institutions refusing to establish or continue a business relationship with corporate customers whose beneficial owner or responsible person is from a high-risk country, without assessing on a case-specific basis whether the risks related to the individual customer relationship could be managed. In addition, representatives of certain sectors considered to involve high risk, foreign embassies and non-profit organisations have raised concerns in their discussions with the FIN-FSA about difficulties encountered in obtaining banking services.

The phenomenon in which banks and other financial institutions terminate or restrict business relationships with customers or even entire categories of customers is called de-risking. In this phenomenon, the objective is to entirely avoid the risk related to the customer relationship without seeking to manage it on the basis of the risks.

So far, there is no information about how widespread the phenomenon is in Finland. The European Banking Authority (EBA) has started to examine the extent and impacts of the phenomenon in EU countries. The FIN-FSA has also been proactive in bringing up the issue in EU-level discussions.

The FIN-FSA emphasises that there is no requirement for supervised entities to entirely avoid the risks of money laundering and terrorist financing in their activities. Nevertheless, they must have procedures in place to identify, assess and understand the risks of money laundering and terrorist financing to which they are exposed and take actions commensurate with the risks.

KYC information must be updated to reflect the risks

The FIN-FSA received many contacts in the spring and summer from private customers who had been urged by their bank to update the information on their identity verification document, such as passport or identity card. Customers were alarmed, in particular, about the wording of these letters, according to which a delay or failure in updating the information could lead to a restriction of services.

The FIN-FSA's view is that actions required from customers to update their KYC information must be proportionate to the potential risk caused by any outdated information. Unnecessary restriction of services must be avoided. Customer identity is information which does not expire when a verification document expires. Therefore, the mere expiry of an identification document should not trigger the need to update information and restrict services.

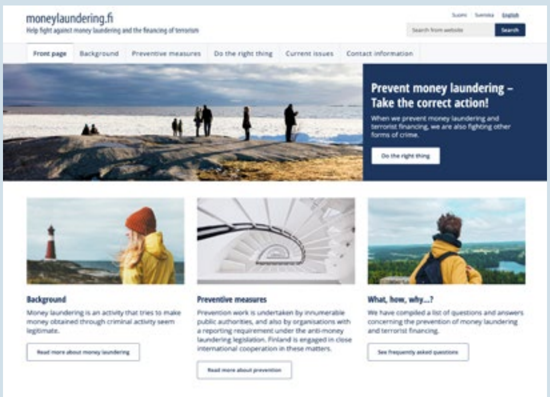
Increasingly close cooperation in AML supervision

The FIN-FSA participates in the development of cooperation between supervisors from various countries within the EU. As part of this cooperation, supervisors have established AML Colleges to combat money laundering and terrorist financing. These colleges improve the efficiency of cooperation and information exchange between EU countries' supervisors concerning cross-border activities. The FIN-FSA participates in colleges founded by other member states' supervisors and is in the process of establishing colleges for significant Finnish banks.

The FIN-FSA has also intensified domestic cooperation with other authorities responsible for anti-money laundering. In order to enhance the exchange of information, the FIN-FSA and the Financial Intelligence Unit signed a memorandum of understanding in February, clarifying the content and methods of information exchange.

Moneylaundering.fi website

Several domestic authorities and organisations published a common moneylaundering.fi website in December. The FIN-FSA participated in the production of the website and will continue to contribute closely to its maintenance and development. The website is located at www.moneylaundering.fi.



THEME

Suspicions of market manipulation and abuse of inside information are detected and investigated increasingly effectively

Year on year, more notifications of possible market manipulation and abuse of inside information are being reported to the FIN-FSA. At the same time, the supervisor's Market Surveillance and Analysis System is reviewing trading data more effectively and providing alerts of suspicious activity. The system has also improved the efficiency of detection and investigation of potential misconduct.

Trading venues and intermediaries are under a regulatory obligation to report suspicious activity in trading to the FIN-FSA. In 2020, the supervisor received approximately 200 suspicious transaction and order reports (STORs), representing growth of almost 20% from the previous year and over 100% from four years ago. The public also reports suspicious activity to the FIN-FSA.

The most common and clearest type of suspicion is the abuse of inside information, which accounts for about two thirds of the STORs received. Another type of suspicion is market manipulation, which refers to an attempt to affect the price of an item subject to trading either by misleading information or misleading dealing orders. Market manipulation is often more difficult to detect than the abuse of inside information, and it is also a more complex phenomenon from the perspective of investigation.

System alerts of suspicious activity

Throughout 2020, the FIN-FSA had the Market Surveillance and Analysis System in full-time use, improving the efficiency of detecting potential market manipulation and abuse of inside information. The system was adopted gradually in the previous year. Among other things, the system is capable of detecting suspicious activity in a large volume of trading data, potentially including hundreds of millions of transactions and billions of dealing orders annually – a number which is impossible to review manually.

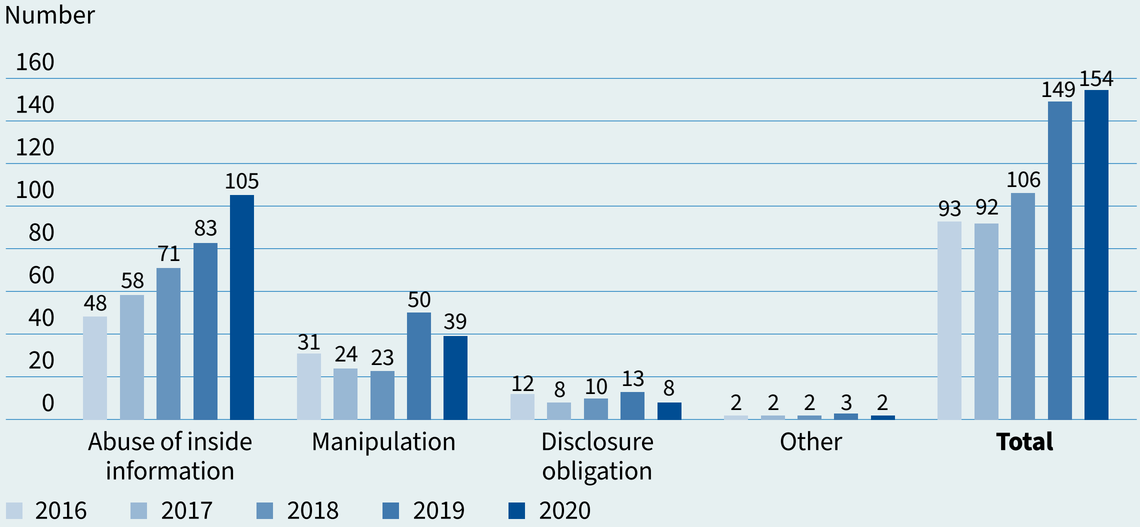
More comprehensive trading data available to the supervisor

Trading venues and intermediaries have their important role and task to play in the supervision of trading. Their own surveillance systems produce suspicions concerning trading for further investigation by the FIN-FSA, which has the most comprehensive information and the best overall view of trading in Finnish instruments, such as shares.

The FIN-FSA's system improves the efficiency of supervision by combining, for example, information from trading in various trading venues, stock exchange releases such as profit warnings, and information on insiders. It also automatically generates signals of its own for closer scrutiny by market supervisors, for example on irregular trading before the publication of a stock exchange release, or on manipulative trading.

As regards the coverage of the transaction data used by the system was also improved by the collection of identification data on final customers launched within the EEA due to MiFiR regulation.

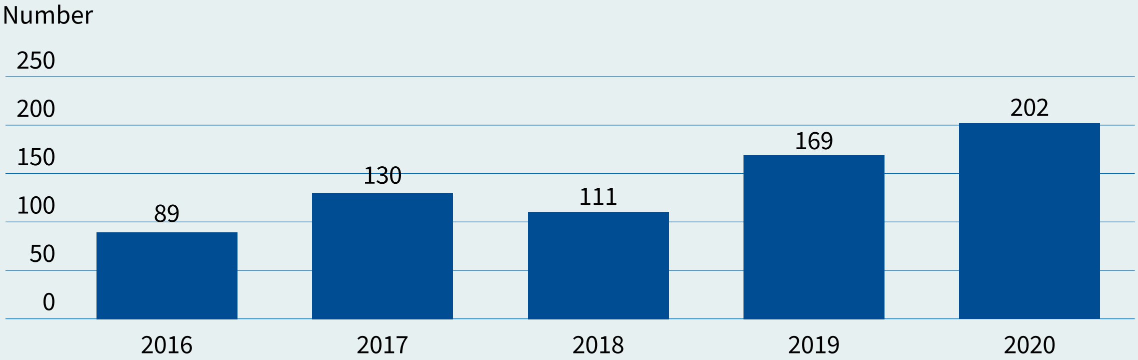
Investigations by the FIN-FSA in 2016–2020



Source: The FIN-FSA

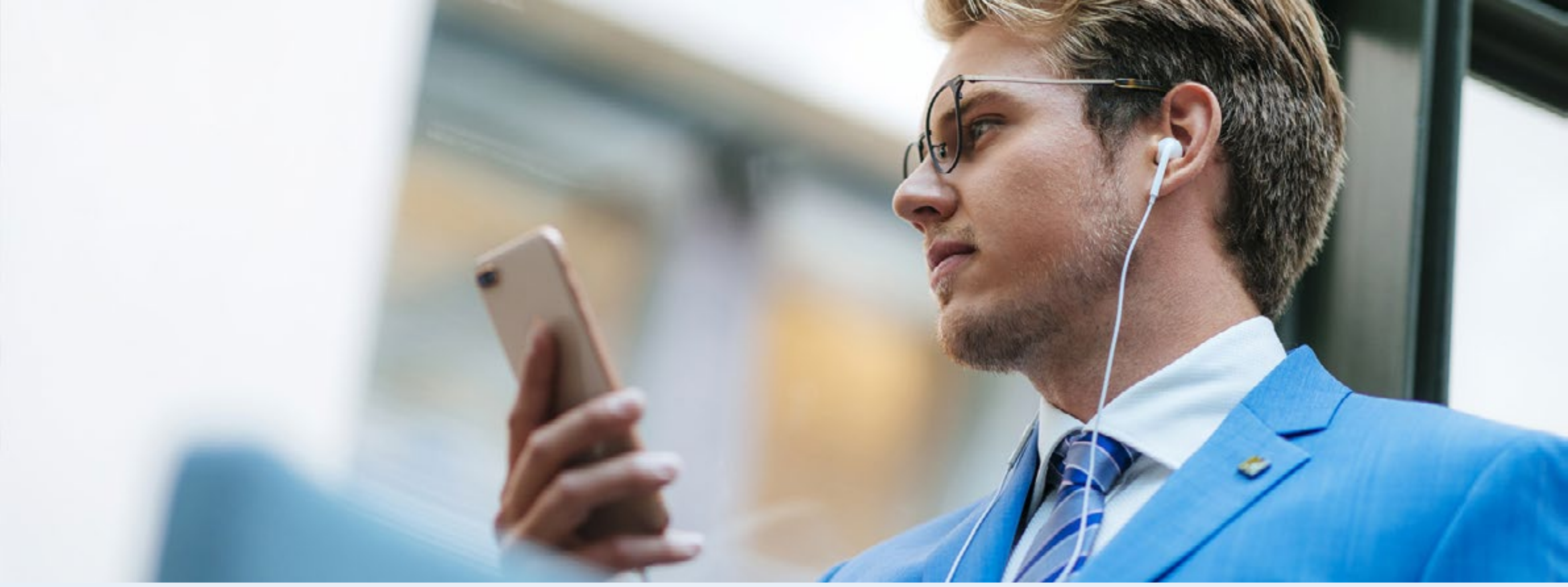
Trading alerts generated by the Market Surveillance and Analysis System analysed by the FIN-FSA are not included in the chart.

Suspicious transaction and order reports received from market participants are increasing



- STOR; (previously STR) are increasing
  - The reports concern suspicions of potential abuse of inside information or market manipulation
- Growth:
  - from previous year 20%
  - from two years ago 82%

Source: The FIN-FSA



Management and personnel

All FIN-FSA staff
236
(2019: 233)

61% (60%) | **39%** (40%)

Management
22
(2019: 20)

55% (55%) | **45%** (45%)

Experts
197
(2019: 194)

59% (57%) | **41%** (43%)

Operative staff
17
(2019: 19)

94% (89%) | **6%** (11%)

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 the 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 2020

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

Vice Chair
Martti Hetemäki (until 8 April 2020)
DSocSc, Permanent State Secretary, Ministry of Finance

Janne Häyrynen (as of 12 June 2020)
LLM, DSc Econ, Docent in Securities Market Law, Legislative Counsellor, Ministry of Finance

Outi Antila (until 13 February 2020)
LLM (trained on the bench) Director General, Ministry of Social Affairs and Health

Hannu Ijäs (14 February 2020–11 June 2020)
LLM (trained on the bench), Director, Ministry of Social Affairs and Health)

Heli Backman (as of 12 June 2020)
LLM, Head of Department, Director General, Ministry of Social Affairs and Health

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

Markku Pohjola
BSc 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 Martti Hetemäki was Legislative Counsellor **Janne Häyrynen** until 11 June 2020. As of 12 June 2020, the deputy member for Janne Häyrynen was **Markku Puumalainen** (MSocSc, Senior Financial Adviser, Ministry of Finance). Director **Hannu Ijäs** acted as the deputy member for Outi Antila until 13 February 2020 and for Heli Backman as of 12 June 2020. The deputy member for Hannu Ijäs between 14 February 2020 and 11 June 2020 was **Tarja Taipalus** (MSc, (SHV) actuary approved by the Ministry of Social Affairs and Health, Senior Mathematician, Ministry of Social Affairs and Health).

The Secretary to the Board was **Pirjo Kyyrönen**, Senior Legal Advisor. The Board convened 41 times during the year. Fees to the members and deputies in the year totalled EUR 59,508. No separate attendance fees were 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 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

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

The Management Group convened 93 times during the year. The Director General's salary and fees totalled EUR 220,505. Salaries and fees paid to the other Management Group members totalled EUR 862,868.

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 pension institutions, 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, FIN-FSA's personnel amounted to 236. Our office is located in Helsinki.

The objective of our activities is the stable operation of credit, insurance and pension institutions and other supervised entities required for the stability of the financial markets. A further objective is to safeguard the best interests of the insured and to maintain public confidence in the operation of the financial markets. In addition, 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
3,777
(2019: 3,310)

Tweets
348
(2019: 651)

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.

The top tweets were on the following topics:

Macroprudential decision: Residential mortgage loan cap to be relaxed, countercyclical capital buffer rate remains unchanged at 0.0 per cent
Press release 29 June 2020

FIN-FSA issues recommendation to supervised banks to refrain from dividend distributions – yesterday evening the ECB published a corresponding recommendation to banks under its direct supervision
Press release 30 March 2020

In response to the coronavirus pandemic, the outlook for the global and the Finnish economy has weakened considerably. The Financial Supervisory Authority (FIN-FSA) is enhancing its monitoring of the financial sector, and has adopted measures in cooperation with European and Finnish authorities.
Press release 16 March 2020

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

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

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	31.12.2019	31.12.2020
Credit institutions	240	226
Investment firms	56	54
Fund management companies and AIFMs	45	44
Securities issuers	185	176
Stock exchange, clearing corporation	1	1
Finnish Central Securities Depository	1	1
Other fee-paying entities in the financial sector	185	195
Financial sector, total	**713**	**697**
Life insurance companies	10	9
Non-life insurance companies	35	34
Pension insurance companies	4	4
Unemployment funds	25	22
Pension foundations and funds	51	45
Sickness funds and other insurance funds	124	125
Insurance associations	5	5
Insurance brokers	86	88
Public sector pension funds	3	3
Other fee-paying entities in the insurance sector	42	42
Insurance sector, total	**385**	**377**
All supervised and other fee-paying entities, total	**1,098**	**1,074**

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	2019	2020*
Staff expenses	22,622	24,402
Staff-related expenses	1,166	372
Other expenses	4,247	4,923
Services	1,351	2,069
Real estate expenses	1,397	1,415
Other expenses	1,499	1,439
Depreciation	945	1,224
Bank of Finland services	5,798	6,163
Total expenses	**34,778**	**37,084**
Funding of operations		
Supervision fees	31,462	33,269
Processing fees	1,814	1,531
Other income	7	2
Bank of Finland's contribution: 5% of expenses	1,739	1,854
Surplus carried over from the previous year	2,084	2,328
Surplus carried over to the next year	-2,328	-1,900
Total funding	**34,778**	**37,084**

*Figures for 2020 are unaudited and unconfirmed.

Set supervision fees

Set supervision fees, EUR thousands

Fee-paying entities	2019	2020
Credit institutions	16,687	17,659
Investment firms	1,171	1,259
Fund management companies and AIFMs	2,170	2,594
Securities issuers	2,458	2,436
Stock exchange, clearing corporation	315	327
Finnish Central Securities Depository	228	237
Other fee-paying entities in the financial sector	624	696
Financial sector, total	**23,653**	**25,208**
Life insurance companies	1,303	1,468
Non-life insurance companies	1,393	1,494
Pension insurance companies	2,379	2,556
Unemployment funds	1,180	1,113
Pension foundations and funds	241	251
Sickness funds and other insurance funds	95	99
Insurance associations	5	5
Insurance brokers	112	120
Public sector pension funds	644	726
Other fee-paying entities in the insurance sector	258	243
Insurance sector, total	**7,610**	**8,075**
Adjustment items carried over from previous years	199	-14
All supervised and other fee-paying entities, total	**31,462**	**33,269**

Processing fees

Processing fees, EUR thousands

Fee-paying entities	2019	2020
Credit institutions	23	90
Investment firms	41	22
Fund management companies and AIFMs	919	605
Securities issuers	231	142
Other fee-paying entities in the financial sector	82	62
Financial sector, total	**1,296**	**921**
Insurance companies[1]	35	63
Unemployment funds	25	26
Pension foundations and funds	32	51
Sickness funds and other insurance funds	33	48
Insurance brokers[2]	385	413
Other fee-paying entities in the insurance sector	8	9
Insurance sector, total	**518**	**610**
All supervised and other fee-paying entities, total	**1,814**	**1,531**

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	124
Regulation	105
Supervision	2,119
Examples of categories:	
Notifications; branches and cross-border activities	147
Articles of association, by-laws and regulations; confirmation and changes	144
Prospectuses	185
Letters by private citizens	327
Fit & Proper reports	343
Inspections	16
Authorisations; granting and expansion	30
Other	291
Examples of categories:	
Domestic cooperation	87
International cooperation	15
	2,639

In addition, 563 new applications for registration and 7,358 applications for change were processed in the insurance agent register outside the scope of case management.

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 44 occasions. The FIN-FSA was requested to make 32 submissions on draft Finnish legislation and 82 other submissions in its field of competence.