
Finantsinspeksioon operating strategy 2019-2021

Documents

[Finantsinspeksioon operating strategy 2019-2021 \(pdf, 0.21 MB\)](#)

Strategic goals

Our goal is for the financial market to be stable, reliable and open to innovation

For the goal of stability we concentrate on three challenges:

1. Estonia has an effective safety net for the financial market to prevent and resolve financial crises
2. Participants in the market have large enough financial buffers to hedge their risks
3. Market participants have internal control systems that suit their business models, especially in relation to combating money

Vision:

We are an influential and adaptable institution.

laundering

For the goal of reliability we concentrate on three challenges:

1. Market participants have fit and proper managers
2. Market participants have transparent and effective funded pension products
3. Finantsinspeksioon has an effective but responsible enforcement policy

Mission:

We maintain confidence in the financial market by conducting financial supervision in the public interest and resolving financial crises.

For the goal of openness to innovation we concentrate on two challenges:

1. Market participants have modern information technology infrastructure, including that needed to minimise cyber risks
2. Finantsinspektsioon recommends or makes changes to outdated rules or updates them

Our principles in doing our work

Values:

Certain. Professional. Open minded.

We show our values in our contribution to international cooperation. We support increased integration of European Union financial markets and the distribution of risks rather than concentration of those markets. We want to avoid excessive regulation, but we support strong institutions, centrally based if necessary. We contribute to the analysis of possible new areas for supervision. We promote communication with stakeholders and public awareness by providing regular, relevant and clear information on our activities and on financial markets and services.

Expected results of the strategy

The strategy contains vision, challenges, values, strategic goals and the principles for executing tasks.

In setting its strategy, Finantsinspektsioon started from the experience of drafting and implementing the previous strategies. It also considered the strategies of the SSM and SRB, as responsibilities given by the European Union centres and by Estonian law must be met. The strategies of partners also need to be considered.

The work by Finantsinspektsioon in drafting the strategy comes in three blocks of vision, challenges and values; strategic goals; and the principles for executing tasks.

Given how interwoven the different segments of the Estonian regulated financial market are and that Finantsinspektsioon has responsibility over all this market, all the market segments of banking, insurance and the securities market are covered by this strategy, though no distinction is made between them at the general strategic level. The importance of mandatory funded pensions is noted as an exception.

The terms of the strategy and its performance indicators are given in general terms, in brief, and in a form that we believe can be achieved. The strategy gives signals to market participants, the public and our external partners.

The strategy is based on the requirement of the Financial Supervision Authority Act that Finantsinspektsioon have primary responsibility for financial supervision and crisis resolution. It also covers other important roles such as promoting public understanding of financial services and financial products, or contributing to legislation.

The strategy does not give detail on the resources and organisation that are needed for these tasks, and nor on potential changes to them. Partly this is because the regulatory framework and the duties of Finantsinspektsioon have changed substantially, with raised public expectations in certain areas such as prevention of money laundering, funded pension systems, or the sustainability of information technology systems, while the nature of supervised entities has changed, and the addition as a subject of supervision of the large bank Luminor, which has branches in Latvia and Lithuania, requires a large amount of work by the financial supervisory institution. The new requirements of the European Union need us to be ready to move quickly with new tasks and requirements for deposit guarantee schemes, while the Guarantee Fund is operating using a paybox model that was set up at the start of the century and was quite reasonable at that time. Practice has shown that successful cooperation between the Guarantee Fund and Finantsinspektsioon is absolutely vital. The considerable pressure that the SSM and SRB put on our staff is also of note, and this has substantially increased the amount of administration and archiving because of the requirements for internal procedures, documentation, confidentiality and so on.

The organisation and the supervisory model of Finantsinspektsioon largely date back to 2005. In a changed external environment Finantsinspektsioon has much broader rights and the increasing scope of supervision poses challenges for better management of the risks from supervised entities. Finantsinspektsioon has one of the smaller staffs of any financial supervisor or crisis resolution institution in the member states of the European Union, and this means that each member of staff has a relatively important part to play in making sure that supervision is fair, objective, relevant and transparent. It emerges from this that not only are additional employees needed, but the organisation of financial supervision needs to be mapped, the supervisory models analysed, and the organisation improved to help in meeting the strategic goals. It is probable that the clauses in the Financial Supervisory Authority Act on conflicts of interest and the internal audit will need to be updated.

We maintain confidence in the market in the public interest by being certain, professional and open-minded in our work

Our vision is for Finantsinspektsioon to be an influential and adaptable institution.

This means above all that market participants must have a clear understanding and confidence that the activities of Finantsinspektsioon are based on the law, we are guided in our work by the targets and principles in our strategy, and our activities can affect behaviour or have economic consequences. Our partners can have confidence in us, can rely on our work, and can trust our assessments.

Being adaptable comes from the challenges facing Finantsinspektsioon in adapting to new regulations or market conditions, and from being able to plan flexibly and rapidly and react to changes that occur. Being adaptable also means reacting to the market and to risks in a broader sense, rather than taking an independent active role in prescribing business models for the market. If it is necessary to do this, Finantsinspektsioon can participate with its own inputs.

We want to maintain our influence and our ability to adapt, and above all to achieve better organisation of work assuming that our legally defined tasks remain the same and the necessary labour resources are increased (staff positions and staffing requirements are covered in a separate document). We will with good faith keep the wage levels of different groups of employees and experts at a level that is comparable to the average in the financial sector, depending on the exact nature of

the work. We must also acknowledge that individual specialists in certain specific areas will need to be paid a significantly higher salary, primarily in ICT.

Our mission is to maintain confidence in the financial market by carrying out our statutory duties in the public interest.

Maintaining confidence means that the regulated financial market operates correctly and lawfully. Access to the market will be granted to those who can meet the standards and appreciate their role, and market participants must be guided and motivated to behave lawfully. The managers of market participants are suitable for the job; the architecture of their organisations requires them to be fully aware of the risks they take, to do so appropriately, to have sufficient capital to cover the risks, and to treat consumers of their services lawfully. Market participants must be ready to resolve crises, and their exit from the market cannot excessively harm the rights of creditors or the interests of taxpayers.

We also maintain confidence that those who, in a broader sense, breach the standards or take on excessive risk will be dealt with in such a way that they are no longer motivated to break the rules or take risks, so that the whole of the market does not suffer because of them.

Finantsinspeksioon acts in this in the public interest, and within the framework and procedures of the law. Finantsinspeksioon does not resolve individual arguments or protect the subjective rights of individuals, and it always follows the principle of proportionality in achieving its goals. The values of Finantsinspeksioon staff are set out in various documents, but they can be briefly summarised in the strategy as professionalism, certainty and open-mindedness.

Professionalism means having the knowledge, skills and experience needed for work, and abiding by professional ethics.

The code of ethics of Finantsinspeksioon sets out public trust and ethical principles as requirements for professional ethics. Public trust is principally a question of loyalty, while the ethical principles are honesty, competence, independence, objectivity, respect, discretion, balance, and a sense of duty, which are values that should be applied in all dealings. For this reason these values are not listed separately in the strategy but are gathered together under professionalism.

A value that is separately listed in the strategy is certainty. Supervisory practice has shown that competing interests and stakeholders must be treated clearly under the law. Equally, procedure must be followed in relations with parties, and the content of individual cases may also need to be considered. Such a process requires focus, clarity and decisiveness. Certainty also means the courage and initiative to solve problems by untangling knots that have previously resisted all loosening. Supervision that is uncertain, susceptible to influence or prone to dramatic shifts does not promote confidence in the financial market.

Open-mindedness is added to the values and comes from our vision. The adaptability in the vision calls for open-mindedness in receiving and processing information.

Open-mindedness certainly does not mean refraining from criticisms or ignoring risks, but rather a more careful collection and analysis of information.

Strategic goals

The strategic goals emphasise the important values of the financial market, which are stability, reliability and openness to innovation. These are derived from the statutory objectives of financial supervision and were confirmed by mapping of the market, the analysis of development trends, lessons learned from past strategies, and supervisory experience.

The sources and assumptions of this strategy have placed more emphasis than previously on preparations to handle the risks arising from slower growth in the economy. This has led to the goals of having an effective security network, sufficient buffers at supervised entities, and a responsible policy of enforcement. The requirements for suitability of managers and internal control systems have remained the same as in the previous strategy, including in the area of preventing money laundering. On top of objective changes in the economic environment, a second significant source of failure at an unsuccessful supervised entity can be mistakes, neglect or bad faith in management and in defining, measuring and controlling risks.

The issue of preventing money laundering has become ever more topical given the changing foreign policy environment and the large cases that have emerged.

The aim of modern information technology infrastructure is largely unchanged, but in this strategy period the risks and trends of digitalisation will require financial supervision to focus ever more on this area.

More thorough supervision of the funded pension system is driven by the trend of economic growth, the risks of revaluation of assets and the increasingly cross-border nature of the system at a point where new participants are joining the system and payouts are becoming increasingly topical alongside contributions.

For the goal of stability of the financial market we concentrate on three challenges

Estonia has an effective safety net for the financial market to prevent and resolve financial crises

Expected actions and results:

1. Finantsinspektsioon has signed an agreement with the Guarantee Fund for the provision of services so that the Guarantee Fund may better achieve its statutory goals, especially in times of crisis, in such a way that Finantsinspektsioon's ability to do its work would not be impaired, but rather the effective merging of the activities of the two organisations would create economies of scale;
2. Finantsinspektsioon and the Guarantee Fund have created and submitted to the Ministry of Finance proposals for changes to the law that would allow the two institutions to work together on to a firmer legal basis;
3. Finantsinspektsioon has been involved in the crisis management exercises of the supervisory institutions of the Baltic and Nordic region, has analysed the results of the exercises, has made the necessary changes to its organisation, processes and systems, and where needed has made proposals for changes to legislation;
4. As the resolution authority for the Estonian credit institutions under its jurisdiction, Finantsinspektsioon has clearly defined within the extent allowed by law resolution cases and bankruptcy cases and the corresponding optimal Minimum Requirement for own funds and

Eligible Liabilities (MREL) rates. Finantsinspektsioon has guided the SRB in setting intragroup MREL policy.

Participants in the market have large enough financial buffers to hedge their risks

Expected actions and results:

1. Finantsinspektsioon has considered the risk environment and reviewed and improved the Supervisory Review and Evaluation Process (SREP) for the Less Significant Institutions (LSI) in its jurisdiction in Estonia, and the Supervisory Review Process for Estonian insurers;
2. During the phase where market participants are entering and acting in the market, Finantsinspektsioon applies capital requirements that take a more conservative view of the risk environment, though if necessary it can work with the central bank to consider the state of the real economy and competition;
3. Finantsinspektsioon requires that there be sufficient liquidity buffers and that they function within a formal framework, especially for financial intermediation groups operating across borders;
4. Finantsinspektsioon charts the components of credit risk management, such as assignment of claims and financing of collection companies, so that it may better understand the risks in the secondary market, and it also regularly stresses the definition of resilience in the credit portfolios of the banks.

Market participants have internal control systems that suit their business models, especially in relation to combating money laundering

Expected actions and results:

1. Finantsinspektsioon has reviewed the internal control systems of supervised entities with riskier business models, has assessed the functioning of the system, the sufficiency of resources and corporate governance, and has where necessary made recommendations to supervised entities or required them to bring their actions in line with the law or to reduce risks;
2. Finantsinspektsioon has constantly charted the risks to the financial sector from money laundering prevention, including the risks from cryptocurrencies, and has released information on them where this does not interfere with financial supervision or break the law, and has taken supervisory measures to minimise risk;
3. Finantsinspektsioon has signed an agreement with the Financial Intelligence Unit for planning work, assessing risks and organising data exchange so as to make its work more effective.

For the goal of reliability of the financial market we concentrate on three challenges

Market participants have fit and proper managers

Expected actions and results:

1. Finantsinspektsioon has analysed the internal processes of riskier supervised entities for their assessment of management suitability and selection procedures, and has where necessary made recommendations to supervised entities or required them to bring their actions in line with the law or to reduce risks;
2. Finantsinspektsioon has prevented people who do not meet the legal requirements from taking positions at regulated entities or from controlling business, or has had such people

removed from their position or their ownership.

Market participants have transparent and effective funded pension products

Expected actions and results:

1. Finantsinspeksioon has reviewed the processes for creating and offering funded pension products in the funding phase, has assessed their operation, and has where necessary made recommendations to supervised entities or required them to bring their actions in line with the law or to reduce risks;
2. Finantsinspeksioon has reviewed the application and implementation of due diligence policies and NAV calculation processes for fund investments in the funding stage of funded pensions, has assessed their operation, and has where necessary made recommendations to supervised entities or required them to bring their actions in line with the law or to reduce risks;
3. Finantsinspeksioon has assessed the processes and systems of the pensions register administrator with emphasis on cyber risks, business sustainability and personal data protection, and has where necessary made recommendations to supervised entities or required them to bring their actions in line with the law or to reduce risks;
4. Finantsinspeksioon has assessed the risks from components of the mandatory funded pension system being located abroad in terms of the expected operation of the system, and has made proposals for managing these risks.

Finantsinspeksioon has an effective but responsible enforcement policy

Expected actions and results:

1. Finantsinspeksioon has made proposals to the ministry responsible for changes to the law that would allow the behaviour of professional financial intermediaries subject to supervision to be brought quickly, simply and effectively under the guidance of the financial supervisory institution;
2. Finantsinspeksioon has an enforcement policy that applies under the principle of equal treatment to all areas of supervision, including the market for new financial products such as crypto assets;
3. Finantsinspeksioon has analysed its own capacities and internal processes and where necessary has made changes to its organisation, employment structure and processes to allow enforcement procedures to be used as effectively as possible under the law and the most appropriate punishments to be decided on.

For the goal of openness to innovation we concentrate on two challenges

Market participants have modern information technology infrastructure

Expected actions and results:

1. Finantsinspeksioon has charted the critical information technology infrastructure and identified the risks, and has where necessary made recommendations to supervised entities or required them to bring their actions in line with the law or to reduce risks;
2. Finantsinspeksioon has directed supervised entities and through them their partners to reduce the duration or number of outages in the provision of broad consumer services such

as payment services, motor insurance or stock exchange transactions to retail clients by steadily improving their information technology infrastructure, and has where necessary proposed changes to the law to achieve this;

3. Finantsinspektsioon has drawn up and applied a supervisory policy in consultation with market participants under which the introduction by a supervised entity of IT solutions that are new but are sufficiently secure will see a reasonable relaxation of the assessment and application of the requirements for market entry for that entity, except where the supervised entity was responding to a violation of the law or in matters of personal suitability.

Finantsinspektsioon recommends or makes changes to outdated rules or updates them

Expected actions and results:

1. Finantsinspektsioon has made proposals to the ministry responsible for how to handle crypto assets and other innovative financial products in the market with regulation, supervision, enforcement and so forth.
2. Finantsinspektsioon has identified rules that pose an unreasonable obstacle to financial innovation and has made proposals to the Ministry of Finance for changing or removing them.