
[Finantsinspektsioon annual report 2019](#)

Financial markets around the world are intertwined and are mutually interdependent in both good ways and bad. By the end of 2019, the reporting period for this report, Finantsinspektsioon was one of the most closely connected with European Union financial supervisors and other partners of all Estonian institutions. Our close work together allows us to map and manage cross-border risks. It also allows Finantsinspektsioon, as the smallest financial supervision authority, to use the methods of the best in the world, and to contribute our skills and knowledge to developing those methods. There are two sides to every coin though, and our experience so far has shown that bringing these working processes closely together within Europe has caused some issues, such as decision-making processes that become difficult to manage and that occasionally, and worryingly for us, may result in decisions that are not always in the best interests of Estonia, and in excess weight of bureaucracy. The benefits from the close cooperation between financial supervision authorities are clear though, as it helps provide even better quality supervision. However, centralising even more financial supervisory responsibilities because of individual cases should be thought about seriously and it would be better to get used to the way that the current system works together. The key features of the financial sectors in the Baltic states in 2019, and especially of Estonian financial markets, were concentration, adjustment and growth. The complex and comprehensive European regulations have brought costs, but have also caused financial intermediaries to optimise their activities in order to preserve their profits.

At the start of the reporting period, the complicated process of merging different banks was completed under the supervision of Finantsinspektsioon, and the result was that a bank that is large by Estonian standards was founded with its head office in Estonia and activities in Latvia and Lithuania. This means that we must now monitor developments in neighbouring countries, together with our foreign colleagues, and if necessary we must take supervisory steps to manage risks at the bank in those countries. There was also concentration in the insurance market. Structural demographic trends, digitalisation and its impact on the economy, and legislative changes present a challenge for financial intermediaries in adapting to the new circumstances. The business models of regulated financial intermediaries in Estonia are stable and work well, as banking is based on a fairly simple and classical model of lending backed by deposits, while non-life insurance remains focused on traffic insurance, fully comprehensive car insurance and insurance for residential property used as collateral, and the fund business is based mainly on the mandatory pension system. Life insurance, investment services and interbank payment services are still looking for their own place in the market. The smallest banks have used the changes in the banking markets in recent years as a springboard to good growth. Finantsinspektsioon pushes the banks to hold capital and develop their control organisations, as the seeds of possible risks in the future are unfortunately sown at the time when growth is fast. The digital financial intermediation by market participants in Estonia also comes under close financial supervision that aims to make sure that it functions without interruption, so that no negative incidents would affect Estonia. Financial intermediaries, especially the banks, had to invest in and change their compliance controls during the reporting period. The results of firm actions in the recent past by Finantsinspektsioon to

eliminate money-laundering risks have affected financial intermediaries and shaken them out of their comfort zone, making them look for modern and up-to-date risk control systems. Finantsinspektsioon emphasises constantly to the banks and other financial intermediaries that modern control mechanisms must be risk-based. Simple automatic systems are now out of date or even obsolete in the financial markets, as they cannot tell the grain from the chaff and they cause confusion for ordinary clients through excessive administrative demands, making those clients justifiably unhappy when their risk profiles should not attract any attention from the bank.

With interest rates at zero, people are looking for the best way to put their savings to work. This is leading them to put their money in unsupervised parts of the financial industry like savings and loan associations, lending and investment platforms, crypto currencies and more, without being aware of all the risks. In the worst cases they are allowing themselves to be caught up in obvious scams. The complaints and other information that we have received about these segments lets us say here clearly with flashing red warning lights that you may well earn from these but you may equally well lose all the money that you have put in! There is an old saying that you should measure nine times before cutting once. We welcome the efforts of the state to strengthen institutions investigating financial crimes, and to increase the monetary punishments in the financial sector and make proceedings there simpler. We believe that a fair solution for society would be that a financial intermediary that has hurt the credibility of society or some other social good should not be pampered but should be fined enough to reflect the harm that has been caused.

During the past reporting year we as a financial supervisor have again and again faced the question of what sort of financial market we as a society want. In what way can financial intermediation best serve the interests of the Estonian economy and people? Are current developments for the better or the worse? Should there be more competition? Are we as a society ready to bear the resulting risks? These issues arise directly from the legal mandate of Finantsinspektsioon but are much broader and weightier. For this reason we plan to work with our good colleagues at Eesti Pank and the Ministry of Finance to consider these questions systematically. Reflections on these considerations may well be a part of the next annual report by Finantsinspektsioon.

Changes in the legislation and the structure of financial markets have led Finantsinspektsioon to make changes in our organisational architecture, as has the need to use resources even more efficiently. At the end of the reporting period we effectively merged Finantsinspektsioon and the Guarantee Fund. Finantsinspektsioon now provides the Guarantee Fund with the services it needs under a cooperation agreement. We agreed together that it was not reasonable for the Guarantee Fund to keep its entire operation running outside of a crisis.

Financial supervision work is aimed primarily at professional financial intermediaries. This means that we must be able to cope with the most complicated challenges that will face us. We can do this by employing the top experts in their field, and by complementing each other through close cooperation. To manage our increasing volume of work better we added another member to the management board at the start of 2020, rotated the areas of responsibility between the members of the board to refresh our perspectives on them, and set up new departments so that we can manage our skills and knowledge more effectively.

We thank all the staff of Finantsinspektsioon and all our other colleagues, the subjects of financial supervision, and our other partners who have helped to keep the financial markets in Estonia operating stably and honestly!

The PDF-version of the annual report

[Annual report 2019](#) (pdf, 2.32 MB)

The PDF-version of the financial services overview 2019

[Estonian Financial services overview 2019](#) (pdf, 0.68 MB)

[Yearbook](#)

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