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# Countering Money Laundering

## Related links

[The Money Laundering and Terrorist Financing Prevention Act](#)

[The Prosecutor's Office Act](#)

[The Financial Supervision Authority Act](#)

- [Supervision policy of Finantsinspektsioon for countering money laundering and terrorist financing](#)
- [Advisory Guidelines of Finantsinspektsioon "Organisational solutions and preventive measures for credit and financial institutions to take against money laundering and terrorist financing"](#)

One important measure for maintaining confidence in the Estonian financial system and ensuring transparency is the ongoing work to counter money laundering and terrorism. The fight against money laundering in Estonia is led by the Estonian Financial Intelligence Unit, Finantsinspektsioon and investigatory bodies, each of which has legally defined responsibilities.

The Financial Intelligence Unit has primary responsibility for monitoring money laundering and it collects information and observes income from criminal activities. The unit has the right to receive information from Finantsinspektsioon and other state and local government institutions, and under an injunction from individuals, on activities, transactions and people suspected of involvement in money laundering or terrorist financing.

The investigatory bodies of the police and the prosecutor's office identify and investigate criminal cases of money laundering and send the evidence of criminal activity to the courts. The courts establish guilt or innocence and decide on punishments.

As the financial supervisory authority, Finantsinspektsioon is involved in preventing money laundering primarily through its monitoring of financial intermediaries as part of its supervisory work. It is responsible for ensuring that the organisation and risk management of banks and other financial intermediaries employ processes and systems that match the business strategy and risks, and that those systems are sufficiently staffed. This covers credit issuance, provision of payment services and investment services, insurance risks, and the organisation of financial intermediaries more broadly. The know-your-client principle is a part of risk management, and adherence to this principle is in itself a way of countering money laundering.

The role of financial supervision is to monitor the processes and systems of those under supervision, not to establish whether money laundering has occurred in specific cases. If evidence of money

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laundering or terrorist financing is uncovered by Finantsinspektsioon during supervision, then this is passed on to the Financial Intelligence Unit as required by law.

A second very important front alongside domestic cooperation in the fight against money laundering is the representation of Estonian interests in international committees and working groups setting the standards for measures to counter money laundering and terrorist financing and assessing their effectiveness. One of the most important partners for Finantsinspektsioon is the MONEYVAL expert committee of the European Council, which assesses measures taken against money laundering, and the anti-money laundering working group of the European Banking Association (EBA).

Finantsinspektsioon supervises the larger banks in Estonia together with the European Central Bank and supervises smaller credit institutions independently, but the main responsibility for supervision of branches operating in Estonia of banks from European Union member states that are not in the euro area lies with the supervisory authority of that country.

## **The strategic goals of financial supervision**

Helping prevent money laundering and terrorist financing is a strategic priority of Finantsinspektsioon and it is done through risk-based supervision. One indicator of risk in the fight against money laundering is the share of non-resident clients at a bank. The Estonian branch of the Danish bank Danske Bank A/S stood out for its large number of non-resident clients for example.

Finantsinspektsioon carried out thorough on-site supervision of the application of anti-money laundering and terrorist financing measures at the Estonian branch of Danske in spring and summer 2014, during which it was discovered that the bank was not following the anti-money laundering rules, was in breach of the know-your-client requirements, and was not monitoring the activities of its clients as it was legally obliged to.

Following the on-site inspection, Finantsinspektsioon issued an injunction to the bank in July 2015 requiring it to eliminate the shortcomings identified and bring its operations into line with the requirements of the Credit Institutions Act and the Money Laundering and Terrorist Financing Prevention Act. In response to the injunction from Finantsinspektsioon, the bank exited entirely the risky non-resident segment, where the risks for the Estonian financial sector are very large. Work to counter money laundering is constant and ongoing and does not end when one particular problematic case is resolved.

## **Reduced risks**

Partly as a result of the supervisory work of Finantsinspektsioon, the share of non-residents in the Estonian banking market has fallen from 20% in 2014 to 7.9% now (end of 2018), with a reduction in the share of non-transparent non-residents where the risk of money laundering is highest. The share of deposits held by offshore clients has fallen from 10% to below 1%.

Finantsinspektsioon is pleased to state that several credit institutions have in recent years recognised the risks to themselves and the whole of society from money laundering and have either ceased or essentially restricted the provision of services to non-residents with non-transparent backgrounds or businesses. However, as this risky business is simple to serve, it may be that some subjects of financial supervision have not fully recognised the importance of countering money laundering nor

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how the risks can affect everyone.

Finantsinspektsioon made two on-site anti-money laundering inspections of credit institutions and 19 remote inspections in 2017. Remote inspections were also carried out for all other market participants to assess their application of anti-money laundering and terrorist financing measures, and seven additional on-site inspections were made. The biggest shortcomings at credit institutions were primarily in organisational architecture, which did not accommodate the application of the appropriate prevention measures. It was found that several other market participants did not follow the know-your-client principle in establishing business relationships with clients and in ongoing monitoring of those relationships. Finantsinspektsioon pointed the shortcomings out to market participants and issued an injunction to one provider of payment services.

Finantsinspektsioon inspected market entry on 14 occasions. On two occasions it prevented people whose reputations were not spotless under the anti-money laundering requirements from sitting on the management boards of companies providing financial services.

In spring this year the European Central Bank approved the proposal by Finantsinspektsioon among others to withdraw the operating licence as a credit institution from Versobank AS as the bank was in breach of anti-money laundering and terrorist financing law. This step was preceded by two years of supervisory dialogue and processes aimed at resolving the problems of the bank.

This year Finantsinspektsioon restricted the operations of the payment institution Aktsiaselts Talveaed, as it had not complied with all of its obligations under the Payment Institutions and E-money Institutions Act and the Money laundering and Terrorist Financing Prevention Act in providing payment services.