

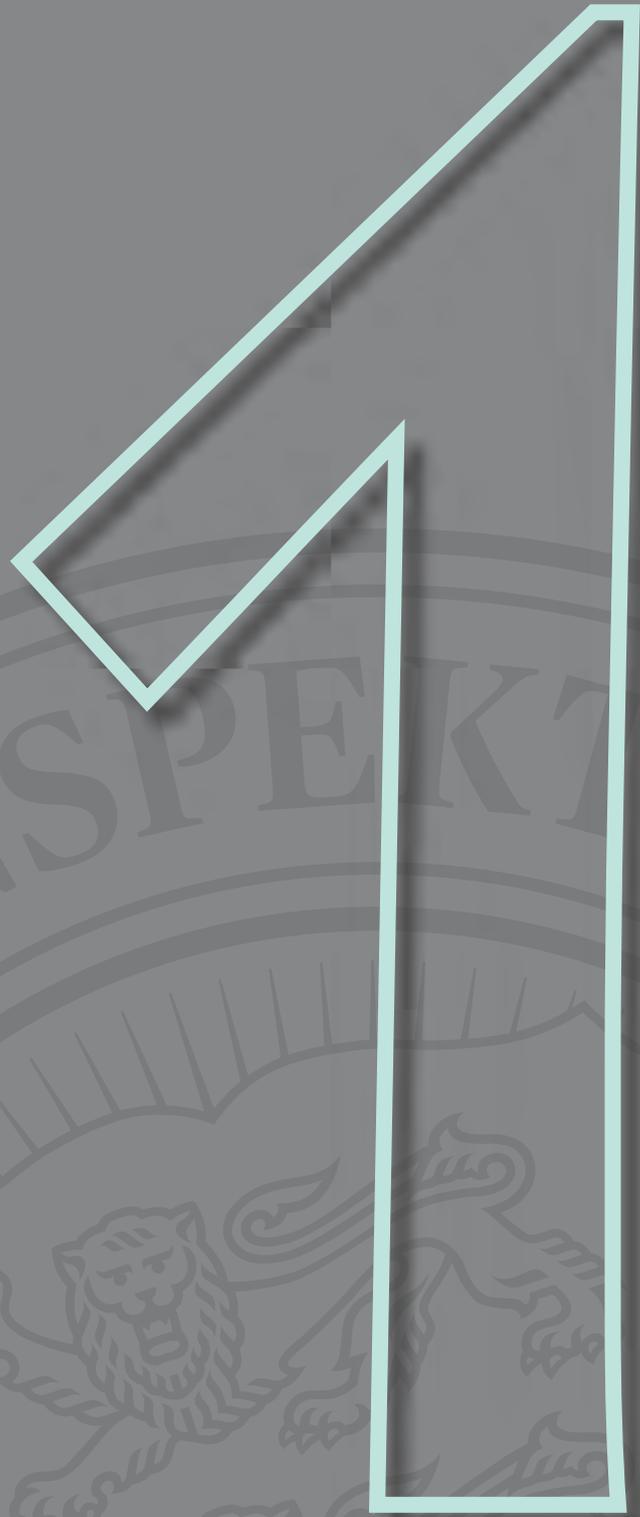
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FINANTSINSPEKTSIOON
ANNUAL REPORT 2018

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Finantsinspeksioon 2018 in numbers

7500	providers and intermediaries of financial services in the Finantsinspeksioon register of market participants
180	market participants supervised by Finantsinspeksioon. There are also individual funds and issuers, branches of foreign brokers and insurance agents, and insurance agents operating with an exemption
87	staff of Finantsinspeksioon, the smallest financial supervisor in Europe
280	suitability proceedings to assess the suitability of people for the financial sector
55	applications for qualifying holdings at 27 supervised entities
6	authorisations issued
5	authorisations withdrawn or partially withdrawn
10	on-site inspections focusing on capital supervision, including anti-money laundering work
16	on-site inspections focusing on service supervision, including anti-money laundering work
4	stress tests of the guarantee scheme at smaller banks
37	companies seeking advice from Finantsinspeksioon through the FinTech channel on block chain technology and issuing crypto coins
150	enquiries about Fintech
583	warnings about unauthorised provision of investment services
9	notifications of criminal activity to the police
3	fines for market manipulation
1	fine for failure to submit a payment institution report
196	customer complaints about financial services
14	guidelines issued by Finantsinspeksioon to market participants



FOREWORD BY THE
MANAGEMENT BOARD



The year 2018 was one when the fight against money laundering took centre stage. For a financial supervision institution, the fight against money laundering is one supporting function alongside the main tasks of supervising the solvency of financial intermediaries, their governance, and the transparency of their services. But this secondary function still presents major challenges to the supervisor. The recognition of the importance of breaching anti-money laundering rules that was shown by the application by Finantsinspektsioon for the authorisation to be withdrawn from Versobank set a precedent for applying values that changed the paradigms for the whole of Europe. It became clear that many other European banks had connections with risky non-resident businesses in ways where the control systems could not identify or manage the risks. Finantsinspektsioon was one of the first to start cleaning up this area, as early as 2014. This was when Danske was acting riskily before it was pushed to end that business. It became clear to Europeans more broadly in 2018 that acting effectively against cross-border risks needed the holes in the legal frameworks and the work of institutions to be filled in rapidly.

Finantsinspektsioon believes that the shortcomings in

Estonian legislation are that monetary penalties are too small, the procedures are too complex, and protection for whistle-blowers is too weak. We believe that the low levels of fines should not be so generous to financial groups that operate across borders and whose breaches of the rules damage the trust and financial stability that are the common shared assets of all of us. It becomes a major cause for concern once there is an international breach of the rules that damages the reputation of several countries and the society that is best protected is the one where the highest fines are imposed on the rule breaker. Monetary fines and penalties are the price set by all of us together for breaches of our shared values, as the rule breaker must pay to make amends to society.

We recognised in our annual report last year that e-Estonia has become a clear shared value for us. It is an idea that should be held to and we welcome the coordination of the efforts of the state and other actors in this area. Digitalisation allows risks to be defined, measured and managed better. A financial supervisor is not an innovation laboratory of course, and taking on this role would risk conflicts of interest and important work being neglected. It is our job to meet the cutting edge of innovation with a cool head and to speak of the dangers. This is especially so as we have not seen any shocking technological innovation alongside the very orderly digitalisation of the financial sector. There are signs though of the danger that fraudsters will try to use crypto assets and other innovatory solutions to trick money out of the gullible or in other ways sidestep legal rules.

Money has built up well in the bank accounts of people in Estonia and elsewhere. In one sense this is quite a strong endorsement of financial supervision, and at the same time it shows the importance of our role in society. Finantsinspektsioon works with the European Central Bank precisely to stop banks becoming insolvent. Honest management, transparent and effective organisation, sufficient capitalisation, and professional client service all contribute to the strength of financial intermediaries. However, only a limited number of such operators can fit into a small market. In the non-financial sector, a consumer may not notice for example that one mobile phone maker has gone bankrupt and a better competitor has entered the market, but things are more complicated for a financial sector that bears the funds and trust of all of us. Every blow to trust, and any insolvency at any financial intermediary, can cause damage to the overall background where everybody operates. In consequence stability in the financial market is as valuable as freedom of choice and free competition. Although finding the correct balance is a sensitive process for society, it should be noted that the Financial Supervision Authority Act sets financial stability as a responsibility for Finantsinspektsioon.

Indicators showing growth in the economy slowing suggest that Estonia's readiness to cope with more

difficult circumstances must be tested. For this reason, we have joined forces with the Guarantee Fund and have, together, successfully tested the capacity of liquidation procedures for banks in practice. The Baltic and Nordic financial supervisors and other interested parties have put their heads together and war-gamed an imaginary financial crisis in the region. The lessons learned are still being analysed and the logjams are being untangled, but the overall impression was that the exercise ended positively.

The current strategy expired in 2018 and so a new strategy for 2019–2021 was drawn up and approved. The goals of the new strategy emphasise the important values of the financial market, which are stability, reliability and openness to innovation.

The new strategy places more emphasis than the previous one on preparations to handle the risks arising from slower economic growth. The goals are to have an effective security network, sufficient buffers at supervised entities, and a responsible policy of enforcement. The requirements for the 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 use of modern IT infrastructure is as important as in the previous strategy, but the risks and trends of digitalisation that have emerged in this strategy period will require financial supervision to focus ever more stringently on this area. Setting more thorough supervision of the funded pension system as a new priority is a consequence of 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.

Although strategies, policies and draft laws are unquestionably necessary, practice has shown us that as a state we put too much effort into writing them to regulate every smallest detail and idea. Finantsinspektsioon believes that in the current circumstances it is better to promote professionalism in applying the law and in other work by the public sector that makes real changes. No policy or law applies itself, as this is done by decisive action by strong institutions. The foundation for a strong financial supervision institution is sufficient and stable funding and independence in decision-making. In our work we will continue to be certain, professional and open-minded.



Finantsinspektsioon management board: (from left) Andres Kurgpõld, Kilvar Kessler, André Nõmm



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CONFIRMATION BY THE
MANAGEMENT BOARD

Tallinn, 18 March 2019

The annual report has been prepared by the Management Board of Finantsinspeksioon and presented for approval to the Supervisory Board of Finantsinspeksioon. The annual report is submitted to the Riigikogu.

The annual report contains:

- a review of the work of Finantsinspeksioon
- the profit and loss account for the year
- the balance sheet
- the auditor's report

The Management Board of Finantsinspeksioon confirms that the profit and loss account for the year for Finantsinspeksioon meet the requirements of the Financial Supervision Authority Act and the applicable accounting principles.



Kilvar Kessler



Andres Kurgpöld



Andre Nõmm



THE OPERATIONS, STRUCTURE
AND STRATEGY OF
FINANTSINSPEKTSIOON



Finantsinspektsioon is a financial supervision and resolution authority with autonomous responsibilities and budget.

The goal of financial supervision is to increase the stability, reliability, transparency and effectiveness of the financial sector, to reduce systemic risks, and to help prevent criminal activity in the financial sector. By doing this, Finantsinspektsioon supports the stability of the Estonian monetary system.

The goal of resolution is to avoid any negative impacts on financial stability from any insolvency occurring at any bank.

Finantsinspektsioon works on behalf of the state of Estonia and is independent in its decision-making. In carrying out financial supervision and in resolving financial crises, Finantsinspektsioon works only for the benefit of the public interest. Its work is funded by the supervision and procedural fees that are paid by the market participants that Finantsinspektsioon supervises.

Finantsinspektsioon carries out state supervision of licensed banks, insurance companies, insurance intermediaries, investment firms, fund management companies, investment and pension funds, payment institutions, e-money institutions, creditors and credit intermediaries, and the securities market.

Finantsinspektsioon is part of the European Single Supervisory Mechanism (SSM), which carries out capital supervision for the most important banks and banking groups in Europe. Finantsinspektsioon is also part of the Single Resolution Board.

The activities of Finantsinspektsioon are planned and controlled by the Supervisory Board. Its work is managed by a three-member management board, which takes decisions by majority vote.

THE FINANTSINSPEKTSIOON STRATEGY 2016–2018

The Finantsinspeksioon strategy for 2016–2018 for supervision focused separately on priority activities in capital and service supervision and in resolution.

In capital supervision Finantsinspeksioon focused on integrating with the single supervisory mechanism, with the emphasis on work with Eesti Pank in this. Finantsinspeksioon also worked hard on the supervision of corporate management, focusing on the suitability of managers, internal control systems, sustainability of business and continuity of operations, and reporting rights.

In supervising services, Finantsinspeksioon focused on the life-cycle of financial services and products. Particular attention was paid to preventing money laundering and terrorist financing. As part of this Finantsinspeksioon has developed analysis and methodologies for financial supervision and has substantially raised the number of on-site inspections.

The focus in resolution was on integrating with the Single Resolution Mechanism and the Single Resolution Board, and on drawing up resolution plans for the banks.

In promoting public awareness, Finantsinspeksioon focused on supporting the supervision and resolution functions by giving consumers information on topical issues and setting a good example for professional participants in the financial market.

THE FINANTSINSPEKTSIOON STRATEGY 2019–2021

At the end of 2018 the Supervisory Board approved the new Finantsinspeksioon strategy for the years 2019–2021. The central focus of the new strategy is on helping to prevent money laundering and terrorist financing, making preparations for better risk management, and promoting cyber-security. In setting the strategy, Finantsinspeksioon started from risk mapping and the experience of the previous strategy. The need to carry out tasks set by European Union and Estonian law was considered in this, as were the strategies of Finantsinspeksioon's main partners.

Vision

We are an influential and adaptive institution.

Mission

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

Values

Certain. Professional. Open minded.

STRATEGIC GOALS

A financial market that is stable, reliable and open to innovation

To achieve stability, we must concentrate on three targets:

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

To achieve reliability, we must concentrate on three targets:

- Market participants have fit and proper managers
- Market participants have transparent and effectively funded pension products
- Finantsinspeksioon has an effective but responsible enforcement policy

To achieve openness to innovation we concentrate on two targets:

- Market participants have modern information technology infrastructure, including that needed to minimise cyber risks.
- Finantsinspeksioon recommends changes to outdated rules, or amends or updates them.

OUR PRINCIPLES IN OUR WORK:

In our international work we promote our own values. We support the increased integration of European Union financial markets and the distribution of risks rather than concentration in 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 public awareness by providing regular, relevant and clear information on our activities and on financial markets and services.

THE WORK OF THE SUPERVISORY BOARD

Members of the Supervisory Board of Finantsinspeksioon in 2018 were:

- Toomas Tõniste (Chair), Minister of Finance
- Ardo Hansson, Governor of Eesti Pank
- Madis Müller, Deputy Governor of Eesti Pank
- Rein Minka, Member of the Supervisory Board of Eesti Pank
- Veiko Tali, Secretary-General of the Ministry of Finance
- Valdur Laid, Director General of the Tax and Customs Board

The Supervisory Board held six meetings in 2018 at which the following decisions were taken:

- the 2017 annual report of Finantsinspektsioon was approved
- the surplus of 754,448 euros in the Finantsinspektsioon budget for 2017 was returned to supervised entities
- the Finantsinspektsioon strategy 2019–2021 was approved
- the Finantsinspektsioon budget of 7,286,000 euros for 2019 was approved
- it was proposed that the Ministry of Finance approve the supervision fee rates for 2019

The Finantsinspektsioon Management Board also gave regular reviews to the Supervisory Board of the activities of the organisation, the development of the financial sector, and the fulfilment of the Finantsinspektsioon budget.

THE WORK OF THE MANAGEMENT BOARD

The management board held 56 meetings in 2018 at which 182 administrative rulings were made, including 15 written precepts. Four monetary fines were imposed on supervised entities for breach of the rules. The management board issued six authorisations and accepted six others as withdrawn or partially withdrawn. A further licence was withdrawn from one bank by the European Central Bank working with Finantsinspektsioon.

The structure of Finantsinspeksioon as at 31.12.2018

SUPERVISORY BOARD

ANDRES KURGPÖLD Member of the Management Board	KILVAR KESSLER Chairman of the Management Board	ANDRE NÕMM Member of the Management Board
Prudential Supervision Divisjon 22	Legal Department 9	Business Conduct and Supervision Division 14
Prudential Policy and Financial Reporting Division 10	Resolution Department 4	Market Supervision and Enforcement Division 8
IT Systems 3	Public Relations and Consumer Education 3	Administrative Services Department 6
	International Cooperation 2	
	Human Resources 1	
	Internal Audit 1	

ORGANISATION STRUCTURE

Finantsinspektsioon has three lines of operation, which are capital supervision, market and service supervision, and crisis resolution. These are backed up by support and control activities such as public relations and consumer education, legal services, human resources and training, coordination of international cooperation, internal audit, information technology, bookkeeping, and secretarial support.

The focus of capital supervision is on analysing the risks of financial institutions and the sustainability of their operations.

Supervision of markets and services is intended to keep financial services transparent, trustworthy and effective.

Crisis resolution is handled by the resolution department of Finantsinspektsioon, which is independent of the supervisory activities. To avoid any conflicts of interest, the resolution department reports directly to a member of the management board who is not directly responsible for the capital supervision of the banks.

At the end of 2018 the management board of Finantsinspektsioon decided to establish a separate anti-money laundering and payment service supervision department, as experience of strategy had shown the need for closer attention to this area. The role of the unit will be to help prevent criminal abuse of the financial sector and to carry out financial service supervision of payment and e-money institutions.

Because of the increasing volume of supervision work, the Supervisory Board of Finantsinspektsioon gave permission to recruit up to 13 new specialists in 2019.

THE STAFF AND THE PERSONNEL POLICY

At the end of 2018 there were 87 people working at Finantsinspektsioon and four more with suspended contracts. The number of employees increased by three over the year as 13 new employees were added and 10 left. The average age of employees is 38 and they have worked on average for nine years for Finantsinspektsioon.

The team is a good combination of top-level experts with long experience and young specialists who have arrived in the past few years. The majority of the staff are specialists in finance, analysts and auditors, and lawyers. Everybody employed by Finantsinspektsioon has completed higher education.

The focus of personnel policy was on recruiting new employees and providing opportunities for development for current employees. Staff of Finantsinspektsioon attended a total of 81 training courses and conferences, one third of which were international. Events abroad were principally organised by the European

Central Bank and the European supervisory institutions. One priority for training was to develop the IT skills of employees to improve their awareness of the IT risks and general information security that are increasingly important for financial supervision. The most popular training courses were the 26% that were specific to supervision, followed by IT courses at 16% of the total, and legal courses at 11%. An information day was organised for new employees that explained the functions, organisational structure, values and working culture of Finantsinspektsioon.

Finantsinspektsioon offers annual internships to Estonian university students. An intern who worked in the information technology support unit in spring 2018 helped to create the new reporting portal, and then joined the IT department as a member of staff in the summer as a result of this successful project.

STAFF STATISTICS*

Years of employment	Number	%
Up to 2 years	31	34
3-10 years	28	31
11-15 years	9	10
16-20 years	9	10
More than 20 years	14	15
Average	8.70	
Age	Number	%
Up to 30 years	27	30
31-40 years	31	34
41-50 years	27	30
51-60 years	6	6
Average	37.7	
Gender distribution	Number	%
Men	29	31.9
Women	62	68.1
Distribution by job	Number	%
Executive Board	3	3.3
Information technology	6	6.6
Heads of department	6	6.6
Legal specialists	26	28.6
Finance specialists	38	41.7
Support staff	12	13.2

* includes staff with suspended contracts



THE WORK OF THE
INTERNAL AUDITOR

The Finantsinspektsioon internal auditor worked in 2018 on risks, responsibilities and reviews. In the general planning of his work, execution of his official duties, organisation of his work and announcement of the results, the internal auditor was fully independent and objective. The work followed the code of ethics of the Institute of Internal Auditors, professional standards and principles, and the recommendations in the key regulations and guidelines for internal auditors of the European System of Central Banks. The internal auditor's assessment based on key indicators found that the internal audit met reasonable expectations and the required quality standards. The Supervisory Board and the Management Board set aside sufficient resources for the internal audit in 2018.

An external assessment of the internal audit was carried out in 2018, and it found that the internal audit was in general compliance with the IIA standards and code of ethics, and with the regulations and guidelines for internal auditors of the European System of Central Banks and the Single Supervisory Mechanism.

The assessment team from AS Deloitte Audit Eesti wrote: "The IA environment where the external assessment was performed is well structured and progressive, where the Standards are understood, the Code of Ethics is being applied, and management endeavours to provide useful audit tools and implement appropriate practices."

The main observation of the external assessors concerned Standard 1110 on organisational independence. They made the important observation that the organisation of the internal audit at Finantsinspektsioon is not independent in the sense of Standard 1110, as the head of the internal audit does not come under a higher management body, in this case the Supervisory Board, even though he has unlimited access to the Supervisory Board and the Supervisory Board has the same access to the internal auditor. Under the Financial Supervision Authority Act it is not the Supervisory Board that has responsibility for the statutes and working plan of the internal audit unit, nor for approving the remuneration of the head of the internal audit or for hiring or removing from office the head of the internal audit. The internal auditor agrees that a public sector institution carrying out supervision in the name of the state must be held to the benchmark of best practice. The external assessors recommended that changes be made to §7 of the Financial Supervision Authority Act to add the rights for the Supervisory Board. The process for changing the law may be initiated by the Supervisory Board.

In the opinion of the internal auditor, the decisions of the Supervisory Board and the Management Board were satisfactorily executed in 2018. The functioning of the management and control system generally met reasonable expectations.

The internal auditor finds that Finantsinspektsioon staff acted appropriately to avoid conflicts of interest. The measures in place to prevent conflicts of interest met the legal requirements.



Raivo Linnas
Internal auditor



THE SUPERVISORY WORK OF
FINANTSINSPEKTSIOON



One of the main tasks of Finantsinspektsioon is to help the Estonian financial sector grow efficiently, avoiding systemic risks to it and preventing criminal abuse of it. The role of supervision is to ensure that financial institutions can fulfil all their obligations to their clients and that clients receive accurate and full information and are treated fairly.

ISSUING AND WITHDRAWING AUTHORISATIONS

Finantsinspektsioon issued six authorisations in 2018 and accepted six others as withdrawn or partially withdrawn.

One authorisation was issued to a creditor and one to a credit intermediary under the Creditors and Credit Intermediaries Act. Licences were withdrawn from two creditors at their own application and two creditors withdrew their applications for authorisations during the application proceedings.

Two authorisations for investment firms were also issued and two authorisations for payment institutions, one of which was issued with an exemption for providing account information services. Two payment institutions had their authorisations withdrawn at their own application.

An authorisation as an investment fund was issued to one fund manager, from whom the fund management authorisation was then withdrawn. The authorisation from one Eurofund manager was partly withdrawn at

the application of the fund manager.

Applicants for authorisations withdrew their application during the proceedings on six occasions, and on eight occasions the application for an authorisation remained unprocessed.

The European Central Bank withdrew the authorisation from one Estonian bank at the proposal of Finantsinspektsioon. On one occasion the European Central Bank granted permission for a cross-border merger of banks operating in the Baltic states.

The new wording of the Payment Institutions and E-money Institutions Act that came into force at the start of the year was taken from PSD2, the new version of the payment services directive (PSD), which created authorisations for two new payment services in the Estonian market, these being payment initiation and account information services. For payment initiation and account information services to be provided, the payment account managers must ensure access to client payment accounts for those that have the right to provide such services.

Sector and business	Decision of the Finantsinspektsioon Management Board	Date
CREDIT INSTITUTIONS		
Versobank AS	Finantsinspektsioon and the European Central Bank jointly withdrew the authorisation to operate as a credit institution	26.03.2018
FUND MANAGERS		
AS Trigon Asset Management	The authorisation to operate as a Eurofund manager was partially withdrawn	07.05.2018
INVESTMENT FIRMS		
AS Redgate Capital	An authorisation to operate as a fund manager was issued	12.02.2018
AS KAWE KAPITAL	An authorisation to operate as a fund manager was issued	27.04.2018
CREDITORS		
Blond Finance OÜ	An authorisation to operate as a creditor was issued	22.01.2018
Credit Plus Capital OÜ	The authorisation to operate as a creditor was withdrawn	27.02.2018
Laenupunkt OÜ	The authorisation to operate as a creditor and a mortgage creditor was withdrawn	17.12.2018
CREDIT INTERMEDIARIES		
Credible Finance OÜ	An authorisation to operate as a credit intermediary was issued	02.05.2018
PAYMENT INSTITUTIONS		
OÜ GRAPE TAX-FREE	The authorisation to operate as a payment institution was withdrawn	26.02.2018
Ühisarveldused AS	An authorisation to operate as a payment institution was issued	11.06.2018
OÜ Krediidiregister	The authorisation to operate as a payment institution with an exemption was issued	17.12.2018
Meieni OÜ	The authorisation to provide money remittance services with an exemption was withdrawn	20.12.2018

REGISTRATION OF INVESTMENT AND PENSION FUNDS, CHANGES TO CONDITIONS, AND OTHER PROCEDURES

In 2018 Finantsinspeksioon coordinated changes to the conditions of one mandatory pension fund and seven investment funds. Among the investment funds that changed their conditions are both pension funds and public investment funds. When processing the conditions, Finantsinspeksioon checks whether the fund manager has submitted the detailed information required by law on the investing process and whether it has been submitted in a way that is complete and understandable for unit holders.

One voluntary pension fund received permission to merge its funds and one fund was permitted to merge its funds internationally. Permission to liquidate was issued to one investment fund.

The table below lists the proceedings carried out in 2018 relating to funds managed under authorisations.

An authorisation is needed to manage public investment and pension funds, and this is issued by, and can be withdrawn by, Finantsinspeksioon. Non-public investment funds can also be managed after registration of the activity as a small fund manager with Finantsinspeksioon.

Finantsinspeksioon registered the activity of eight small fund managers in 2018, and in total the activities of 20 small fund managers operating without an authorisation have been registered in Estonia. A small fund manager operating without an authorisation is not permitted to offer its funds to the public, and Finantsinspeksioon does not supervise such funds. Small fund managers submit regular reports that Finantsinspeksioon passes on to the European Securities and Markets Authority for reporting and collection of statistics. This is needed for assessment of risks in financial markets.

Investment and Pension Funds	Decision of the Finantsinspeksioon Management Board	Date
LHV Pensionifond Intress Pluss	Permission was granted to merge with another investment fund	08.01.2018
Trigon Uus Euroopa Fond	Permission was granted to merge with another investment fund abroad	15.01.2018
Avaron Ida-Euroopa Völakirjafond	Permission was granted to close the investment fund	22.01.2018
Investeerimisfond Avaroni Privaatportfell	Changes in conditions needed to be brought into line	26.02.2018
LHV Pensionifond Eesti	Conditions of the new investment fund needed to be brought into line	19.03.2018
Trigon Balti Fond	Changes in conditions needed to be brought into line	09.04.2018
Trigon Venemaa Top Picks Fond	Changes in conditions needed to be brought into line	09.04.2018
Tuleva Maailma Aktsiate Pensionifond	Changes in conditions needed to be brought into line	10.09.2018
Tuleva Maailma Völakirjade Pensionifond	Changes in conditions needed to be brought into line	10.09.2018
LHV Pensionifond XS	Changes in conditions needed to be brought into line	08.10.2018
LHV Pensionifond S	Changes in conditions needed to be brought into line	08.10.2018

ASSESSING THE SUITABILITY OF INDIVIDUALS

Anyone wishing to head a company under financial supervision or to own a qualifying holding in one must by law meet strict requirements for suitability. The past actions of people taking regulated positions in the financial sector must have been honest and trustworthy and in line with the legal limits.

Finantsinspeksioon carried out assessments of suitability on 280 occasions in 2018, during which it assessed

whether the applicants met the legal requirements and were suitable for work in the financial sector. One fifth of those assessed did not meet the requirements.

Finantsinspeksioon introduced a guideline for suitability proceedings that was intended to explain the procedure and principles behind suitability. It also worked with market participants to develop new questionnaires that make it easier to assess whether managers comply with the requirements, as the manager and the market participant themselves must take responsibility for compliance.

PROCEDURES FOR QUALIFYING HOLDING

In 2018 Finantsinspeksioon received applications for ownership of qualifying holding from 55 individuals at

27 supervised entities. Permission to hold a qualifying holding was granted to 46 individuals from 17 supervised entities. The qualifying holding procedures were not processed for three individuals at two supervised entities, and 13 individuals from six supervised entities withdrew their applications themselves.

ENTRY INTO THE LIST OF INSURANCE INTERMEDIARIES AND DELETION FROM IT

Insurance brokers and insurance agents operate in Estonia as insurance intermediaries, and both must by law be entered in the list of insurance intermediaries.

The roles of an insurance broker and an insurance agent are fundamentally different, as an insurance broker

represents the interests of the policyholder, while the agent represents the interests of the insurance company. Insurance agents are listed under the insurance company that authorised their activity. The insurance company is responsible for the accuracy of the entries in the list.

For an insurance broker to be entered into the list of insurance intermediaries, it must submit an application in writing to Finantsinspeksioon. Finantsinspeksioon entered one insurance intermediary into the list in 2018 and deleted two insurance brokers from it.

Insurance brokers	Decision of the Finantsinspeksioon Management Board	Date
Insta Insurance Broker OÜ	Added to the list of insurance agents	09.04.2018
Confido Kindlustusmaakler OÜ	Removed from the list of insurance agents	15.08.2018
Black4Yacht Kindlustusmaakler OÜ	Removed from the list of insurance agents	27.09.2018

ISSUING AUTHORISATIONS FOR CROSS-BORDER PROVISION OF SERVICES

A financial institution that wants to provide the services listed in its authorisation to other countries in the European

Economic Area and to set up a branch in the territory of another country must inform Finantsinspeksioon of its plans and submit the data and documents required by law.

Finantsinspeksioon issued authorisations for the cross-border provision of services to one payment institution, one bank, one insurance broker and one investment firm in 2018.

Sector and business	Decision of the Finantsinspeksioon Management Board	Date
PAYMENT INSTITUTIONS		
Wallester AS	An authorisation was issued to provide cross-border services in Finland, Latvia, Lithuania, Sweden, Norway and Denmark	01.10.2018
INSURANCE BROKERS		
Marsh Kindlustusmaakler AS	Notification was issued of the provision of cross-border services in Hungary	28.11.2018
CREDIT INSTITUTIONS		
AS LHV Pank	An authorisation was issued to provide cross-border services in Belgium	05.03.2018
AS LHV Pank	An authorisation was issued to provide cross-border services in Germany and Austria	18.06.2018
INVESTMENT FIRMS		
AS Redgate Capital	An authorisation was issued to provide cross-border services in Latvia and Lithuania	25.06.2018

ISSUING AUTHORISATIONS FOR FOUNDING OR CLOSING BRANCHES IN FOREIGN COUNTRIES

A financial institution that wants to provide the services listed in its authorisation to other countries in the

European Economic Area and to set up a branch in the territory of another country must inform Finantsinspeksioon of its plans and submit the data and document required by law.

Finantsinspeksioon authorised one bank and one fund manager to found branches abroad in 2018, and the foreign branch of one investment firm terminated its activities.

Sector and business	Decision of the Finantsinspeksioon Management Board or notification by the business	Date
CREDIT INSTITUTIONS		
Luminor Bank AS	An authorisation was issued jointly with the European Central Bank to establish branches in Latvia and Lithuania	09.04.2018
FUND MANAGERS		
Limestone Platform AS	Notification was given to the financial supervisor of Luxembourg about the establishment of a branch	23.10.2018
INVESTMENT FIRMS		
Admiral Markets AS	The operation of a branch in Czechia was ended	02.07.2018
Admiral Markets AS	The operation of a branch in Romania was ended	16.07.2018

SETTING UP A BRANCH OF A FOREIGN BUSINESS IN ESTONIA OR TERMINATING ITS ACTIVITIES

Financial institutions that operate in a country of the European Economic Area and want to set up a branch in Estonia do not need to apply to Finantsinspeksioon for an authorisation. They should however inform Finantsinspeksioon of their intentions through the financial supervisory institution of their own country and should submit all the appropriate data and documents.

Finantsinspeksioon has the legal right where necessary to make decisions or make declarations on requirements that the business must follow in Estonia. Finantsinspeksioon makes its decisions known through the financial supervision authority of the business's home country.

Branches of the foreign businesses Nordea Bank Abp, Intus Financial Services Oy Ltd, Marine Insurance Services SIA, GrECO JLT Specialty GmbH and SEB Dzīvības apdrošināšana started operations in Estonia. GrECO JLT Baltic GmbH branch terminated its activities.

Sector and business	Date of the decision of the Finantsinspeksioon Management Board or forwarding of notification
CREDIT INSTITUTIONS	
Nordea Bank Abp branch	25.09.2018
INSURANCE BROKERS	
Marine Insurance Services SIA Eesti branch	31.07.2018
GrECO JLT Specialty GmbH Estonia branch	30.11.2018
INSURANCE COMPANIES	
SEB Dzīvības apdrošinašana branch	03.12.2018

PROVIDING CROSS-BORDER FINANCIAL SERVICES IN ESTONIA

Financial institutions that operate in a country of the European Economic Area and want to provide cross-border services in Estonia do not need to apply to Finantsinspeksioon for authorisation. They may start operations in Estonia once the supervisory authority of

their home country has passed on the necessary information to Finantsinspeksioon.

Payment institutions and e-money institutions may provide cross-border services in Estonia if the supervisory authority of their home country has informed Finantsinspeksioon that the provision of cross-border services is not forbidden or restricted.

The number of providers of cross-border services in Estonia rose in 2018.

Provider of cross-border services in Estonia	Number at the end of 2017	Number at the end of 2018
Banking services	342	351
Credit intermediation services	10	22
Investment services	1877	1931
Non-life insurance services	462	470
Life insurance services	80	111
Insurance brokerage services	1107	1172
Insurance agent services	1486	1498
Fund management services	75	83
Investment fund services	148	154
E-money services	151	174
Payment services	349	333

Authorisations issued in 2018

2

AUTHORISATIONS FOR
INVESTMENT FIRMS

1

AUTHORISATION FOR
A CREDITOR

1

AUTHORISATION
FOR A CREDIT
INTERMEDIARY

2

AUTHORISATIONS
FOR PAYMENT
INSTITUTIONS

Authorisations withdrawn in 2018

1

AUTHORISATION FOR A
CREDIT INSTITUTION

2

AUTHORISATIONS
FOR CREDITORS

1

AUTHORISATION FOR A
FUND MANAGER

2

AUTHORISATIONS FOR
PAYMENT INSTITUTIONS



PRUDENTIAL SUPERVISION



The main aim of prudential supervision is to aid stability and trustworthiness in the financial system by assessing organisation and management, and whether there is sufficient capital to cover the risks that have been taken.

BANKS

The focus in banking supervision in 2018 was on the internal control systems of banks, general management, the organisation and functioning of risk management and control, and operational risk and continuity in relation to information and communications technology.

Preparations were also made for the cross-border merger of Luminor Bank AS. After the bank and its foreign branches merge in 2019, supervision over them all will fall to Finantsinspeksioon, as the responsible authority of the home country of the bank, together with the European Central Bank in line with the legal division of responsibilities.

SUPERVISION OVER IMPORTANT BANKS

The European Central Bank is responsible for capital supervision over banks that are considered systemically important under Europe's Single Supervisory Mechanism. The European Central Bank coordinates its work with staff from Finantsinspeksioon in a single supervisory group set up for each bank separately. The banks that this affected in Estonia in 2018 were AS SEB Pank, Swedbank AS and Luminor Bank AS.

The single supervisory groups gave a supervisory opinion on the important banks in 2018 and analysed their recovery plans. They also separately considered how ready the banks were to introduce the new international financial reporting standard IFRS 9. The supervisory assessment and the analysis of the recovery plans were collegiate decisions taken jointly. The joint decision on the recovery plan includes recommendations to the bank on how to improve the plan. Joint decisions are taken during the supervisory review and assessment process to give an opinion on the risks to the group and its capital needs. The results of the IFRS 9 assessment project were given by the single supervisory groups to the banks as written reviews of shortcomings and recommended actions, and the banks reported on how they eliminated the shortcomings. Members of the single supervisory group meet regularly with staff of the bank to give their assessment and they analyse the information submitted by the bank. The important banks were also subject to on-site supervision.

A project for targeted review of internal models (TRIM) was started together with the European Central Bank, which assessed the internal models of the banks, their validation and content, and the internal procedures and internal control systems affecting the internal models. The reason for doing this was to apply the same standards for use and assessment of internal models equally throughout Europe within the scope of the single supervision mechanism (SSM).

A new single supervisory group was set up in 2018 to supervise Luminor Bank AS, which came under

the direct supervision of the European Central Bank in February. The European Central Bank and Finantsinspeksioon are represented in the single supervisory group for Luminor, as are the supervisory institutions of Latvia and Lithuania. This is an unusual arrangement in the SSM, as the supervisory institutions of the countries where branches are located are not supposed to participate in the work of the single supervisory group.

The main issue in the supervision of Luminor Bank AS in 2018 was the processing of the application for the cross-border merger. The end result was that in summer the European Central Bank decided to permit the bank to merge cross-border so that the head offices would be in Estonia. As part of the merger, the establishment of branches of Luminor Bank AS in Latvia and Lithuania was also assessed.

The move of the Nordea head office from Sweden to Finland led to an assessment of significant participation, part of which covered whether the Finnish Nordea banking group was a suitable sole owner for Luminor. This assessment was carried out jointly by the Finnish financial supervision authority and the European Central Bank.

SUPERVISION OVER LESS IMPORTANT BANKS

Finantsinspeksioon is responsible for banks that are systemically less important in terms of the single supervision mechanism, and it works together with the European Central Bank in this.

Finantsinspeksioon submitted a formal application in February 2018 to the European Central Bank for the authorisation of Versobank AS to be withdrawn. The European Central Bank took the decision to withdraw the authorisation on 26 March 2018. The authorisation was withdrawn because of serious and long-lasting breaches of legal requirements, particularly concerning the prevention of money laundering and terrorist financing. After the authorisation was withdrawn, the Guarantee Fund compensated Versobank AS depositors for their deposits within the limits set by law. The process of liquidating the bank went smoothly and without disruption.

As in earlier years, Finantsinspeksioon was again involved in thematic analysis at the European Central Bank in 2018. The focus was again on the transition to IFRS 9, and the analysis concentrated not on assessing the impact of IFRS 9, but rather on whether the internal rules of the banks were ready to apply the IFRS 9 principles. Planning started in 2018 for a thematic analysis on lending conditions, to establish whether the lending conditions at less important banks were weaker, and whether that affected loan growth.

Finantsinspeksioon also gave the European Central Bank a review of the business models and risk profiles

of systemically less important banks, the main supervisory actions and decisions it had taken in 2018, and the actions planned to help it meet its priorities and targets in supervision in 2019.

The attention of Finantsinspeksioon was again aimed at the internal control systems of less important banks, the risks around rapid loan growth, and related capital management. These areas were again highlighted in the annual Finantsinspeksioon supervision assessment, and, where necessary, additional capital requirements were set.

The less important banks in Estonia continued to improve their recovery plans in 2018 and submitted the updated plans to Finantsinspeksioon for assessment. The plans are intended to ensure that banks can maintain sustainability and business continuity in a crisis. Although the plans were much better than previously, Finantsinspeksioon still found some weaknesses in them. Additional work was primarily needed on the sufficiency of scenarios, details of management organisation, and impact analysis for recovery measures. The banks must submit the improved plans in 2019.

THE SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP)

Finantsinspeksioon regularly assesses and measures the risks to each bank. This is called the Supervisory Review and Evaluation Process, or SREP. In 2018 Finantsinspeksioon drew its annual SREP assessment of the risk profiles of the banks and the sufficiency of their capitalisation and liquidity. The outcome of the SREP is a report for each bank giving an assessment of 33 different areas. This assessment includes Finantsinspeksioon's opinion of the capital and liquidity needs of the bank.

Finantsinspeksioon also carried out credit risk stress tests as part of the SREP, which assessed how the loan portfolios of all the banks operating in Estonia would perform if the economic environment suffered a negative shock. The payment behaviour of the banks was assessed together with the possible loan losses that would result from collateral assets falling in value. The test results show that the banks were relatively well capitalised to face any possible credit shock.

If the regulatory capital requirements are not sufficient for a given bank to cover its risks, Finantsinspeksioon can set additional capital requirements for it under the SREP. An additional capital requirement of 52 million euros was set for less important banks in 2018, which is 43% above the regulatory requirement. An additional capital requirement of 234 million euros was set for important banks, which was 34% above the regulatory requirement. The largest part of the additional capital requirements for both less important and important banks was set to cover credit risk. On top of credit risk,

additional capital requirements have also been set for less important banks to cover strategic risk and interest risk coming from the bank portfolio.

OTHER SUPERVISORY WORK

Finantsinspeksioon carried out on-site inspections of 22 risk areas at banks in 2018. The focus in this was on internal control systems and general management, and the organisation of risk management and control. Risk management and control in individual risk areas were also assessed, as were reporting, and the suitability procedures and processes for managers and key staff. Following the on-site inspections, Finantsinspeksioon noted more than 100 points on which the banks had to provide explanations. The observations mainly concerned insufficiencies or inaccuracies in the internal rules and the non-functioning of internal control system processes. There were still problems with the operation of control functions and the organisation of internal reporting.

Finantsinspeksioon and the Guarantee Fund continued their stress testing of the guarantee scheme in 2018. One part of the test was an assessment of the capacity of the banks to present data to the Guarantee Fund on deposits covered by the guarantee, and of the ability of the Guarantee Fund to receive these data and process them. The test was run at four smaller banks during the year, and it did not find any significant shortcomings. Finantsinspeksioon and the Guarantee Fund will continue to run the tests in 2019.

INSURANCE COMPANIES

In its capital supervision of insurance companies, in 2018 Finantsinspeksioon concentrated on thorough analysis of each individual insurance company. Following the analysis, each insurance company was given an assessment and a supervision programme for the next year was drawn up.

Finantsinspeksioon uses the risk analysis framework to identify and assess risks that could affect the financial position of insurance companies and their ability to meet their obligations to their clients. A detailed supervisory report (SRP report) was written for each insurance company from the results of the risk analysis framework, giving an assessment of the business model, strategy, management system and risks of the insurer. The insurance company was given a summary of the conclusions as feedback. In general terms it can be said that the quality of the reports submitted by the insurance companies that are one input in the SRP assessment could be improved.

Finantsinspeksioon carried out four on-site inspections at insurers in 2018 and assessed 24 functions and risks. These inspections covered general management, risk management and control functions, the

methodology for calculating technical provisions, the compilation of supervisory reports, the calculation of capital requirements, the suitability of management, and avoidance of conflicts of interest. After the inspections, Finantsinspektsioon drew the attention of the insurers to more than 100 points that needed improvement or internal analysis. Shortcomings were found in all areas, such as internal rules at insurers that were insufficient or out of date. Errors were also found in the compilation of reports and in monitoring processes.

Finantsinspektsioon held an information day for market participants at the start of 2018 to review the progress to date on the introduction of the Solvency II directive for insurance, and to pass on observations and present the supervisory programmes.

As the largest Estonian insurance companies have branches in Latvia and Lithuania, and insurance companies from those countries provide services through branches operating in Estonia, close cooperation with the supervisory institutions of Latvia and Lithuania is very important. At their yearly meeting in 2018, the financial supervision institutions of the Baltic states discussed their risk assessments of insurance companies and the state of their local insurance markets, and shared their experience of solving problems.

INVESTMENT FIRMS

The focus of Finantsinspektsioon in 2018 at insurance firms was on the internal control systems of investment firms, their market risk management, their compliance with capital norms, and the possible side-effects of the departure of the United Kingdom from the European Union. Finantsinspektsioon based its supervisory work on investment firms on supervisory reports and information received from extraordinary notices.

No on-site inspections were made at investment firms in 2018, but constant supervision ensured that the shortcomings identified during earlier controls were handled appropriately.

Precepts from Finantsinspektsioon have set substantially larger additional capital requirements for investment firms. At the end of 2018 the additional capital requirements stood at 12 million euros. Investment firms have to hold twice as much in capital as the capital requirements set by regulations. The additional capital requirements at investment firms are mainly held against operating risks, currency risks and other market risks.

FUND MANAGEMENT COMPANIES

The capital supervision of fund managers by Finantsinspektsioon was centred on their financial position, risk profile, profitability and their compliance with fiduciary standards. How changes to the Investment Funds Act

affect the profitability and capitalisation of fund managers was also assessed. The change to the law affected the income base of pension fund managers the most.

No on-site inspections of fund managers were made in 2018, but constant supervision ensured that the shortcomings identified during earlier controls were corrected appropriately.

PAYMENT INSTITUTIONS

The capital supervision focus for payment institutions in 2018 was on compliance with own funds requirements, business continuity, and the functioning of internal control systems.

Finantsinspektsioon set additional reporting requirements for one payment institution to ensure and monitor compliance with the own funds requirements, together with a notification requirement for the fulfilment of the plan to take in capital. Finantsinspektsioon has been in discussions with one other payment institution for a long time, drawing the market participant's attention to the probable rise in the minimum level of own funds and the need to increase own funds.

An on-site inspection was made at one payment institution to assess processes connected to the functioning of general management and internal control systems, and its supervisory reporting rights. Shortcomings were found in all the areas that were observed. Finantsinspektsioon issued a precept to one payment institution requiring it to make good shortcomings that were identified during an on-site inspection in 2017.

Finantsinspektsioon organised an information day for payment institutions to present the main changes to the Payment Institutions and E-money Institutions Act that came into force on 13 January 2018.

INFORMATION TECHNOLOGY RISKS

In assessing information technology risks, Finantsinspektsioon analysed incidents and loss events connected to interruptions to the business operations of banks and system failures in 2018. The results were used in planning supervisory activities. Finantsinspektsioon also assessed the measures taken by insurance companies operating in Estonia to reduce information technology risks.

Finantsinspektsioon was involved in producing the European Commission implementing regulation and new guidelines for the new European Payment Services Directive 2 (PSD2). The regulation extends the regulatory technical standards in PSD2, which cover strong authentication for clients and open standards for common and secure information exchange. The regulation will come into force from 14 September 2019. The guidelines are intended to help market participants and

supervision institutions to implement the regulatory technical standards smoothly, transparently and consistently. Preparations are continuing in 2019 for the introduction of the new regulation so that payment services providers would be ready in time.

With the new regulation, payment service providers will gradually start to withdraw weak authentication methods from use. Finantsinspektsioon mapped out the process of transitioning to alternative means of authentication and sent enquiries to payment service providers on their use of different authentication methods. During the year there was a notable drop in the number of clients who were actively using code cards.

Finantsinspektsioon analysed how closely the measures taken by insurers operating in Estonia to minimise IT risks were in line with the advisory guidelines issued by Finantsinspektsioon "Requirements for the organisation of information technology and information security of the subject of financial supervision". The guideline is intended to set minimum requirements for information technology and information security in the technological work of companies and the financial sector, in order to make the financial sector more efficient and reduce systemic and operational risks. Finantsinspektsioon assessed compliance with the requirements by analysing the responses to self-analysis questionnaires. This analysis showed that insurers believe they are doing best in business continuity and backup and in incident management. The worst assessments were for the monitoring and logging of information systems. The trend remains for work processes to be digitised, to reduce the amount of work done by hand.

In 2018 the updating of the recommended guidelines for business continuity was completed. Planning business continuity is a process in which supervisory subjects ensure the continuity or recovery of their own operations, including the provision of services to clients in an emergency. An effective continuity planning process means that the business has prepared for extraordinary interruptions to its activities that are caused externally, and that it has a plan for how to continue its business and to reduce any possible losses.

During its standard quarterly analysis, Finantsinspektsioon analysed incidents and loss events connected to interruptions to the business operations of banks and system failures. Analyses from 2016–2018 show a small upwards trend in the level of business interruptions and IT incidents at the banks. The rise in the number of incidents comes not from a deterioration in processes and controls, but rather from an improvement in reporting. It has also been affected by the banks redesigning their IT services and solutions.

SUPERVISORY REPORTING

To be able to perform its work, Finantsinspektsioon needs data that are mostly collected from regular supervisory reports. Finantsinspektsioon helped draft the

legal acts that regulate the content, compilation and submission of supervisory reports, to ensure that the data needed for supervision are collected while following the principles of optimality and proportionality.

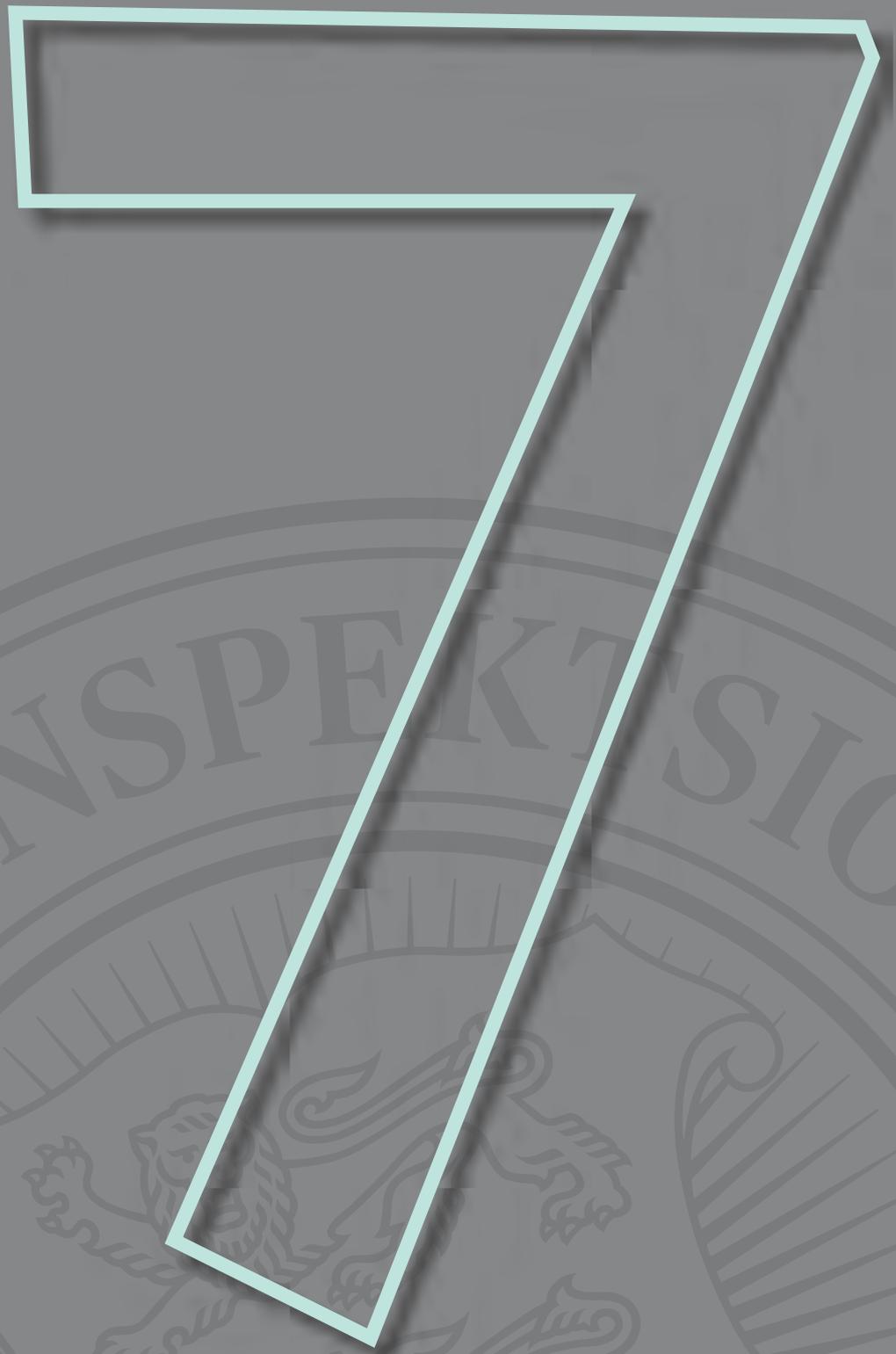
Finantsinspektsioon works together with Eesti Pank to reduce the costs of compiling and submitting reports, so that subjects of supervision do not have to submit the same data separately to the two institutions. Finantsinspektsioon checks that the data submitted comply with the legislation and, if necessary, takes measures to improve the discipline and quality of data submission.

The data submission portal, which is a technical solution for receiving data that was created jointly with Eesti Pank, was launched successfully in 2018. It is a self-service environment where market participants can enter reports and obtain a full picture of their reporting obligations, observe the processing status of reports, submit questions on reports or error messages, order email notifications, and see earlier data. The portal was launched in several stages throughout the year. In the final stage at the start of 2019, insurance brokers will also have access to the new portal. The initial feedback from market participants about the portal has been good.

The number of subjects of supervision increases each year, and this makes it necessary to review the supervisory processes that ensure reports are submitted on time and are of sufficiently high quality. The process of monitoring compliance with deadlines for report submission was updated in 2018. The regular report produced from the results of the monitoring shows how well submission deadlines are met, reasons for delays, and behaviour patterns related to report submission. In general, there were no major problems with the submission of reports, although in 2018 a couple of more serious breaches of the rules were identified. These arose because reporting obligations were not met, and so precepts were issued to the subjects of supervision and misdemeanour proceedings were initiated.

Finantsinspektsioon reviewed its data needs from reports from banks, and decided to terminate some reports. Finantsinspektsioon is starting to base its supervisory processes more on the data that come from the reports required by European Commission regulations.

Quality assessment of reports during on-site inspections continued in 2018. Eight on-site inspections were carried out, during which reporting by banks, insurers, one payment institution and one fund manager were inspected. The reporting inspections focused on different issues at different subjects, and depended on the activities of the market participant and the risks identified in the reports. Errors were identified at some subjects in the algorithms used for compiling reports.



MARKET AND BUSINESS
CONDUCT SUPERVISION



Their main goal of market and business conduct supervision is to help make services provided in the Estonian financial market transparent and legally compliant. Finantsinspektsioon chooses the supervisory measures that will best help it achieve this goal by identifying, preventing, managing and mapping risks.

SUPERVISORY ACTIVITIES

Finantsinspektsioon carries out on-site inspections and off-site inspections, writes precepts, and assesses the clarity and transparency of the terms and conditions for financial services. The risk-based approach looking at the volume and number of clients meant the main focus in service supervision in 2018 was on the management of pension funds and loan services, especially riskier and unsecured consumer credit or small loans.

Attention was paid to the life-cycle of financial services and products, especially their development, explanations of legal requirements, and the accuracy of published information. The aim of this was that every stage in the provision of financial services across their life-cycle, from design by the market participant to delivery of the service, should consider client protection and the appropriate controls needed for this at the financial institution.

A current topic for the whole financial sector, covering banks, insurance firms, life insurers and fund managers, in the development of services and products was the introduction of the Key Information Document for packaged retail- and insurance-based investment products as required by the PRIIP Regulation¹. The Key Information Document is intended to give retail investors a short summary in a standardised, easy-to-read format of information about PRIIP products, which they can use to decide whether the financial service matches their risk appetite and needs.

Finantsinspektsioon reacted effectively to the problem raised by market participants of uncertainty in the interpretation of how to apply the PRIIP regulation with regard to depositary receipts, which had led to differences in the market in how warnings are issued, and so had affected competition. It had also substantially limited access by retail investors to certain securities and markets. Finantsinspektsioon wrote a memorandum to guide the market, as there was no clear and unambiguous explanation of this issue from the European Union. Following feedback from the market, Finantsinspektsioon made the PRIIP Key Information Document available to retail investors in English, as the access of local investors to international markets would otherwise have been limited.

Finantsinspektsioon carried out off-site supervision of the investment firms, fund managers, life insurers and banks in the financial sector in connection with the PRIIP Key Information Document requirement, to make sure that information on packaged investment products was being given to target markets.

Five information days were also organised for market participants to explain the legislation, guide subjects of financial supervision, and clarify the supervisory principles.

Another important activity was supervision over money laundering and terrorist financing prevention within the scope of the Financial Supervision Authority Act.

PREVENTING MONEY LAUNDERING AND TERRORIST FINANCING

Helping to prevent money laundering and terrorist financing has been a clearly stated strategic priority of Finantsinspektsioon since 2016. Finantsinspektsioon had already identified this as very important significantly earlier, as was illustrated by cases that became public in 2018, but which Finantsinspektsioon had already been dealing with for years. Finantsinspektsioon discovered during on-site inspections carried out in 2014 at the Estonian branch of Danske that the bank's risk management did not suit its business model. It issued a precept in 2015 requiring the bank to bring its activities into line with the legal requirements, as a result of which the bank exited the non-resident segment entirely, where the risks for the Estonian financial sector were very large. The summary of the internal report that Danske Bank itself published in autumn 2018 admitted the scale of the problems at the bank.

On-site inspections at Versobank AS also started in 2015. Finantsinspektsioon discovered from inspections carried out over three years that the bank had breached significant requirements under the law concerning money laundering and terrorism financing, and also requirements concerning the provision of services in other member states of the European Union. The authorisation of Versobank AS was withdrawn by the European Central Bank in spring 2018 at the suggestion of Finantsinspektsioon.

Financial supervision works constantly to ensure that the market in Estonia remains transparent and sustainable in the future. Finantsinspektsioon made three on-site anti-money laundering inspections in 2018, one of them at a bank and two at payment institutions, and the concluding documents for on-site inspections that had started in 2017 were given to one bank. There were also 32 off-site inspections at banks in 2018, and other off-site inspections in other sectors, with 13 at payment institutions, five at investment firms, and five at life insurers. The inspections discovered that there are still shortcomings in the design and functioning of systems and controls. This was primarily seen in the insufficient application of due diligence measures to clients with higher risks than usual, and the failure to inform the Financial Intelligence Unit of any suspicions that were raised.

The work of Finantsinspektsioon has led to a consistent reduction in the general risk level of money laundering and terrorist financing in the Estonian financial system, and has improved the resilience of market participants to known risks. One measure of risk is the share of

¹ Regulation (EU) No 1286/2014 of the European Parliament and of the Council

non-resident deposits. Finantsinspektsioon highlighted in its annual report in 2015 that the share of non-resident clients in the client base of the entire banking sector had fallen from 19.1% in 2014 to 16.2%. By the end of 2018, the share of non-resident deposits had fallen as low as 7.9%. A similar indicator of risk for the payment institution sector is the volume of payments by non-residents, which is 37.7%, while for the banking sector as a whole it is 0.2%. It is important to consider the actual exposure of the financial institution to these risks with these particular risk indicators, and also the actual volumes of suspicious and unusual transactions that are made. Supervision to reduce these risks is constant, as described in the annual reports.

Finantsinspektsioon introduced a new manual concerning money laundering in 2018, and with it a new supervision policy for countering money laundering and terrorist financing. The manual applies for all banks and financial institutions operating in Estonia under the supervision of Finantsinspektsioon. It sets out a new and clearer framework for financial intermediaries and explains how to recognise risks, how to analyse the dangers they bring, and how to minimise them appropriately, so that the Estonian financial sector would not be used for money laundering and terrorist financing. It describes for the first time the risks and methods attached to money laundering and terrorism financing that specifically apply in Estonia. The new manual was presented to market participants at an information day in September attended by 140 people.

Finantsinspektsioon held a total of seven information days for banks, payment institutions, investment firms, and creditors and credit intermediaries in 2018 to explain its work and aims in fighting money laundering and terrorist financing.

During the year, Finantsinspektsioon often had to explain its role and its position in the anti-money laundering system, and provide information on cases that had been resolved years ago in Estonia and internationally. A large part of the work in Estonia consisted of meetings with subjects of supervision and participation in the anti-money laundering committee of the Estonian Banking Association. Finantsinspektsioon was repeatedly invited to talk to political parties and to the legal affairs commission of the Riigikogu, and it worked on several occasions with the government commission on preventing money laundering and terrorist financing. Finantsinspektsioon spoke out strongly for stopping the financial system and economic space of the Republic of Estonia being used for money laundering and terrorist financing, and to this end it works and shares information with the Financial Intelligence Unit, the prosecutor's office, and the Police and Border Guard Board.

Internationally, Finantsinspektsioon also worked effectively with partner institutions in the Nordic countries and other states. Several European Union institutions have started to look into the supervisory work of Finantsinspektsioon 5–12 years ago, centring on the

activities of Danske Bank through its branch in Estonia. Finantsinspektsioon gave a presentation to the TAX3 special committee of the European Parliament in April 2018 on its supervisory work at that time. The European Banking Authority (EBA) commenced an investigation into the same period and the same case at the end of 2018, starting a preliminary investigation into the supervisory work by the Estonian and Danish financial supervisors at Danske Bank to decide whether an official investigation should be started. The EBA came to Estonia on a two-day visit in November 2018, and gained a comprehensive picture of the supervisory methods of Finantsinspektsioon and the approach to the Danske Bank case. After the preliminary investigation, the EBA launched a two-month-long breach of union law investigation into both financial supervisors on 18 February 2019 for their work in supervising Danske Bank. The EBA wants this investigation to give a final opinion on the supervisory work. If breaches are identified, the Estonian and Danish financial supervisors could be issued recommendations for how to improve their supervisory work.

Staff from Finantsinspektsioon attended some 200 meetings during the year on preventing money laundering and terrorist financing, which is more than a third more than in 2017.

BANKS

Finantsinspektsioon focused in supervising the services of banks in 2018 on anti-money laundering and terrorist financing controls and compliance with the requirements of the European Union's directive on markets in financial instruments, MiFID II².

This directive came into force on 3 January 2018 and brought major changes aimed at strengthening investor protection to the Estonian market. The new rules have mostly been brought into Estonian legislation through the Securities Market Act. Finantsinspektsioon carried out inspections at banks and the Estonian branches of foreign banks to assess how they had applied the new requirements. These include the requirement to define target markets so that clients are offered services that suit them, new requirements for avoiding conflicts of interest, for limits on fees and compensation charged, for client handling, for client communication and information, for the suitability and appropriateness of services, and for deposits of client assets, along with addressing many other concerns. The results of the inspections will be assessed further in 2019. Finantsinspektsioon will, if necessary, take additional supervisory measures to eliminate the shortcomings that have already been identified.

Finantsinspektsioon also carried out off-site inspections at all banks and branches of foreign banks operating in

² Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU

Estonia of their compliance with the requirements for cross-selling. Cross-selling means providing investment services as part of a package with some other services or products or as a condition of a contract or package. The requirements that Finantsinspeksioon was investigating were the guidelines published by the European Securities and Markets Authority (ESMA) for cross-selling (ESMA/2016/574) and the subsequent advisory guidelines issued by Finantsinspeksioon that came into force on 3 January 2018. The guidelines cover the behaviour and organisation that are expected of a business that is cross-selling in order to reduce the losses it could cause to investors. The guidelines cover the publication of price and cost information by a cross-selling business and fees and training for sales staff. No shortcomings were found during the inspection. The inspection also covered fund managers and investment firms, and no shortcomings were found in the application of these requirements in their activities either.

INVESTMENT AND PENSION FUNDS

The main focus in 2018 was again on the supervision of the mandatory pension fund system. Finantsinspeksioon inspected the functioning of the pension system infrastructure as a whole. It looked at how shareholders and their financial interests are protected in the management and registration of pension fund units, and at legal and IT security issues. Finantsinspeksioon carried out an on-site inspection to identify these risks and will continue with it in 2019.

A major part of the risk management process at funds is stress testing, the main aim of which is to model how the value of the investment portfolio of the fund would change if a crisis were to hit financial markets. The liquidity of pension funds was also examined to see whether they have sufficient liquid assets for clients to be able to sell their shares whatever the state of the market. To test the appropriateness and accuracy of the stress testing approaches of pension funds, Finantsinspeksioon assessed the activities of four pension fund managers in 2018. Fund managers corrected the shortcomings that had been identified by on-site inspections throughout 2018, and they made their stress testing systems more effective.

The main and mandatory channel through which fund managers publish documents about their funds such as conditions, prospectuses and key information, and through which they release news and important information on the performance of the fund, is the fund manager's website. Finantsinspeksioon assessed the accuracy of the information published on the websites of all pension fund managers in an off-site inspection. The main focus was on whether shareholders in pension funds can obtain all the documents required by law from the website of the fund manager, and whether those

documents were easy to find. No shortcomings were found during the off-site inspection.

There are a total of 2938 investments in investment and pension funds, of which 2570 are in pension funds. Finantsinspeksioon looked at the compliance of pension fund investments with the legal limits on investment on 362 occasions in 2018, also paying attention to new investments and changes in them. No major shortcomings were found as a result. In monitoring investment limits, it is important to be sure that funds do not take on excessive risk, that the risks in the portfolio are distributed, and that the fund is managed in accordance with the conditions promised to shareholders.

Alongside the inspection into the application of cross-selling requirements, Finantsinspeksioon focused on supervising the services of fund managers in 2018 in compliance with the requirements of the European Union's MiFID II directive. The same issues were inspected as at banks and investment firms, and Finantsinspeksioon looked at how the activities and internal rules of fund managers comply with the Securities Market Act. The inspection focused on assessing compliance with the requirements for the provision of investment services and other services alongside investment services to clients and potential clients. No shortcomings were found during the off-site inspection.

INVESTMENT FIRMS

Alongside the inspection into the application of cross-selling requirements, Finantsinspeksioon focused on supervising the services of investment funds in 2018 in compliance with the requirements of the European Union's MiFID II directive.

The inspection was essentially the same as that at banks and fund managers, as it assessed the compliance of the activities and internal rules of investment firms with the Securities Markets Act, focusing on the requirements for the provision of investment services and other services alongside investment services to clients and potential clients. Assessment of the results of the off-site inspection continues in 2019. Finantsinspeksioon will, if necessary, take additional supervisory measures to eliminate the shortcomings that have already been identified.

CREDITORS AND CREDIT INTERMEDIARIES

In its supervision of the services of creditors and credit intermediaries in 2018 Finantsinspeksioon focused on assessing how the principle of responsible lending was followed. The principle of responsible lending means that loans should meet the needs of consumers and should be designed so that the consumer is able to repay the credit. It is important that this principle be adhered to, to avoid excessive lending and the possible consequent

negative impact on individuals and society. The focus was above all on the riskier small loan segment.

Compliance with the requirements was inspected through five on-site inspections at creditors, which identified several breaches of the rules and led to three injunctions being issued. The breaches were found in the internal rules of the creditors; in the methodologies for assessing creditworthiness and for informing consumers that should ensure responsible lending; in compliance with the rules for keeping credit files; and in compliance with due diligence requirements under the Money Laundering and Terrorist Financing Prevention Act.

Off-site inspections were carried out at all creditors and credit intermediaries, and the transfer of activities to third parties was assessed. Finantsinspeksioon looked at whether the transfer of activities could lead to a creditor or credit intermediary not meeting its legal obligations to the required degree. If the activities are passed on to an unregulated party, this could bear risks for the legality of the activities of the creditor or credit intermediary, and thus could significantly harm the protection of the interests of the client. The transfer of activities generally complied with the law, but one injunction was issued to a creditor whose transfer of activities to a third party did not meet the legal requirements.

Finantsinspeksioon also carried out an off-site inspection in autumn 2018 to assess whether creditors and credit intermediaries were complying with the requirements of the General Data Protection Regulation that had started to apply from early summer. The principles for processing personal data have to meet all the appropriate norms and be written into the internal rules of creditors and credit intermediaries. No shortcomings were found during the off-site inspection.

INSURERS AND INSURANCE BROKERS

The year 2018 was a pivotal one in insurance. The Insurance Distribution Directive came into force on 1 October 2018 and harmonised requirements for insurers, insurance brokers and insurance agents, who are grouped together as insurance distributors. It is important for client protection that insurance distributors meet the legal requirements correctly and properly, and so Finantsinspeksioon focused on explaining changes to the legislation, holding information days for all insurance distributors.

The provision of services in insurance has, in recent years, moved away from paper and on to electronic channels and the online environment. This makes it important to describe and manage the risks that come from technical innovations in insurance and pensions, such as the use of big data. Finantsinspeksioon carried out an off-site inspection of non-life and life insurers,

branches of foreign non-life and life insurers, and four insurance brokers to collect information on their use of big data analytics in the decision-making process for insurance activities, business processes and links in the value chain. The results showed an increase in the use of big data analytics in insurance activities.

The European Insurance and Occupational Pensions Authority (EIOPA) also mapped the risks and carried out various off-site inspections that also involved the supervisory institutions of member states. Voluntary pension products and returns on earlier periods were investigated in 2018. A survey was sent through Finantsinspeksioon to life insurers and fund managers to collect information and assess its relevance. Finantsinspeksioon sent the results of the survey to EIOPA. Finantsinspeksioon did not find any breaches of the legal requirements in the activities of insurance distributors. Finantsinspeksioon also participated in an off-site inspection at the initiative of EIOPA that looked at non-life insurers to test their general compliance with the requirements for the supply of travel insurance products. Finantsinspeksioon did not find any breaches of the legal requirements.

In supervising the services of insurance brokers in 2018, Finantsinspeksioon focused on compliance with the requirements for insurance brokers intermediating insurance contracts. The insurance broker acts in the interests of their client and represents them, and so must meet the requirements for fidelity to the client and recommend to the client insurance contracts from among those offered by insurers that best suit the interests and requirements of the client. Compliance with the requirements was inspected in three on-site inspections, which did not find any shortcomings.

PAYMENT INSTITUTIONS

The main risk from the nature of the services provided by payment institutions remains the protection of the assets entrusted to the payment institution by clients and the completion of payment transactions, which includes the continuity of services and ensuring that services are continuously provided without interruption, and also the prevention of money laundering and terrorist financing. For this reason, in 2018, in its supervision of payment institution services, Finantsinspeksioon largely focused on managing and supervising those risks.

Supervision of payment services in 2018 looked at increasing the transparency of payment services. Finantsinspeksioon first used market analysis to produce for its guidelines a list of typical payment services related to payment accounts. This was intended to help consumers better understand the fees that they must pay and to encourage them to compare the offers of different payment service providers in Estonia and throughout the payment services market

of the European Union. A greater understanding and an improved ability to compare the offers of payment service providers help to ensure that conditions are equal for competing service providers, which then encourages competition. This also protects the interests of consumers and their ability to make informed decisions on which payment account best meets their needs.

Finantsinspeksioon developed a comparison table for its consumer website www.minuraha.ee comparing the main payment services connected to payment accounts in Estonia and their prices. This table can be used to compare the typical payment services connected to payment accounts in Estonia, which means the transactions that can be made through payment accounts of depositing and withdrawing cash, paying with debit and credit cards, making transfers from a current account, and similar information. Showing the prices of the most common payment services in the comparison table at www.minuraha.ee allows consumers to make informed decisions and to choose the service provider or service that best meets their needs. It also helps them to understand better the fees that they must pay for payment services.

To increase awareness, Finantsinspeksioon worked with partners in its role of informing the public. It worked with the Estonian Chamber of Bailiffs and Trustees in Bankruptcy in 2018 to train bailiffs so that they would better understand alternative ways of enforcing payments to banks, and use this knowledge in their work.

Finantsinspeksioon organised two on-site inspections at payment institutions in relation to money laundering and terrorist financing, and these assessed the anti-money laundering and terrorist financing work of the management and staff, the application of due diligence, handling of suspicions of money laundering and terrorist financing, the registration and maintenance of data on transactions, and the work of the contact for the Financial Intelligence Unit. The inspections found shortcomings in all these areas, which made the payment institutions vulnerable to money laundering and terrorist financing. Payment institutions must rectify the shortcomings identified by the inspections to bring their activities into line with the law.

THE SECURITIES MARKET

Supervision of the Estonian securities market centres on trading and on monitoring of information releases by securities issuers on the regulated market of the Tallinn exchanges organised by Nasdaq Tallinn AS, and the First North alternative market.

Finantsinspeksioon coordinated amendments to the Nasdaq Tallinn AS rules for requirements for issuers and requirements for exchange members.

The MiFID II package of regulations that came into force at the start of 2018 created a new paradigm in

transaction reporting, testing the IT capabilities of both European market participants and supervisory institutions. Looking back over a year it can be said with confidence that Finantsinspeksioon has managed to keep up with developments and successfully handled over 20 million transactions. The correct exchange of transaction reports with supervisory institutions of other countries has created a sound basis for making market supervision even more efficient, to ensure fair and transparent trading on European securities markets.

Finantsinspeksioon supervises issuers of securities and the information that they publish. This covers the correct compilation of financial reports in line with the IFRS, which are published by issuers of shares for trading on the Tallinn exchange. At the end of 2018 there were 22 issuers under supervision, one of whom was an Estonian resident issuer whose securities were not traded on the Estonian regulated market.

During the year Finantsinspeksioon examined the annual reports of 11 issuers, and the interim financial reports of 10, assessing their quality, credibility and public presentation. The annual reports of nine issuers were examined following the guidelines on Alternative Performance Measures published by the ESMA. It was confirmed that the 10 issuers who are obliged by the accounting act to disclose information other than financial information, such as information on environmental issues, human rights and anti-corruption efforts, had done so.

One part of annual reports is the corporate governance report, which should be written following best practice of corporate governance. Finantsinspeksioon produced a review of how this is observed and of reports and joined NASDAQ Tallinn AS and market participants in a working group for updating corporate governance practice. Unfortunately, the new corporate governance practice chosen by the management of Nasdaq Tallinn placed too great a burden on the companies traded on the exchange. Finantsinspeksioon and the companies decided to go forward with the current corporate governance practice written by Finantsinspeksioon and to change it as little as possible.

Finantsinspeksioon also pointed out to issuers that those whose securities may be traded on the regulated market of a member state will have to use a single electronic reporting format for writing their annual reports from 2020 onwards.

The public sale and trading prospectuses of one new share issue and four bond issues were registered in 2018. Finantsinspeksioon coordinated the voluntary takeover bid for the shares of Olympic Entertainment Group AS by Odyssey Europe AS. This drew public attention to how the price was set for takeover bids in Estonia, or how a fair price was decided and supervised. The regulations on takeover bids in Estonia do not make Finantsinspeksioon responsible for seeing that a fair price is set. With a mandatory takeover

bid, Finantsinspeksioon estimates the price following criteria set by law. With a voluntary takeover bid Finantsinspeksioon does not coordinate the takeover price, as it is set by the buyer. The priority for Finantsinspeksioon with takeover bids is to make sure that all the important information on the bid is published in the prospectus for the takeover.

If shares on public offers are registered in some other European Union country, they can be offered in Estonia through cross-border information. Finantsinspeksioon was informed in 2018 of 10 public cross-border offers.

Finantsinspeksioon used the innovative FinTech communications channel to meet 37 companies to consult on various planned technologies based on the blockchain, and on initial coin offerings (ICO) and security token offerings (STO). It also responded to 150 enquiries about these topics, which is the same level as in the previous year. The essential trend is for greater interest to be shown with ICOs and STOs in the exchange of tokenised securities and the creation of platforms for exchange. It is apparent from the enquiries that it is generally considered that all that is needed to provide investment services is to have an authorisation from the Financial Intelligence Unit for exchange services for virtual currencies and virtual wallet services.

Market participants sent Finantsinspeksioon 57 reports of suspicious transactions and transaction instructions in the securities market, of which 12 concerned trading on the Vilnius exchange. Finantsinspeksioon asked for explanations of this from one party in an administrative procedure, and punished three parties under misdemeanour proceedings. Finantsinspeksioon passed information on suspicious transactions on to the supervisory institutions of Finland, Lithuania and the USA.

COMPLAINTS AND WARNINGS OF CRIMINAL ACTIVITY

Finantsinspeksioon publishes warnings on its website about companies operating without authorisation in Estonia and elsewhere in the European Union, primarily providers of investment services. There were 583 such warnings in 2018, which is over 100 more than in 2017. Of these, 42 were connected to Estonia because the service provider was an Estonian business or a foreign business that had contacted residents of Estonia and offered them supposedly excellent investment opportunities.

These are most commonly cases where a party from a foreign country sets up a legal entity in Estonia to provide investment services or issue securities without an authorisation. The legal form of the business is a company established in Estonia, but everything else, meaning the owner of the company even if it is an e-resident, the management, the bank account, the website and the

clients, are in different countries outside Estonia. Such schemes aim to diversify their activities across jurisdictions to make it much harder for victims to defend their rights and for the authorities to use enforcement mechanisms. This all makes it harder to catch and punish fraudsters. The main activities in this are trading in financial instruments, more specifically binary options and contracts for difference, and arranging securities offers using blockchain technology. Unlike previously, such businesses can now be founded using e-residency. They frequently register their activities in the register of economic activities to make it seem that they have a state activity licence to provide such services. Finantsinspeksioon is concerned about this trend, as it abuses the image of e-Estonia.

Alongside its warning and explanatory work, Finantsinspeksioon informs the police of criminal activities, principally in cases where the alleged criminal is acting in Estonia or has a connection to Estonia. Finantsinspeksioon put together eight complaints of criminal activity against people providing financial services without authorisation in 2018, and one complaint of organising an illegal public offering of securities. The offering used blockchain technology in the ICO/STO form, and investors were offered tokens without a registered prospectus, probably fraudulently.

FINES

Finantsinspeksioon levied four fines in 2018. A decision of 19 November fined Juri Doborovitš 1000 euros, ALT Home OÜ 13,000 euros and ALT Computers OÜ 2000 euros for market manipulation with the shares in Baltic Horizon Fund, which was to be traded on the regulated securities market organised by Nasdaq Tallinn AS. Finantsinspeksioon submitted an additional application to the bailiffs concerning ALT Home OÜ because the company withheld the payment of the fine.

A decision of 17 December fined PayHub AS 25,000 euros for not submitting its report as a payment institution on time to Finantsinspeksioon. PayHub AS appealed the Finantsinspeksioon decision to the Harju County Court, and the court left the fine announced by Finantsinspeksioon unchanged in 2019.

COMPLAINTS ABOUT FINANCIAL SERVICES

Complaints from clients about financial services have become more commonplace in recent years and Finantsinspeksioon received 196 complaints in 2018.

The most common complaint about banks concerned the completion of settlements, mainly payment transactions, but there were also complaints about banks refusing to create client relationships or deciding to end client relationships. Such complaints are contractual

issues under private law, which Finantsinspeksioon is not responsible for resolving. The only role Finantsinspeksioon has in this is in explaining the legal norms.

The most common complaints about creditors and credit intermediaries concerned differences of opinion about the cost of credit, early termination of contracts, and the execution of contractual obligations. There were also complaints about possible activity without authorisation, and accusations that adverts for consumer credit did not meet the requirements.

The main complaint in insurance concerned refusal to pay out compensation or the amount of compensation paid out, but Finantsinspeksioon has no responsibility for resolving such disputes as they are contractual issues under private law. Again, the only role Finantsinspeksioon has in this is in explaining the legal norms.

The registration and systematisation of client complaints gives Finantsinspeksioon a general picture of the main points of dispute in the market for financial services, which helps in applying the risk-based supervisory model in supervision of services.

Number of complaints sent to Finantsinspeksioon by sector

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Banking services	97	88	101	80	64	72	78	102	92	121
Insurance and insurance intermediation	55	89	45	34	33	33	31	45	44	45
Creditors and credit intermediaries								19	47	23
Other	5	4	2	5	5	3	3	8	3	7
Total	157	181	148	119	102	108	112	174	186	196

Number of complaints sent to Finantsinspeksioon in 2018 by service type and service provider

	Number of complaints
Settlements	77
Loans/credit	49
Property insurance	11
Travel insurance	11
Investment services	9
Motor third party liability insurance	9
II and III pension pillars	6
Motor vehicle insurance	5
Loan protection insurance	3
Liability insurance	2
Deposits	1
Financial lease	1
Accident insurance or life insurance	1
Other	11

Number of complaints sent to Finantsinspeksioon by service provider

	Number of complaints in 2017	Number of complaints in 2018	Market share in the sector ³
Swedbank AS	26	37	49%
AS SEB Pank	16	25	25%
AS LHV Pank	10	13	8%
Luminor Bank AS	1	10	10%
Danske Bank A/S Estonia branch	4	8	1%
AB 'Lietuvos draudimas' Estonia branch	6	7	16%
AAS BTA Baltic Insurance Company Estonia branch	5	6	6%
Bondora AS	6	6	0%
If P&C Insurance AS	5	5	19%
Coop Pank AS	3	5	2%
Swedbank P&C Insurance AS	5	4	19%
AS Inges Kindlustus	-	4	2%
Akciné draudimo bendrovė 'Gjensidige' Estonia branch	1	4	2%
Ferratum Bank plc	1	3	-
AS SEB Elu- ja Pensionikindlustus	1	2	26%
Bigbank AS	6	2	1%
AS Citadele Banka Estonia branch	-	2	1%
ERGO Insurance SE	4	2	14%
TALLINNA ÄRIPANGA AS	2	2	1%
AIG Europe Limited Finland branch	1	2	-
IPF Digital Estonia OÜ	4	2	3%
Luminor Liising AS	-	2	22%
Coop Finants AS	2	2	5%
Inbank AS	4	2	1%
Koduliising AS	2	2	2%
Compensa Life Vienna Insurance Group SE	4	2	10%
Swedbank Life Insurance SE	1	1	21%
Swedbank Investeerimisfondid AS	-	1	40%
IIZI Kindlustusmaakler AS	-	1	41%
Seesam Insurance AS	1	1	34%
Aktsiaselts LHV Varahaldus	1	1	27%
PLACET GROUP OÜ	3	1	2%
Tavid AS	-	1	-
Express Credit AS	-	1	0%

³ Market share at the end of 2017. Market shares in insurance are calculated from insurance premiums and do not include reinsurance. Market shares in banking are calculated from client deposits, those for fund managers from fund assets and those for creditors from the loan stock. The data do not cover subsidiaries, associated enterprises or branches.

	Number of complaints in 2017	Number of complaints in 2018	Market share in the sector ³
Berger Financial Group OÜ	-	1	0%
Nordea Bank Finland AB Estonia branch	9	1	-
Baltijas Apdrošināšanas Nams	-	1	-
TF Bank AB (publ.) Estonia branch	-	1	-
Creditstar Estonia AS	2	1	2%
Nasdaq CSD SE Estonia branch	-	1	-
Svea Finance AS	-	1	0%
BestCredit OÜ	-	1	0%
GFC Good Finance Company AS	-	1	53%
PC Finance OÜ	-	1	0%
AS LHV Finance	-	1	5%
BB Finance OÜ	2	1	1%
Swedbank P&C Insurance AS Latvia branch	-	1	-
Aadel Kindlustusmaaklerid OÜ	-	1	3%
Hüpoteeklaen AS	1	1	1%
Unnamed service provider	12	12	-

Number of complaints sent to Finantsinspektsioon
in 2018 by service type

77

SETTLEMENTS

49

LOANS / CREDIT

11

PROPERTY INSURANCE

11

TRAVEL INSURANCE

9

INVESTMENT SERVICES

9

MOTOR THIRD PARTY
LIABILITY INSURANCE

6

SECOND AND THIRD
PENSION PILLARS



RESOLUTION



The main aim of the resolution function is to prevent any insolvency of any bank damaging financial stability, by protecting the funds of the public sector, depositors, investors and other clients. The Resolution Department of Finantsinspektsioon works with international partners and also with authorities in Estonia, offering its expertise to the Guarantee Fund, Eesti Pank and the Ministry of Finance in questions of crisis resolution..

PREPARATION OF RESOLUTION PLANS

The focus of resolution in 2018 was on preparing, extending and updating the resolution plans of the important banks operating in Estonia. The resolution plans set out the menu of resolution measures or resolution rights that are to be applied if the conditions for initiating resolution proceedings are met. The Resolution Department worked internationally on this with the resolution authorities and supervisory authorities of other countries, participating in resolution colleges and the internal work of the resolution team.

The strategic goal within Estonia is to continue the preparation, extension and updating of the resolution plans of the less important banks operating in the country. As at the end of 2018 the Resolution Department had drawn up resolution plans for all the less important banks operating in Estonia and had set minimum requirements for their own funds and eligible liabilities. Minimum requirements for equity and eligible liabilities cover the amounts needed to cover losses and for recapitalisation. In setting these minimums, Finantsinspektsioon considers the resolution strategy, the size of the bank and how the minimum requirements for own funds and eligible liabilities will affect the bank. If the assessment of eligibility for resolution concludes that it is feasible and credible to liquidate the bank using ordinary insolvency proceedings, then the bank only has to cover the losses, as it would no longer have to meet the regulatory requirements if it were liquidated.

COOPERATION AGREEMENTS AND THE FINANCIAL CRISIS EXERCISE

The agreement on mutual understanding in organising cooperation for cross-border financial stability that was updated in 2017 by the ministries, central banks, financial supervisory authorities and resolution authorities of the Nordic and Baltic states was signed in 2018. The agreement is designed to confirm the readiness of the Nordic and Baltic countries to work together for financial stability, as the banking markets of the countries are so tightly connected. The parties to the agreement are Estonia, Latvia, Lithuania, Finland, Sweden, Denmark, Norway and Iceland.

As part of the agreement preparations were made in 2018 for the Nordic and Baltic financial crisis exercise. The two-day exercise was run in early 2019, and it resolved a hypothetical crisis lasting for two weeks. The main aim of the exercise was to assess the resolution capacity of the Nordic and Baltic institutions that would be affected, and their ability to work together internationally. As part of the preparation, a working group was set up in 2017 at the Nordic Baltic Stability Group (NBSG), which was headed by the central bank of Sweden. The members of the NBSG are the Ministries of Finance, central banks, financial supervisory institutions and resolution institutions of the eight Nordic and Baltic states.

THE GUARANTEE FUND

In 2018 the supervisory board of the Guarantee Fund approved the Guarantee Fund strategy for 2018–2020. The new strategy focuses on improving the capacity for operation of the organisation, especially in its close cooperation in the security network of the financial system with other institutions, and in gradually consolidating the functions of the Guarantee Fund with the resolution function of Finantsinspektsioon. The consolidation should make the Guarantee Fund better able to act and do its work cost efficiently, and should also increase the synergy between the resolution authority and the decision-making processes of the guarantee scheme. The Guarantee Fund is also paying more attention than before to the readiness of banks to pass data to the Guarantee Fund on deposits that need to be compensated. To this end, the Guarantee Fund is organising the necessary stress tests jointly with Finantsinspektsioon.

The compensation paid in the Versobank AS case in the first half of 2018 was a good example of effective cooperation between Finantsinspektsioon and the Guarantee Fund. The Finantsinspektsioon Resolution Department, which is led by the head of the Guarantee Fund, supported the Guarantee Fund by taking responsibility for the communication between the liquidators and the agent banks and for the operation of the paying out process.

THE SINGLE RESOLUTION FUND

A resolution fund has been set up at the Guarantee Fund to finance crisis resolution. The banks operating in Estonia make regular payments into the fund, which the Guarantee Fund passes on to the single resolution fund that has been set up at the European level. The single resolution fund is administered by the Single Resolution Board.

The single resolution fund took in some 7.5 billion euros in 2018 from over 3300 banks and investment firms in Europe, with Estonia contributing 0.07%. Payments were received for the third year in a row, and by the end of 2018 the funds built up for crisis resolution totalled 24.9 billion euros.

It is planned that by 2023 the single resolution fund will cover at least 1% of the volume of guaranteed deposits that are held in banks of member states of the banking union. The Single Resolution Board believes that it will need about 55 billion euros for this.



PROMOTING PUBLIC
AWARENESS



One of the goals of Finantsinspektsioon is to promote public understanding of financial services and financial products.

Financial intermediaries are constantly bringing new products and services to the market or adding new options to their current offers. Finding the best and most appropriate product from among all those on offer frequently requires detailed research in advance. For more than a decade now, Finantsinspektsioon has had a consumer website www.minuraha.ee that has helped to encourage financial literacy among the Estonian public. It offers independent advice on the financial services and products that are on the market. Finantsinspektsioon started updating the technical platform of the consumer website in 2018, and plans to transition to the full version of the site in the first half of 2019. It will offer independent information on the nature of financial services and it is planned that new calculators will gradually be introduced.

Alongside administering the consumer website, Finantsinspektsioon works on financial education together with the Ministry of Finance, Eesti Pank, the Estonian Banking Association, the Estonian Insurance Association, and the Tallinn stock exchange. Family days held to explain about money were organised jointly with Eesti Pank in the Eesti Pank Museum in 2018, and lectures were given on subjects ranging from consumer credit to cryptocurrencies.

Finantsinspektsioon continued to work in the International Network on Financial Education (INFE) of the Organisation for Economic Cooperation and Development (OECD) in 2018. The OECD plans to run the next international survey on financial literacy in 2019, and Estonia will participate in it once more.

It is probable that the closure in Estonia of Versobank AS under suspicion of money laundering helped promote public understanding of finance, as it received a great deal of media attention in 2018, as did the operation of the deposit guarantee system. Finantsinspektsioon did everything it could to see that the withdrawal of the authorisation from the bank and the compensation of client deposits was managed as smoothly as possible, and that the public and the clients of the bank were well informed about everything they needed to know. Finantsinspektsioon worked closely with the state authorities involved and with the private companies that had a role in liquidating the bank to make sure that communication was successful.

The work of Finantsinspektsioon and the state of the financial market in Estonia are presented on the new website of the supervisor, which was rolled out in November 2018. Technical improvement and the addition of further content continue in 2019.

10

THE LEGAL ENVIRONMENT



The legal department gives legal advice to the Finantsinspeksioon management board and to all of the staff, and represents Finantsinspeksioon in court when needed. It also checks the suitability of managers in the financial sector, assesses the owners of qualifying holdings, and organises proceedings for taking action in the financial sector.

LEGISLATION

Finantsinspeksioon plays an active role in discussions on legislation of the financial sector and shares its knowledge and risk assessments in drafting legislation in the European Union and in Estonia.

Some of the more important discussions in 2018 related to the changes to the Securities Markets Act and other laws following the draft act for MiFID II, the draft for the Covered Bonds Act, the draft for the International Sanctions Act, and changes to the Credit Institutions Act and the Investment Funds Act. Finantsinspeksioon also helped to develop the new cyber security strategy 2019–2022 and joined in discussions of reform of misdemeanour punishments in finance.

COURT CASES

Finantsinspeksioon was involved in five court cases in 2018, three of them at the administrative court.

The main proceedings concerned the compulsory dissolution of Versobank AS, which was started at the application of Finantsinspeksioon, and the liquidation proceedings and appointment of liquidators. The court proceedings for the compulsory dissolution of Versobank AS were one of the most important because of the subject and the content of the case. The complaint by Tallinn Ühistupank against the decision of Finantsinspeksioon not to review the application for an authorisation ended with the withdrawal of the complaint.

FINANTSINSPEKTSIOON GUIDELINES

Finantsinspeksioon issues guidelines that explain the legislation regulating the financial sector and direct financial institutions that are subject to supervision in how to meet the legal requirements.

Finantsinspeksioon issued 14 advisory guidelines in 2018.

It issued guidelines on proceedings for assessing suitability together with a questionnaire, and it introduced a guideline that sets out a list of typical payment services. Finantsinspeksioon also issued a new manual concerning money laundering, and with it a new supervision policy for countering money laundering and terrorist financing.

Guidelines	Date guidelines were passed	Date of entry into force
Issue of the European Banking Authority's "Joint Guidelines under Articles 17 and 18(4) of Directive (EU) 2015/849 on simplified and enhanced customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions The Risk Factors Guidelines" as Finantsinspektsioon guidelines.	29.01.2018	26.06.2018
Issue of the European Banking Authority's "Joint Guidelines under Article 25 of Regulation (EU) 2015/847 on the measures payment service providers should take to detect missing or incomplete information on the payer or the payee, and the procedures they should put in place to manage a transfer of funds lacking the required information" as Finantsinspektsioon guidelines.	29.01.2018	17.07.2018
Publication of the European Banking Authority's "Guidelines on procedures for complaints of alleged infringements of Directive (EU) 2015/2366 in accordance with Article 100(6) of PSD2" on the Finantsinspektsioon website.	29.01.2018	13.01.2018
The following guidelines issued by Finantsinspektsioon regulating investment funds were amended by decision of the Finantsinspektsioon Management Board: "Assessment of the significance of changes to the conditions of investment funds", "Requirements for marketing of mandatory pension fund units", "Requirements for management of risks related to investment fund assets", "Requirements for the conditions of contractual investment funds", "Reporting of risks in investment fund prospectus".	05.02.2018	05.02.2018
Issue of the European Insurance and Occupational Pensions Authority guidelines "Guidelines on insurance-based investment products that incorporate a structure which makes it difficult for the customer to understand the risks involved" as Finantsinspektsioon guidelines.	19.03.2018	01.10.2018
Issue of the European Securities and Markets Authority guidelines "Guidelines on MiFID II product governance requirements" (ESMA35-43-620) as Finantsinspektsioon guidelines.	05.04.2018	09.04.2018
Finantsinspektsioon guidelines "Final list of typical payment services related to a payment account".	09.04.2018	09.04.2018
Issue of the European Securities and Markets Authority guidelines "Guidelines on stress test scenarios under Article 28 of the MMF Regulation" as Finantsinspektsioon guidelines.	21.05.2018	01.06.2018
Guidelines for the suitability procedure.	10.09.2018	15.10.2018
Finantsinspektsioon guidelines "Organisational solution and preventative measures for credit and financial institutions to prevent money laundering and terrorist financing".	26.11.2018	01.03.2019
Recognition of the European Banking Authority and the European Securities and Markets Authority guidelines "Guidelines for handling complaints in the securities and banking sector".	03.12.2018	01.05.2018
Issue of the European Securities and Markets Authority guidelines "Guidelines on certain aspects of the MiFID II suitability requirements" as Finantsinspektsioon guidelines.	17.12.2018	08.03.2019

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INTERNATIONAL COOPERATION



The Estonian financial sector is a part of the single European market for financial services. Finantsinspeksioon can contribute to designing the single financial supervisory policy of the European Union through the European supervisory authorities.

THE EUROPEAN SUPERVISORY AUTHORITIES

There are three European supervisory authorities, which are the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), and the European Securities Market Authority (ESMA). The European Systemic Risk Board (ESRB) is also part of the European system of financial supervisors, and handles macro risks. Staff from Finantsinspektsioon are involved in the work of all these supervisory bodies, and in 2018 they attended a total of 110 meetings of 38 committees or working groups of European supervisory authorities.

In autumn 2017 the European Commission proposed changes to the management and funding of the European supervisory authorities and a review of their mandates, roles and jurisdictions. Work was done on the proposal and the responses from member states throughout 2018 and continues in 2019. Finantsinspektsioon is in favour of making the European supervisory authorities more cost-effective, moving towards more efficient decision-making processes, and finding a balance between responsibility and duties.

EUROPEAN BANKING AUTHORITY (EBA)

It is the job of the European Banking Authority to set effective harmonised prudential norms for credibility, and to supervise compliance with them. It produces guidelines and technical standards for the banking sector, and Finantsinspektsioon adopted more than 10 EBA guidelines and three recommendations in 2018.

Andres Kurgpõld, a member of the Finantsinspektsioon Management Board, is a voting member of the Board of Supervisors of the EBA, and the alternate member is Chair of the Finantsinspektsioon Management Board Kilvar Kessler. Finantsinspektsioon representatives attended seven meetings and one teleconference of the Board of Supervisors in 2018, and its experts attended 40 meetings of 14 standing committees and working groups of the EBA.

The focus of the EBA Board of Supervisors in 2018 was on the international Basel III banking standards and preparations for their introduction, the development of guidelines and technical standards for risks that had arisen, and work with non-performing loans. It also carried out stress tests and transparency exercises for the banks of the European Union. Further work was done on the project to expand the data store of the EBA, which will expand the data coverage to reports from less important banks. Attention was also focused on the mandates and the supervisory convergence arising from the PSD2 payments directive, including clarification of the new obligations for secure data exchange and technical

standards regulating strong authentication and mapping of their impact on financial sector businesses.

THE EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY (EIOPA)

The European Insurance and Occupational Pensions Authority promotes a strong legal framework and consistent supervisory practices to enhance public confidence in the insurance sector. Finantsinspektsioon adopted one EIOPA guideline in 2018.

Chair of the Finantsinspektsioon Management Board Kilvar Kessler is a voting member of the Board of Supervisors of the EIOPA, and the alternate member is Andres Kurgpõld, a member of the Finantsinspektsioon Management Board. Finantsinspektsioon representatives attended seven meetings and two teleconferences of the Board of Supervisors in 2018, and its experts attended 24 meetings of 10 EIOPA networks and working groups.

One of the strategic goals of EIOPA in 2018 was to strengthen consumer protection and develop a regulatory framework for it, with harmonised implementation of the Insurance Distribution Directive, and the adoption of the PRIIP regulation. It also developed a holistic solution for risk monitoring and coordinated the collection of information on insurance products. Another strategic goal was to improve the functioning of the internal market of the European Union, with development of the regulatory framework and reporting for pensions and insurance, and the impact of Brexit and harmonised supervision were analysed. A further goal was to strengthen financial stability in the sector, and, to this end, insurance stress tests were run, data were made more accessible and public, and work was done on crisis management. The Luxembourg Protocol on cooperation between European supervisors, which is derived from the IDD, was signed in 2018 by the Board of Supervisors.

THE EUROPEAN SECURITIES AND MARKETS AUTHORITY (ESMA)

The role of the European Securities and Markets Authority is to make investor protection more effective and promote stability and efficient functioning in financial markets. It also plays a key role in creating and developing the capital markets union. Finantsinspektsioon adopted seven ESMA guidelines in 2018.

Andre Nõmm, a member of the Finantsinspektsioon Management Board, is a voting member of the Board of Supervisors of the ESMA, and the alternate member is the Chair of the Finantsinspektsioon Management

Board Kilvar Kessler. Finantsinspektsioon representatives attended seven meetings and one teleconference of the Board of Supervisors in 2018, and its experts attended 46 meetings of 14 ESMA working groups and committees.

One priority of the ESMA is promoting harmonisation of supervision. Consequently, it supported the implementation of new supervisory requirements in a single form. Particular emphasis was placed on the introduction of the MiFID/MiFIR, on IT systems and data quality, and on reciprocal expert opinions and stress tests. Risk assessment for investors and financial stability were also priorities for the ESMA, and they cover impact analysis, financial innovation, intervention in products, monitoring of financial stability, data management, and compilation of statistics. It also issued new technical standards and requirements concerning securitisation, prospectuses, money market funds, the European Market Infrastructure Regulation (EMIR), and more. It continued to observe compliance with and implementation of the existing set of single rules. Another priority for the ESMA was direct supervision of rating agencies and trade repositories, and reinforcement of supervision over them. Like other European supervisory authorities, the ESMA discussed the possible impact of Brexit, and set in place the principles to be followed in supervision.

THE EUROPEAN SYSTEMIC RISK BOARD (ESRB)

Finantsinspektsioon works together with Eesti Pank in the European Systemic Risk Board (ESRB), which operates at the European Central Bank. The ESRB is responsible for the supervision of the financial system of the European Union at the macro level, and for preventing and minimising systemic risks. It assesses risks and the stability of the financial system as a whole, and, if necessary, it publishes opinions and recommendations.

Finantsinspektsioon is a non-voting member of the General Board of the ESRB, which is its highest decision-making body, and is a full member of the Advisory Technical Committee (ATC) of the ESRB. Finantsinspektsioon is represented on the ESRB General Board by Kilvar Kessler, who attended four meetings of the General Board in 2018, where issues of financial stability were discussed.

THE EUROPEAN SINGLE SUPERVISORY MECHANISM (SSM)

As Estonia is a member of the euro area, the everyday work of Finantsinspektsioon is affected by the Single Supervisory Mechanism. This is a banking supervision system for the euro area that takes in the European Central Bank and the supervisory authorities of the euro area countries.

The main role of the SSM is to ensure the security of the banking system and confidence in it, to increase financial integration and stability, and to ensure supervisory continuity. The European Central Bank conducts direct capital supervision through the SSM over systemically important banks in the Eurozone, of which there were 119 in 2018. Systemically important banks in Estonia are AS SEB Pank, Swedbank AS, and from 2018 Luminor Bank AS.

Draft decisions of the SSM are approved by the Supervisory Board, where Kilvar Kessler, Chair of the Board of Finantsinspektsioon, also sits. Draft decisions approved by the Supervisory Board are finally confirmed by the Governing Council of the European Central Bank, of which Governor of Eesti Pank Ardo Hansson is a member.

The Supervisory Board met 15 times in 2018 and held a further six teleconferences, and 1608 decisions were taken by written procedure.

The main topic of discussion at the meetings of the Supervisory Board last year was the handling of overdue loans in Europe, the outcome of which was a supervisory framework for overdue loans. Guidelines on ICAAP and ILAAP for institutions were also published in 2018, with the aim of improving how banks approach capital and liquidity management. A single standardised methodology for assessing IT risks was introduced, and thematic reviews looked into issues of business models and profitability.

Questions concerning banks in Estonia were also considered in 2018, and the status of Luminor Bank AS was changed to make it systemically important. The withdrawal of the authorisation from Versobank AS and the cross-border merger of Luminor Bank AS in the Baltic states were approved, as were the SREP decisions for Luminor Bank AS, AS SEB Pank, and Swedbank AS. The suitability of candidates for the management boards and supervisory boards of those banks were also assessed.

Experts from Finantsinspektsioon attended 69 meetings of 31 working groups and cooperation networks of the Single Supervisory Mechanism.

On top of the meetings of the Supervisory Board, there were four joint meetings of the Supervisory Board of the Single Supervisory Mechanism and the Governing Council of the European Central Bank, which mainly discussed macroprudential issues.

THE EUROPEAN SINGLE RESOLUTION MECHANISM (SRM)

Finantsinspektsioon is a main partner to the Single Resolution Mechanism, which is a central resolution institution for important banks in the euro area. The Single Resolution Mechanism consists of the Single

Resolution Board together with the resolution authorities of the euro area countries.

The Single Resolution Mechanism is responsible for ensuring that banks that have fallen into difficulties can be wound up with as little impact as possible on the economy and the whole financial system. One of the main strategic goals of Finantsinspeksioon is to integrate with the work of the Single Resolution Mechanism and the Single Resolution Board.

There were five full meetings of the Single Resolution Mechanism in 2018 and four teleconferences. Finantsinspeksioon was represented in five working groups of the Single Resolution Board and attended 18 meetings of them. Finantsinspeksioon is represented on the Single Resolution Board by Riin Heinaste, head of the Resolution Department.

The priority for the Single Resolution Board is to draw up, improve and approve the resolution plans for all the banks that come under it. It also observes decisions taken at the national level by resolution authorities concerning small banks. The resolution framework was reinforced in 2018, to support the compilation of

plans and decision making over them through the creation of single standards. The principles for cooperation between resolution authorities and the Single Resolution Board were also reviewed. The policy for setting minimum requirements for own funds and eligible liabilities was confirmed in 2018, and the Single Resolution Board will start to develop the mandatory requirements for the banks. Another important topic was liquidity for crisis resolution, for which banks need to have sufficient funding plans, and attention was paid to calculating and collecting the contributions to the single resolution fund, and the investment strategy for it.

Materials for publicising the planning of resolution were developed further in the resolution committee of the Single Resolution Board. The data-request forms that are used to collect the data needed for preparing and updating resolution plans from the banks were improved. As the data-request forms were updated, so were the guidelines to the banks for filling in the forms. The Single Resolution Board guideline on setting the minimum level for own funds and eligible liabilities was also updated and published.

promote cooperation between the institutions responsible in the different countries. Coordination of these activities is done in Europe through supervision and resolution colleges that have been set up for the different financial groups. In 2018, Finantsinspeksioon was part of the following colleges:

SUPERVISION AND RESOLUTION COLLEGES

Many providers of financial services operate in several countries. To make supervision over them and resolution of them as efficient as possible, it is very important to

Insurance supervision	Banking supervision	Crisis resolution
Munich Re Group	SEB Group	Swedbank Group
Swedbank Group	Swedbank Group	SEB Group
SEB Life and Pension Grupp (SEB Trygg Holding AB)	Danske Group	Luminor Group
Vienna Insurance Group	Luminor Group	Danske Group
Capital Grupp PZU	DNB Group	

OTHER INTERNATIONAL WORK

Finantsinspeksioon is also a member of a number of other global financial supervisory organisations. These are the International Association of Insurance Supervisors (IAIS), the International Organisation of Securities Commissions (IOSCO), the International Network on Financial Education of the Organisation for Economic Cooperation and Development (OECD), and the Group of Banking Supervisors from Central and Eastern Europe (BSCEE Group).

Strengthened cooperation is also very important because the Estonian financial system is tightly connected with those of the other Nordic and Baltic countries. Finantsinspeksioon is part of Nordic and Baltic groups such as the Nordic-Baltic Stability Group (NBSP) and the Nordic-Baltic Macroprudential Forum (NBMF).

In 2018 Finantsinspeksioon received visits from several rating agencies as part of their regular assessments, and it met representatives of the International Monetary Fund (IMF) in their annual Article IV assessment visit.

The role of Finantsinspektsioon in European financial supervision



EUROPEAN SUPERVISORY AUTHORITIES



MACRO SUPERVISION

BANKING UNION

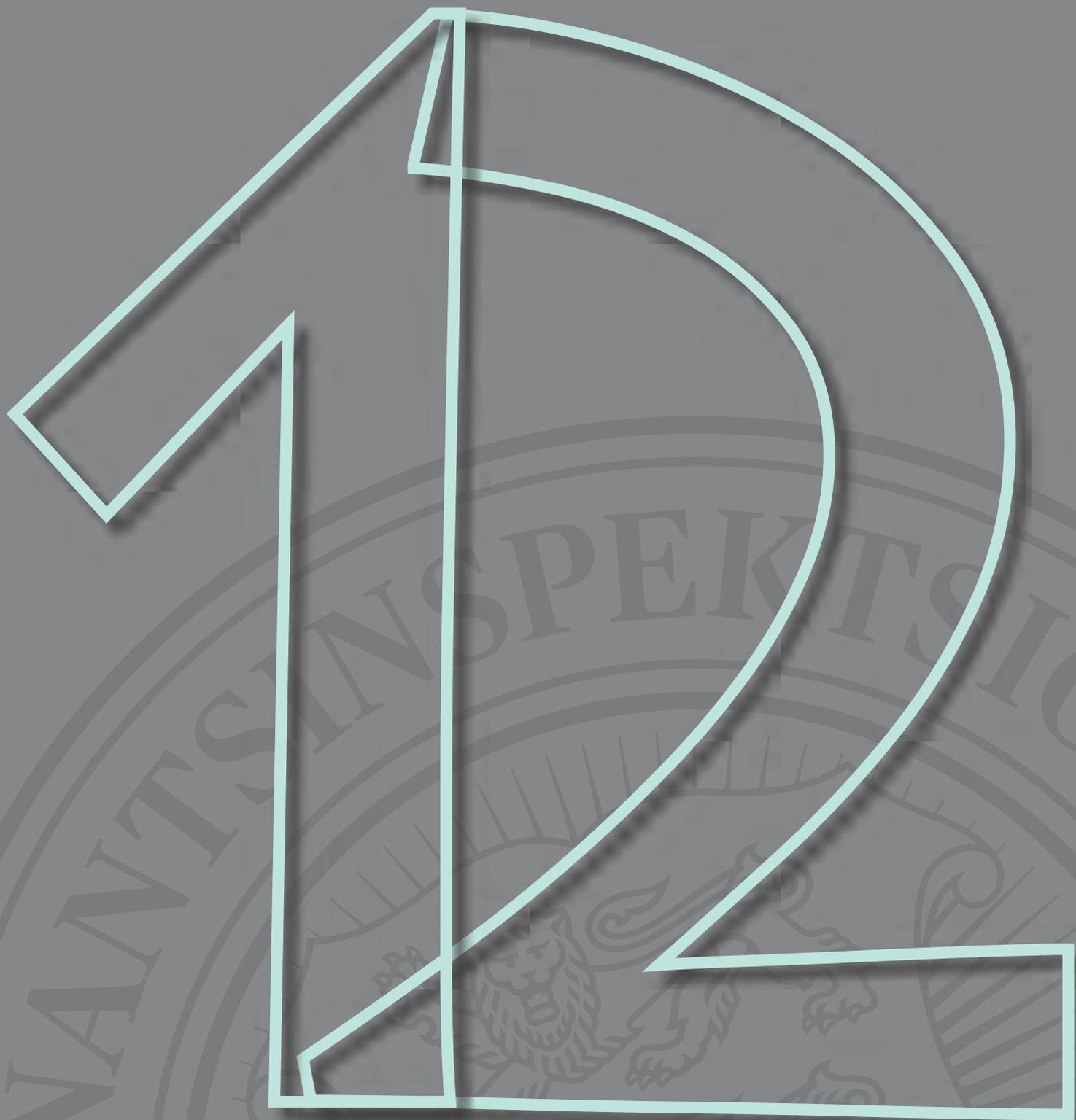
EUROPEAN SYSTEMIC RISK BOARD (ESRB)

- European Central Bank
- Central banks of member states of the European Union
- Supervisory authorities of member states of the European Union
- European Commission

- European Central Bank
- Supervisory authorities of member states of the euro area
- Single Resolution Board
- Resolution authorities of member states of the euro area

SINGLE SUPERVISORY MECHANISM

SINGLE RESOLUTION MECHANISM



FINANTSINSPEKTSIOON PROFIT
AND LOSS ACCOUNT FOR 2018



CALCULATION PRINCIPLES

GENERAL

The Finantsinspektsioon profit and loss account has been prepared in accordance with the Financial Supervision Authority Act and the accounting principles detailed here. Under the Eesti Pank Act, Finantsinspektsioon does not pay income tax or any other taxes related to its economic activities to the state budget, except taxes related to natural persons. Under Section 21 of the Value Added Tax Act, Finantsinspektsioon is registered as a taxable person with limited liability and calculates the value added tax from the supply of intra-Community acquisition or imports of goods and services. Income and expenses are recorded during the accounting period on an accrual basis regardless of when cash was received or paid. The profit and loss account has been prepared on the historical cost basis. Claims for supervision fees reflect claims submitted to subjects of supervision for supervision fees to be paid within the deadline set in the Financial Supervision Authority Act. The profit and loss account has been prepared in thousands of euros unless otherwise indicated.

TRANSACTIONS IN FOREIGN CURRENCY

All currencies except the euro, which is the currency of account for Finantsinspektsioon, are considered foreign currencies. Transactions in foreign currencies are recorded using the official daily fixings of the European Central Bank at the transaction date.

OPERATING LEASES

An operating lease is a lease where the significant risks and benefits of ownership of the asset are not transferred to the lessee. Operating lease payments are reflected as an expense linearly across the lease period in the profit and loss account.

PROFIT AND LOSS ACCOUNT thousand euros

	Appendix	2018	2017
INCOME			
Supervision fees	1	7 498	6 937
Other income	2	26	40
Total operating income		7 524	6 977
EXPENSES			
Staff costs	3	4 089	4 012
Sundry operating expenses	4	2 134	2 095
Other expenses	5	65	86
Total operating expenses		6 288	6 193
Result from core activities		1 236	784
Financial income and expenses	6	-33	-30
Result for the reporting year		1 203	754

APPENDIXES TO THE PROFIT AND LOSS ACCOUNT

APPENDIX 1

SUPERVISION FEES thousand euros

	Supervision fees 2018	Supervision fees 2017
Credit institutions	5 134	4 650
Non-life insurers	816	790
Fund managers	503	436
Life insurers	426	472
Creditors	190	164
Insurance brokers	187	176
Investment firms	131	118
Payment institutions	80	90
Credit intermediaries	17	11
Pension register administrator Regulated securities market operator	14	30
Total	7 498	6 937

VOLUME SHARE RATES FOR SUPERVISION FEES per cent

	Volume share rates for supervision fees 2018	Volume share rates for supervision fees 2017
Credit institutions	0.0175	0.0175
Non-life insurers	0.097	0.097
Fund managers	0.0013/0.0095/0.013	0.007/0.013
Life insurers	0.023	0.023
Creditors	0.1	0.1
Insurance brokers	0.92	0.92
Investment firms	0.23	0.23
Payment institutions	0.019	0.22
Credit intermediaries	0.1	0.1
Pension register administrator Regulated securities market operator	0.5	0.5

The operations of Finantsinspeksioon are mainly covered by supervision fees paid by the subjects of financial supervision and processing fees under the Financial Supervision Authority Act. The principles for the financing of Finantsinspeksioon are set out in more detail in the Financial Supervision Authority Act.

The supervision fees have two components. The first is the capital share, which depends on the type of the supervised entity and is 1% of the capital requirement of that entity, which may be minimum net own funds, minimum capital requirement, the highest of minimum equity or own funds or share capital or core capital, or similar. The second is the volume share, which is the rate that is

set annually by the Ministry of Finance at the proposal of the Finantsinspeksioon Supervisory Board and is paid on assets, gross premiums, total intermediation fees, the stock of consumer credit, or another basis, depending on the type of the supervised entity.

The capital share and the volume share of the supervision fees are paid in advance to the Finantsinspeksioon budget by 31 December of the preceding year. The final payment of the volume share is paid into the budget by 1 September. Entities that fall under supervision during the financial year pay only the capital share of the supervision fee within 30 days of receiving the right to operate.

APPENDIX 2

OTHER INCOME thousand euros

	2018	2017
Processing fees	26	40
Total	26	40

Under the Financial Supervision Authority Act, any natural person, legal person or branch of a foreign business that applies to Finantsinspeksioon to have an

application considered or a transaction completed pays a processing fee to Finantsinspeksioon.

APPENDIX 3

STAFF COSTS thousand euros

	2018	2017
Salaries	3 007	2 944
Taxes	1 022	1 012
Supervisory Board remuneration	60	56
Total	4 089	4 012

Staff costs cover the salaries, bonuses, remuneration of members of the Management Board, severance pay, and the calculated increase in holiday entitlement arising from unused holidays, together with social tax and unemployment insurance of 41 thousand euros.

The average salary of employees of Finantsinspeksioon in 2018 was 2393 euros a month. The total remuneration

paid out to members of the Finantsinspeksioon Supervisory Board and Management Board in 2018 was 329 thousand euros. The remuneration paid out to them in 2017 was 305 thousand euros. Performance bonuses paid out to employees accounted for 7.2% of staff costs.

There were 87 members of staff as at 31 December 2018, including members of the Management Board.

APPENDIX 4

SUNDRY OPERATING EXPENSES thousand euros

	2018	2017
Membership fees for international organisations	711	654
Rent of real estate	354	271
IT infrastructure, software and development	482	543
Business travel	246	270
Office expenses	105	100
Communication costs	48	106
Training	61	72
Accounting costs	54	50
Legal assistance and consultation	22	5
Information agencies	13	8
Personnel work	10	3
Cost of leasing fixed assets	20	5
Audit costs	8	8
Total	2 134	2 095

OPERATING EXPENSES

Under membership fees for international organisations, Finantsinspektsioon records fees paid for membership to ESMA, EIOPA, EBA, IAIS, BSCEE, IOSCO and OECD.

Rent of real estate covers the office space rented from Eesti Pank with a total surface of 1515 m², at a monthly price of 13.91 euros/m². It includes the real estate management services purchased from Eesti Pank and the wallpapering work undertaken in the working rooms of the office building at Sakala 4.

IT infrastructure, software and development reflects the IT services bought from Eesti Pank at an imputed cost of 3676 euros per user per year, and the IT infrastructure and development projects for Finantsinspektsioon.

Business travel records the costs of travel for representing Finantsinspektsioon and for supervisory cooperation. Business travel is primarily related to the work of European banking supervision at the European Central Bank and the SSM, meetings of the committees and subcommittees of the European supervision authorities (ESAs), and meetings with other supervision authorities. A total of 339 business trips were made in 2018. There were 426 business trips in 2017, 72 of which were related to the presidency of the European Union.

Office expenses cover the costs of books and periodicals for Finantsinspektsioon, translation and postage costs, office equipment and petty expenses, consultation and representation costs, calling costs, and transport costs.

Communication costs cover the consumer education programme, the www.minuraha.ee website, and the cost of the Finantsinspektsioon annual report.

Training costs cover the participation of Finantsinspektsioon staff in training in Estonia and abroad, including the costs of travel for training. Training events abroad together with travel cost on average 847 euros in 2018, and training in Estonia cost 85 euros. In 2017, training events abroad cost on average 849 euros and training in Estonia 140 euros.

Accounting costs cover the cost accounting, partial management accounting, payroll accounting, credit accounting, and payment and settlement execution purchased from Eesti Pank.

The cost item for legal assistance and consultation covers the cost of conducting penetration testing of the internet banks of supervised entities, the internal audit function of Finantsinspektsioon and the cost of the external evaluation service for it, and the cost of public relations, communications and consultations for government relations.

Expenses for information agencies cover the costs of using news agencies.

Personnel work covers the costs of hiring employees for Finantsinspektsioon.

The cost of leasing fixed assets includes the rental costs on an annual basis paid by Finantsinspektsioon to Eesti Pank for fixed assets used by Finantsinspektsioon including IT hardware and software, and inventory. The amount of the lease is equal to the amortisation rate of the fixed assets of Eesti Pank.

Audit costs record the cost of auditing the profit and loss account of Finantsinspektsioon. Under §51 (3) of the Financial Supervision Authority Act, the annual profit and loss account of Finantsinspektsioon is audited by the Eesti Pank auditor.

APPENDIX 5

OTHER EXPENSES thousand euros

	2018	2017
Guarantees and benefits	34	38
Culture and sport	31	48
Total	65	86

Guarantees and benefits are childbirth allowance, extraordinary allowances and costs for promoting health and sport among the staff. This cost item also covers the reimbursement of one third of the contributions made by Finantsinspektsioon employees to the

voluntary pension system, but not more than 10% of their gross annual salary.

Culture and sport records the costs of events for employees of Finantsinspektsioon.

LISA 6

FINANCIAL INCOME AND EXPENSES thousand euros

	2018	2017
Financial income and expenses	-33	-30
Total	-33	-30

Finantsinspektsioon keeps its reserves at Eesti Pank. As of 1 October 2015, the funds held by Finantsinspektsioon

at Eesti Pank are subject to the EONIA interest rate.

BALANCE SHEET

thousand euros

ASSETS	31/12/2018	31/12/2017
Cash and bank accounts	12 996	11 625
Supervision fee claims	152	676
Total assets	13 148	12 301
LIABILITIES AND RESERVES		
Liabilities to employees	159	118
Sundry liabilities	920	877
Income of future periods	7 296	6 981
Accrued expenses	0	1
Total liabilities	8 375	7 977
Reserves	3 570	3 570
Result for the reporting year	1 203	754
Reserves and result for the reporting year, total	4 773	4 324
Liabilities, reserves and result for the reporting year, total	13 148	12 301

COMMENTS ON THE 2018 BALANCE SHEET

"Cash and bank accounts" reflects the balance on the settlement account at Eesti Pank.

Supervision fee claims are the prepayments of 152 thousand euros in supervision fees for 2019 not yet received by Finantsinspektsioon. The claim in 2017 for unpaid advance supervision fees for 2018 was 676 thousand euros.

Liabilities to employees covers holiday liabilities. Holiday liabilities are the 159 thousand euros of the imputed liability of Finantsinspektsioon for holiday entitlement unused by employees.

Sundry liabilities cover the costs to Finantsinspektsioon that Eesti Pank covered in 2018 and for which

Finantsinspektsioon will compensate Eesti Pank in 2019. Finantsinspektsioon's expenses are recorded in the annual report on an accrual basis.

Income of future periods records the prepaid supervision fees for 2019 of 7296 thousand euros. Income of future periods in 2017 recorded the prepaid supervision fees for 2018 of 6981 thousand euros.

The budget surplus of 754 thousand euros that Finantsinspektsioon had in 2017 was deducted from the reserves in 2018 and returned uniformly and proportionally to supervised entities following the decision no 1.1-1/1 of the Finantsinspektsioon Supervisory Board of 23 March 2018.

The profit for the reporting year in 2018 was 1203 thousand euros.

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AUDITOR'S REPORT





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Independent Auditors' Report

(Translation of the Estonian original)

To the Supervisory Board of Finantsinspektsioon

Opinion

We have audited the annual report of revenues and expenditures of Finantsinspektsioon, which comprise the balance sheet as at 31 December 2018, the revenue and expenditure report for the year then ended and summary of significant accounting policies and other explanatory information.

In our opinion, the annual report of revenues and expenditures is prepared in all material respects in accordance with the Financial Supervision Authority Act and the accounting principles stated in the annual report of revenues and expenditures.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Annual Report of Revenues and Expenditures section of our report. We are independent of Finantsinspektsioon in accordance with the ethical requirements that are relevant to our audit of the financial statements in Estonia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the paragraphs included in the 2018 annual report, but does not include the annual report of revenues and expenditures and our auditors' report thereon.

Our opinion on annual report of revenues and expenditures does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual report of revenues and expenditures, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual report of revenues and expenditures or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Supervisory Board for the Annual Report of Revenues and Expenditures

Management is responsible for the preparation of the annual report of revenues and expenditures in accordance with the Financial Supervision Authority Act and accounting principles stated in the annual report of revenues and expenditures. Management is also responsible for such internal control as management determines is necessary to enable the preparation of the annual report of revenues and expenditures that is free from material misstatement, whether due to fraud or error.

In preparing the annual report of revenues and expenditures, management is responsible disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

The Supervisory Board is responsible for overseeing Finantsinspektsioon's financial reporting process.



Auditors' Responsibilities for the Audit of the Annual Report of Revenues and Expenditures

Our objectives are to obtain reasonable assurance about whether the annual report of revenues and expenditures as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this annual report of revenues and expenditures.

As part of an audit in accordance with Standards on Auditing (Estonia), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual report of revenues and expenditures, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Finantsinspektsioon's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Finantsinspektsioon's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the annual report of revenues and expenditures or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report.
- Evaluate the overall presentation, structure and content of the annual report of revenues and expenditures, including the disclosures, and whether the annual report of revenues and expenditures represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Supervisory Board regarding the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Tallinn, 18 March 2019

/signed/

Eero Kaup

Certified Public Accountant, Licence No 459

KPMG Baltics OÜ

Licence No 17

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Start of the financial year: 1 January 2018

End of the financial year: 31 December 2018

Core activity: financial supervision

Management board: Kilvar Kessler, Andres Kurgpõld, Andre Nõmm

Auditor: KPMG Baltics OÜ

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